

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2020

OR

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

For the transition period from to

Commission File Number: 1-13991

MFA FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

350 Park Avenue, 20th Floor
New York New York

(Address of principal executive offices)

13-3974868

(I.R.S. Employer Identification No.)

10022

(Zip Code)

(212) 207-6400

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last period)

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

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

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

On June 30, 2020, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$1.1 billion based on the closing sales price of our common stock on such date as reported on the New York Stock Exchange.

On February 17, 2021, the registrant had a total of 452,058,867 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be filed with the Securities and Exchange Commission in connection with the Annual Meeting of Stockholders scheduled to be held on or about June 2, 2021, are incorporated by reference into Part III of this Annual Report on Form 10-K.

MFA FINANCIAL, INC.

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In this Annual Report on Form 10-K, references to “we,” “us,” “our” or “the Company” refer to MFA Financial, Inc. and its subsidiaries unless specifically stated otherwise or the context otherwise indicates. The following defines certain of the commonly used terms in this Annual Report on Form 10-K: Purchased Performing Loans refer to loans that may include: (i) loans to finance (or refinance) one-to-four-family residential properties that are not considered to meet the definition of a “Qualified Mortgage” in accordance with guidelines adopted by the Consumer Financial Protection Bureau (“Non-QM loans”), (ii) short-term business purpose loans collateralized by residential properties made to non-occupant borrowers who intend to rehabilitate and sell the property for a profit (“Rehabilitation loans” or “Fix and Flip loans”), (iii) loans to finance (or refinance) non-owner occupied one-to four-family residential properties that are rented to one or more tenants (“Single-family rental loans”), and (iv) previously originated loans secured by residential real estate that is generally owner occupied (“Seasoned performing loans”). MBS generally refers to mortgage-backed securities secured by pools of residential mortgage loans; Agency MBS refers to MBS that are issued or guaranteed by a federally chartered corporation, such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or an agency of the U.S. Government, such as the Government National Mortgage Association (“Ginnie Mae”); Non-Agency MBS refers to MBS that are not guaranteed by any agency of the U.S. Government or any federally chartered corporation and include (i) Legacy Non-Agency MBS, which are MBS issued prior to 2008, and (ii) RPL/NPL MBS, which refers to MBS backed primarily by securitized re-performing and non-performing loans and are generally structured such that the coupon increases from 300 - 400 basis points at 36 - 48 months from issuance or sooner. Hybrids refer to hybrid mortgage loans that have interest rates that are fixed for a specified period of time and, thereafter, generally adjust annually to an increment over a specified interest rate index; ARMs refer to adjustable-rate mortgage loans which have interest rates that reset annually or more frequently; CRT securities refer to credit risk transfer securities, that are debt obligations issued by or sponsored by Fannie Mae and Freddie Mac; MSR-related assets refer to certain term notes backed directly or indirectly by mortgage servicing rights or loans to certain entities that are generally secured by cash flows generated by mortgage servicing rights and other unencumbered assets owned by the borrower; and Real Estate Owned (“REO”) refers to real estate acquired by us, including through foreclosure, deed in lieu of foreclosure, or purchased in connection with the acquisition of residential whole loans.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are subject to risks and uncertainties. The forward-looking statements contain words such as “will,” “believe,” “expect,” “anticipate,” “estimate,” “plan,” “continue,” “intend,” “should,” “could,” “would,” “may” or similar expressions.

These forward-looking statements include information about possible or assumed future results with respect to our business, financial condition, liquidity, results of operations, plans and objectives. Statements regarding the following subjects, among others, may be forward-looking: risks related to the ongoing spread of the novel coronavirus and the COVID-19 pandemic, including the pandemic’s effects on the general economy and our business, financial position and results of operations (including, among other potential effects, increased delinquencies and greater than expected losses in our whole loan portfolio); changes in interest rates and the market (i.e., fair) value of our residential whole loans, MBS and other assets; changes in the prepayment rates on residential mortgage assets, an increase of which could result in a reduction of the yield on certain investments in its portfolio and could require us to reinvest the proceeds received by it as a result of such prepayments in investments with lower coupons, while a decrease in which could result in an increase in the interest rate duration of certain investments in our portfolio making their valuation more sensitive to changes in interest rates and could result in lower forecasted cash flows; credit risks underlying our assets, including changes in the default rates and management’s assumptions regarding default rates on the mortgage loans in our residential whole loan portfolio; our ability to borrow to finance our assets and the terms, including the cost, maturity and other terms, of any such borrowings; implementation of or changes in government regulations or programs affecting our business; our estimates regarding taxable income the actual amount of which is dependent on a number of factors, including, but not limited to, changes in the amount of interest income and financing costs, the method elected by us to accrete the market discount on residential whole loans and the extent of prepayments, realized losses and changes in the composition of our residential whole loan portfolios that may occur during the applicable tax period, including gain or loss on any MBS disposals and whole loan modifications, foreclosures and liquidations; the timing and amount of distributions to stockholders, which are declared and paid at the discretion of our Board and will depend on, among other things, our taxable income, our financial results and overall financial condition and liquidity, maintenance of our REIT qualification and such other factors as the Board deems relevant; our ability to maintain our qualification as a REIT for federal income tax purposes; our ability to maintain our exemption from registration under the Investment Company Act of 1940, as amended (or the Investment Company Act), including statements regarding the concept release issued by the SEC relating to interpretive issues under the Investment Company Act with respect to the status under the Investment Company Act of certain companies that are engaged in the business of acquiring mortgages and mortgage-related interests; our ability to continue growing our residential whole loan portfolio, which is dependent on, among other things, the supply of loans offered for sale in the market; expected returns on our investments in nonperforming residential whole loans (or NPLs), which are affected by, among other things, the length of time required to foreclose upon, sell, liquidate or otherwise reach a resolution of the property underlying the NPL, home price values, amounts advanced to carry the asset (e.g., taxes, insurance, maintenance expenses, etc. on the underlying property) and the amount ultimately realized upon resolution of the asset; targeted or expected returns on our investments in recently-originated loans, the performance of which is, similar to our other mortgage loan investments, subject to, among other things, differences in prepayment risk, credit risk and financing cost associated with such investments; risks associated with our investments in MSR-related assets, including servicing, regulatory and economic risks, risks associated with our investments in loan originators, and risks associated with investing in real estate assets, including changes in business conditions and the general economy. These and other risks, uncertainties and factors, including those described in the annual, quarterly and current reports that we file with the SEC, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements are based on beliefs, assumptions and expectations of our future performance, taking into account all information currently available. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. (See Part I, Item 1A. “Risk Factors” of this Annual Report on Form 10-K)

PART I

Item 1. Business.

GENERAL

We are an internally-managed real estate investment trust (or REIT) primarily engaged in the business of investing, on a leveraged basis, in residential mortgage assets. Our targeted investments include principally the following:

- Residential whole loans, including Purchased Performing Loans, Purchased Credit Deteriorated and non-performing loans. We also own residential real estate (or REO), which is typically acquired as a result of the foreclosure or other liquidation of delinquent whole loans in connection with our loan investment activities;
- Residential mortgage securities, including Non-Agency MBS and CRT securities; and
- MSR-related assets, which include term notes backed directly or indirectly by MSRs and loans to provide financing to entities that originate residential mortgage loans and own the related MSRs.

Our principal business objective is to deliver shareholder value through the generation of distributable income and through asset performance linked to residential mortgage credit fundamentals. We selectively invest in residential mortgage assets with a focus on credit analysis, projected prepayment rates, interest rate sensitivity and expected return.

2020 was marked by unprecedented conditions caused by the COVID-19 global pandemic, causing significant volatility and disruption in the United States economy and financial markets. In addition, conditions for residential mortgage assets were negatively impacted during 2020, particularly during the initial months of the pandemic in the first and second quarters of the year. As a result of and in response to these conditions, we significantly reduced the size and composition of our investment portfolio during 2020. We discuss the impact of the COVID-19 pandemic on our business, including our investment and financing strategies, throughout this Annual Report on Form 10-K.

We were incorporated in Maryland on July 24, 1997 and began operations on April 10, 1998. We have elected to be treated as a REIT for U.S. federal income tax purposes. In order to maintain our qualification as a REIT, we must comply with a number of requirements under federal tax law, including that we must distribute at least 90% of our annual REIT taxable income to our stockholders. We have elected to treat certain of our subsidiaries as taxable REIT subsidiaries (or TRS). In general, a TRS may hold assets and engage in activities that a REIT or qualified REIT subsidiary (or QRS) cannot hold or engage in directly and generally may engage in any real estate or non-real estate related business.

We are a holding company and conduct our real estate finance businesses primarily through wholly-owned subsidiaries, so as to maintain an exemption from registration under the Investment Company Act of 1940, as amended (or the Investment Company Act) by ensuring that less than 40% of the value of our total assets, exclusive of U.S. Government securities and cash items (which we refer to as our adjusted total assets for Investment Company Act purposes), on an unconsolidated basis, consist of “investment securities” as defined by the Investment Company Act. We refer to this test as the “40% Test.”

INVESTMENT STRATEGY

We primarily invest, through our various subsidiaries, in residential mortgage assets. As a result of the market disruptions related to the unprecedented conditions arising in connection with the onset of the COVID-19 pandemic in early 2020, during the first and second quarters of 2020 we engaged in asset sales and took other actions that significantly changed our asset composition. In particular, we sold all of our Agency and Legacy Non-Agency MBS investments and substantially reduced our investments in MSR-related assets and CRT securities. As a result of these actions, our primary investment assets as of December 31, 2020 are comprised of residential whole loans. Consequently, at the end of 2020, residential whole loan investments comprised approximately 77% of our assets and more than 60% of our allocated net equity. The impact of the COVID-19 related market disruptions on loan origination volumes for Non-QM and business purpose loans as well as on our own financial condition resulted in significantly reduced loan acquisition activity by us in 2020 as compared to the prior year. During 2021, assuming economic conditions continue to stabilize and loan origination volumes for Non-QM and business purpose loans increase, we expect to seek investment opportunities primarily focused on residential whole loans as market opportunities arise. We expect that our investment activities will continue to be financed through a combination of term loan warehouse financing, repurchase agreement financing and, increasingly, through securitization transactions.

At December 31, 2020, our total investment-related assets were comprised of the following: \$5.3 billion, or 77%, of residential whole loans (compared to \$7.4 billion, or 55%, at December 31, 2019); \$161.0 million, or 2%, of residential

mortgage securities (compared to \$4.0 billion, or 29%, at December 31, 2019); \$239.0 million, or 3%, of MSR-related assets (compared to \$1.2 billion, or 9%, at December 31, 2019); and \$352.4 million, or 5%, of remaining investment-related assets, comprised primarily of REO, capital contributions made to loan origination partners and MBS loan-related receivables (compared to 5% at December 31, 2019).

Residential Whole Loans

Prior to the onset of the COVID-19 pandemic during the first quarter of 2020, we continued to increase our residential whole loan portfolio primarily through acquisitions of Purchased Performing Loans. Such loans include: (i) loans to finance (or refinance) one-to four-family residential properties that are not considered to meet the definition of a “Qualified Mortgage” in accordance with guidelines adopted by the Consumer Financial Protection Bureau (or Non-QM loans), (ii) short-term business purpose loans collateralized by residential properties made to non-occupant borrowers who intend to rehabilitate and sell the property for a profit (or Rehabilitation loans or Fix and Flip loans), (iii) loans to finance (or refinance) non-owner occupied one-to four-family residential properties that are rented to one or more tenants (or Single-family rental loans), and (iv) previously originated loans secured by residential real estate that is generally owner occupied (or Seasoned performing loans). The majority of our Purchased Performing Loans are Hybrids or, in the case of Rehabilitation loans, are expected to have relatively short duration. Consequently, we believe that our Purchased Performing Loans acquired to date will exhibit relatively lower interest rate sensitivity than conventional fixed-rate residential whole loans. Approximately 84% of our Purchased Performing Loans at December 31, 2020 were acquired on a servicing-retained basis (i.e., the sellers of such loans retained the right to service the loans sold).

In addition, during 2020, we continued to maintain our non-performing residential whole loan and Purchased Credit Deteriorated Loan portfolios. Purchased Credit Deteriorated Loans are typically characterized by borrowers who have previously experienced payment delinquencies and the amount owed may exceed the value of the property pledged as collateral. The majority of these loans are acquired at purchase prices that are discounted (often substantially so) to their contractual loan balance to reflect the impaired credit history of the borrower, the loan-to-value ratio (or LTV) of the loan and the coupon rate. Non-performing loans are typically characterized by borrowers who have defaulted on their obligations and/or have payment delinquencies of 60 days or more at the time we acquire the loan. The majority of these loans are also acquired at purchase prices that are discounted (often substantially so) to the contractual loan balance that reflects primarily the non-performing nature of the loan. Typically, this purchase price is a discount to the expected value of the collateral securing the loan, such value to be realized after foreclosure and liquidation of the property. In addition, as we generally own the mortgage-servicing rights associated with these loans, our process is also focused on selecting a sub-servicer with the appropriate expertise to mitigate losses and maximize our overall return. This involves, among other things, performing due diligence on the sub-servicer prior to their engagement as well as ongoing oversight and surveillance. As indicated above, the majority of our non-performing and Purchased Credit Deteriorated Loans were purchased on a servicing-released basis (i.e., the sellers of such loans transferred the right to service the loans as part of the sale). We do not directly service any of these loans and have contracted with loan servicing companies to perform this function on our behalf. These companies were selected to leverage their expertise in working with delinquent borrowers in an effort to cure delinquencies through, among other things, loan modification and third-party refinancing. To the extent these efforts are successful, we believe our investments in Purchased Credit Deteriorated and non-performing loans will yield attractive returns. In addition, to the extent that it is not possible to achieve a successful outcome for a particular borrower and the real property collateral must be foreclosed on and liquidated, we believe that the discounted purchase price at which the loan was acquired provides us with a level of protection against financial loss. Primarily as a result of foreclosure moratoriums put in place in response to the impact of the COVID-19 pandemic, but also due to the efforts of our asset management team, our balances of REO property decreased substantially during 2020, and this may continue going forward as we continue to manage non-performing loans in our portfolio.

Residential Mortgage Securities

Prior to the onset of the COVID-19 pandemic, we owned significantly higher balances of residential mortgage securities (primarily investments in Agency MBS, Non-Agency MBS and CRT securities). As discussed above, we sold our Agency and Legacy Non-Agency MBS portfolios and significantly reduced our CRT securities, RPL/NPL MBS and MSR-related assets during 2020. Going forward, we may invest selectively in residential mortgage securities and MSR-related assets as market opportunities arise, and we discuss the general features of our currently held portfolio below.

Our RPL/NPL MBS were purchased primarily at prices around par and represent the senior and mezzanine tranches of the related securitizations. The majority of these securities are generally structured with significant credit enhancement (typically approximately 50%) and the subordinate tranches absorb all credit losses (until those tranches are extinguished) and typically receive no cash flow (interest or principal) until the senior tranches are paid off. Prior to purchase, we analyze the deal structure in order to assess the associated credit risk. Subsequent to purchase, the ongoing credit risk associated with the deal is evaluated by analyzing the extent to which actual credit losses occur that result in a reduction in the amount of subordination supporting our bond. Based on the recent performance of the collateral underlying our RPL/NPL MBS and current subordination levels, we do not believe that we are currently exposed to significant risk of credit loss on these investments. In addition, the structures of these investments generally contain a contractual coupon step-up feature where the coupon increases from 300 - 400 basis points at 36 - 48 months or sooner. We expect that the combination of the priority cash flow and the step-up feature associated with these investments will result in their exhibiting short average lives and, accordingly, reduced interest rate sensitivity.

CRT securities are debt obligations issued by or sponsored by Fannie Mae and Freddie Mac. The coupon payments on CRT securities are paid by the issuer and the principal payments received are dependent on the performance of loans in either a reference pool or an actual pool of loans. As an investor in a CRT security, we may incur a principal loss if the performance of the actual or reference pool loans results in either an actual or calculated loss that exceeds the credit enhancement on the security owned by us. We assess the credit risk associated with our investments in CRT securities by assessing the current and expected future performance of the associated loan pool.

MSR-Related Assets

Although we do not own or otherwise invest directly in MSRs, we have made investments in term notes backed directly or indirectly by MSRs and loans to finance entities that originate residential mortgage loans and own the related MSRs. In the case of term notes backed by MSR-related collateral, we believe the credit risk on these investments is mitigated by structural credit support in the form of over-collateralization as well as a corporate guarantee from the ultimate parent or sponsor of the related special purpose vehicle issuing the note, that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the underlying MSRs be insufficient. Credit risk on MSR-related corporate loans is mitigated as the loans are secured by MSRs as well as certain other unencumbered assets owned by the borrower.

FINANCING STRATEGY

Our financing strategy is designed to increase the size of our investment portfolio by borrowing against a substantial portion of the market value of the assets in our portfolio. We use shorter term repurchase agreements, term warehouse facilities and loan securitizations to finance our holdings of residential mortgage assets. Our financing strategy shifted significantly during 2020 and into 2021. In particular, in response to the turmoil in the financial markets resulting from the conditions created by the COVID-19 pandemic, we sought to implement more durable forms of borrowing. This shift was driven, in part, by the need to temporarily enter into forbearance agreements with certain of our financing counterparties (as margin calls reached unprecedented highs in March 2020). For example, in June 2020, we entered into a \$500 million corporate level credit facility (which was fully repaid by the end of October 2020) and a non-mark-to-market term loan facility with an initial borrowing capacity of \$1.65 billion and under which \$886.1 million was outstanding as of December 31, 2020. While providing more durable financing that is not subject to margin calls, the cost of these types of facilities is higher than the repurchase agreement financing upon which we had historically relied. In addition, we executed three securitization transactions during the second half of 2020 for our residential whole loans. The securitization transactions lowered the funding costs and lengthened the term of funding for these assets (in each case as compared to the repurchase arrangements under which these assets were financed prior to their being securitized) and generated additional liquidity. Going forward, in connection with our current and any future investment in residential whole loans, we expect that our financing strategy will be more heavily reliant on loan securitization and other forms of structured financing, subject to market conditions.

COMPETITION

We believe that our principal competitors in the business of acquiring and holding residential mortgage assets of the types in which we invest are financial institutions, such as banks, specialty finance companies, insurance companies, institutional investors, including mutual funds and pension funds, hedge funds and other mortgage REITs, as well as the U.S. Federal Reserve (or Federal Reserve) as part of its monetary policy activities. Some of these entities may not be subject to the same regulatory constraints (i.e., REIT compliance or maintaining an exemption under the Investment Company Act) as we are. In addition, many of these entities have greater financial resources and access to capital than we have. The existence of these entities, as well as the possibility of additional entities forming in the future, may increase the competition for the acquisition of residential mortgage assets, resulting in higher prices and lower yields on such assets.

EMPLOYEES

At December 31, 2020, we had 57 full-time and one part-time employee.

We believe that investing in and fostering a diverse and inclusive workforce is a key pillar in operating our business. By supporting, recognizing, and investing in the employees, we believe that we are able to attract and retain the highest quality talent.

REGULATORY MATTERS

The U.S. Congress, Federal Reserve, U.S. Treasury, Federal Deposit Insurance Corporation (or FDIC), the Securities and Exchange Commission (or SEC) and other governmental and regulatory bodies have taken actions in response to the 2007-2008 financial crisis. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (or the Dodd-Frank Act) created a new regulator, an independent bureau housed within the Federal Reserve System known as the Consumer Financial Protection Bureau (or the CFPB). The CFPB has broad authority over a wide range of consumer financial products and services, including mortgage lending and servicing. One portion of the Dodd-Frank Act, the Mortgage Reform and Anti-Predatory Lending Act (or Mortgage Reform Act), contains underwriting and servicing standards for the mortgage industry, restrictions on compensation for mortgage loan originators, and various other requirements related to mortgage origination and servicing. In addition, the Dodd-Frank Act grants enforcement authority and broad discretionary regulatory authority to the CFPB to prohibit or condition terms, acts or practices relating to residential mortgage loans that the CFPB finds abusive, unfair, deceptive or predatory, as well as to take other actions that the CFPB finds are necessary or proper to ensure responsible affordable mortgage credit remains available to consumers. The Dodd-Frank Act also affects the securitization of mortgages (and other assets) with requirements for risk retention by securitizers and requirements for regulating rating agencies.

Numerous regulations have been issued pursuant to the Dodd-Frank Act, including regulations regarding mortgage loan servicing, underwriting and loan originator compensation, and others could be issued in the future. As a result, we are unable to fully predict at this time how the Dodd-Frank Act, as well as other laws or regulations that may be adopted in the future, will affect our business, results of operations and financial condition, or the environment for repurchase financing and other forms of borrowing, the investing environment for Agency MBS, Non-Agency MBS and/or residential mortgage loans, the securitization industry, Swaps and other derivatives. We believe that the Dodd-Frank Act and the regulations promulgated thereunder are likely to continue to increase the economic and compliance costs for participants in the mortgage and securitization industries, including us.

In addition to the regulatory actions being implemented under the Dodd-Frank Act, on August 31, 2011, the SEC issued a concept release under which it is reviewing interpretive issues related to Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C) excludes from the definition of “investment company” entities that are primarily engaged in, among other things, “purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.” Many companies that engage in the business of acquiring mortgages and mortgage-related instruments seek to rely on existing interpretations of the SEC Staff with respect to Section 3(c)(5)(C) so as not to be deemed an investment company for the purpose of regulation under the Investment Company Act. In connection with the concept release, the SEC requested comments on, among other things, whether it should reconsider its existing interpretation of Section 3(c)(5)(C). To date the SEC has not taken or otherwise announced any further action in connection with the concept release. (For additional discussion of the SEC’s concept release and its potential impact on us, please see Part I, Item 1A. “Risk Factors” of this Annual Report on Form 10-K.)

The Federal Housing Finance Agency (or FHFA) and both houses of Congress have discussed and considered separate measures intended to restructure the U.S. housing finance system and the operations of Fannie Mae and Freddie Mac. Congress may continue to consider legislation that would significantly reform the country’s mortgage finance system, including, among other things, eliminating Freddie Mac and Fannie Mae and replacing them with a single new MBS insurance agency. Many

details remain unsettled, including the scope and costs of the agencies' guarantee and their affordable housing mission, some of which could be addressed even in the absence of large-scale reform. On March 27, 2019, then President Trump issued a memorandum on federal housing finance reform that directed the Secretary of the Treasury to develop a plan for administrative and legislative reforms as soon as practicable to achieve the following housing reform goals: 1) ending the conservatorships of the Government-sponsored enterprises (or GSEs) upon the completion of specified reforms; 2) facilitating competition in the housing finance market; 3) establishing regulation of the GSEs that safeguards their safety and soundness and minimizes the risks they pose to the financial stability of the United States; and 4) providing that the federal government is properly compensated for any explicit or implicit support it provides to the GSEs or the secondary housing finance market. On September 5, 2019, in response to then President Trump's memorandum, the U.S. Department of the Treasury released a plan, developed in conjunction with the FHFA, the Department of Housing and Urban Development, and other government agencies, which includes legislative and administrative reforms to achieve each of these reform goals. At this point, it remains unclear whether any of these legislative or regulatory reforms will be enacted or implemented. The prospects for passage of any of these plans are uncertain, but the proposals underscore the potential for change to Fannie Mae and Freddie Mac.

While the likelihood of enactment of major mortgage finance system reform in the short term remains uncertain, it is possible that the adoption of any such reforms could adversely affect the types of assets we can buy, the costs of these assets and our business operations. A reduction in the ability of mortgage loan originators to access Fannie Mae and Freddie Mac to sell their mortgage loans may adversely affect the mortgage markets generally and adversely affect the ability of mortgagors to refinance their mortgage loans. In addition, any decline in the value of securities issued by Fannie Mae and Freddie Mac may affect the value of RMBS in general. With the start of a new presidential administration in January 2021, it is unclear whether, and if so on what timeline, the new administration will address the conservatorships of the GSEs and any such comprehensive housing reform.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. Among the provisions in this wide-ranging law are protections for homeowners experiencing financial difficulties due to the COVID-19 pandemic, including forbearance provisions and procedures. Borrowers with federally backed mortgage loans, regardless of delinquency status, may request loan forbearance for a six-month period, which could be extended for another six-month period if necessary. There is uncertainty as to whether the deadline for requesting an initial forbearance on federally loans expired under the CARES Act on December 31, 2020. Federally backed mortgage loans are loans secured by first- or subordinate-liens on 1-4 family residential real property, including individual units of condominiums and cooperatives, which are insured or guaranteed pursuant to certain government housing programs, such as by the Federal Housing Administration (or FHA), or U.S. Department of Agriculture, or are purchased or securitized by Fannie Mae or Freddie Mac. The CARES Act also includes a temporary 60 day foreclosure moratorium that applies to federally backed mortgage loans, which lasted until July 24, 2020. However, the moratorium has been extended to at least March 31, 2021 by Fannie Mae, the FHA and the U.S. Department of Agriculture. Some states and local jurisdictions have also implemented moratoriums on foreclosures.

In December 2020, the Consolidated Appropriations Act, 2021 was signed into law, which is an Omnibus spending bill that included a second COVID-19 stimulus bill (the "Second Stimulus"). In addition to providing stimulus checks for individuals and families, the Second Stimulus provides for, among other things, (i) an extension of federal unemployment insurance benefits, (ii) funding to help individuals connect remotely during the pandemic, (iii) tax credits for companies offering paid sick leave and (iv) funding for vaccine distribution and development. As further described below, the Second Stimulus provided an additional \$25 billion in tax-free rental assistance and an executive order by President Biden extended the temporary eviction moratorium promulgated by the CDC (described below) through March 31, 2021.

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

AVAILABLE INFORMATION

We maintain a website at www.mfafinancial.com. We make available, free of charge, on our website our (a) Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K (including any amendments thereto), proxy statements and other information (or, collectively, the Company Documents) filed with, or furnished to, the SEC, as soon as reasonably practicable after such documents are so filed or furnished, (b) Corporate Governance Guidelines, (c) Code of Business Conduct and Ethics and (d) written charters of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee of our Board of Directors (or our Board). Our Company Documents filed with, or furnished to, the SEC are also available at the SEC's website at www.sec.gov. We also provide copies of the foregoing materials, free of charge, to stockholders who request them. Requests should be directed to the attention of our General Counsel at MFA Financial, Inc., 350 Park Avenue, 20th Floor, New York, New York 10022.

Item 1A. Risk Factors.

This section highlights specific risks that could affect our Company and its business. Readers should carefully consider each of the following risks and all of the other information set forth in this Annual Report on Form 10-K. Based on the information currently known to us, we believe the following information identifies the most significant risk factors affecting our Company. However, the risks and uncertainties we face are not limited to those described below. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business.

If any of the following risks and uncertainties develops into actual events or if the circumstances described in the risks and uncertainties occur or continue to occur, these events or circumstances could have a material adverse effect on our business, prospects, financial condition, results of operations, cash flows or liquidity. These events could also have a negative effect on the trading price of our securities.

Summary Risk Factors

General

- We may change our investment strategy, operating policies and/or asset allocations without stockholder consent, which could materially adversely affect our results of operations.
- The recent global COVID-19 pandemic has adversely affected, and will likely continue to adversely affect, our business, financial condition, liquidity and results of operations.
- We cannot predict the effect that government policies, laws and plans adopted in response to the COVID-19 pandemic and global recessionary economic conditions will have on us.

Credit and Other Risks Related to Our Investments

- Our investments in residential whole loans, residential mortgage securities and MSR-related assets involve credit risk, which could materially adversely affect our results of operations.
- Our investments are subject to changes in credit spreads and other risks.
- A significant portion of our residential whole loans and residential mortgage securities are secured by properties in a small number of geographic areas and may be disproportionately affected by economic or housing downturns, our competition, natural disasters, terrorist events, pandemics, regulatory changes, adverse climate changes or other adverse events specific to those markets.
- We are subject to counterparty risk and may be unable to seek indemnity or require counterparties to repurchase residential whole loans if they breach representations and warranties, which could cause us to suffer losses.
- The due diligence we undertake on potential investments may be limited and/or not reveal all of the risks associated with such investments and may not reveal other weaknesses in such assets, which could lead to losses.
- We have experienced and may experience in the future increased volatility in our U.S. generally accepted accounting principles (or GAAP) results of operations due in part to the increasing contribution to financial results of assets and liabilities accounted for under the fair value option.
- We have experienced, and may in the future experience, declines in the market value of certain of our investment securities resulting in our recording impairments, which have had, and may in the future have, an adverse effect on our results of operations and financial condition.
- The use of models in connection with the valuation of our assets subjects us to potential risks in the event that such models are incorrect, misleading or based on incomplete information.
- Valuations of some of our assets are subject to inherent uncertainty, may be based on estimates, may fluctuate over short periods of time and may differ from the values that would have been used if a ready market for these assets existed.

- Our investments in residential whole loans are difficult to value and are dependent upon the borrower's ability to service or refinance their debt. The inability of the borrower to do so could materially and adversely affect our liquidity and results of operations.
- Mortgage loan modification and refinancing programs and future legislative action may materially adversely affect the value of, and the returns on, our MBS and residential whole loan investments.
- We may be adversely affected by risks affecting borrowers or the asset or property types in which certain of our investments may be concentrated at any given time, as well as from unfavorable changes in the related geographic regions.
- Our investments in residential whole loans subject us to servicing-related risks, including those associated with foreclosure and liquidation.
- The expanding body of federal, state and local regulations and investigations of originators and servicers may increase costs of compliance and the risks of noncompliance, and may adversely affect servicers' ability to perform their servicing obligations.
- Our ability to sell REO on terms acceptable to us or at all may be limited.
- Our investments in MSR-related assets expose us to additional risks.
- Our investments in mortgage loan originators expose us to additional risks.

Prepayment and Reinvestment Risk

- Prepayment rates on the mortgage loans underlying certain of our residential mortgage assets may materially adversely affect our profitability or result in liquidity shortfalls that could require us to sell assets in unfavorable market conditions.

Risks Related to Our Use of Leverage

- Our business strategy involves the use of leverage, and we may not achieve what we believe to be optimal levels of leverage or we may become overleveraged, which may materially adversely affect our liquidity, results of operations or financial condition.
- An increase in our borrowing costs relative to the interest we receive on our investments may materially adversely affect our profitability.
- Changes in inter-bank lending rate reporting practices, the method pursuant to which the London Interbank Offered Rate (or LIBOR) is determined or the establishment of alternative reference rates may adversely affect our profitability.
- Certain of our current lenders require, and future lenders may require, that we enter into restrictive covenants relating to our operations.
- The use of non-recourse long-term financing structures expose us to risks, which could result in losses to us.

Risks Associated with Adverse Developments in the Mortgage Finance and Credit Markets and Financial Markets Generally

- Market conditions for mortgages and mortgage-related assets as well as the broader financial markets may materially adversely affect the value of the assets in which we invest.
- A lack of liquidity in our investments may materially adversely affect our business.
- Actions by the U.S. Government designed to stabilize or reform the financial markets may not achieve their intended effect or otherwise benefit our business, and could materially adversely affect our business.

Risks Related to Our Use of Hedging Strategies

- Our use of hedging strategies to mitigate our interest rate exposure may not be effective.
- We may enter into hedging instruments that could expose us to contingent liabilities in the future, which could materially adversely affect our results of operations.
- The characteristics of hedging instruments present various concerns, including illiquidity, enforceability, and counterparty risks, which could adversely affect our business and results of operations.
- Clearing facilities or exchanges upon which our hedging instruments are traded may increase margin requirements on our hedging instruments in the event of adverse economic developments.
- We may fail to qualify for hedge accounting treatment, which could materially adversely affect our results of operations.

Risks Related to Our Taxation as a REIT and the Taxation of Our Assets

- If we fail to remain qualified as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our stockholders.
- Our failure to maintain our qualification as a REIT would cause our stock to be delisted from the New York Stock Exchange (or NYSE).
- If our foreign TRS is subject to U.S. federal income tax at the entity level, it would greatly reduce the amounts those entities would have available to pay its creditors and distribute to us.

- Our use of TRSs may cause us to fail to qualify as a REIT
- We may generate taxable income that differs from our GAAP income on our Non-Agency MBS and residential whole loan investments purchased at a discount to par value, which may result in significant timing variances in the recognition of income and losses.
- The tax on prohibited transactions may limit our ability to engage in transactions, including certain methods of securitizing mortgage loans, that would be treated as sales for U.S. federal income tax purposes.
- We have not established a minimum dividend payment level, and there is no guarantee that we will maintain current dividend payment levels or pay dividends in the future.
- Our reported GAAP net income may differ from the amount of REIT taxable income and dividend distribution requirements and, therefore, our GAAP results may not be an accurate indicator of future taxable income and dividend distributions.
- The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to remain qualified as a REIT.
- Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.
- We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.
- The interest apportionment rules may affect our ability to comply with the REIT asset and gross income tests.
- Dividends paid by REITs do not qualify for the reduced tax rates available for “qualified dividend income.”

Risks Related to Our Corporate Structure

- Our ownership limitations may restrict business combination opportunities.
- Provisions of Maryland law and other provisions of our organizational documents may limit the ability of a third-party to acquire control of the Company.
- Future offerings of debt securities, which would rank senior to our common stock upon liquidation, and future offerings of equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our common stock.

Other Business Risks

- We are dependent on information systems and their failure (including in connection with cyber-attacks) could significantly disrupt our business.

General

The results of our business operations are affected by a number of factors, many of which are beyond our control, and primarily depend on, among other things, the level of our net interest income, the market value of our assets and collateral, which is driven by numerous factors, including the supply and demand for residential mortgage assets in the marketplace, our ability to source new investments at appropriate yields, the terms and availability of adequate financing, general economic and real estate conditions (both on a national and local level), the impact of government actions, especially in the real estate and mortgage sector, our competition, and the credit performance of our credit sensitive residential mortgage assets. Our net interest income varies primarily as a result of changes in interest rates, the slope of the yield curve (i.e., the differential between long-term and short-term interest rates), market credit spreads, borrowing costs (i.e., our interest expense), delinquencies, defaults and prepayment speeds on our investments, the behavior of which involves various risks and uncertainties. Interest rates and conditional prepayment rates (or CPRs) (which are a measure the amount of unscheduled principal prepayment on a loan or security) vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. Our operating results also depend upon our ability to effectively manage the risks associated with our business operations, including interest rate, prepayment, financing, liquidity, and credit risks, while maintaining our qualification as a REIT.

The COVID-19 pandemic has adversely affected, and will likely continue to adversely affect, our business, financial condition, liquidity and results of operations.

The COVID-19 pandemic has negatively affected our business, and we believe it is likely to continue to do so. The outbreak has caused significant volatility and disruption in the financial markets both in the United States and globally. If COVID-19, or another highly infectious or contagious disease, continues to spread or the response (including any vaccines) to contain it is unsuccessful, we could continue to experience material adverse effects on our business, financial condition, liquidity, and results of operations. The extent of such effects will depend on future developments which are highly uncertain and cannot be predicted, including the geographic spread of the novel coronavirus, the overall severity of the disease, the duration of the outbreak, the effectiveness of any vaccine, the measures that may be taken by various governmental authorities in response to the outbreak (such as quarantines and travel restrictions) and the possible further impacts on the global economy.

The continued spread of COVID-19 and health related concerns could also negatively impact the availability of key personnel who are necessary to conduct our business.

The U.S. federal government, as well as many state and local governments, have adopted a number of emergency measures and recommendations in response to the COVID-19 pandemic, including imposing travel bans, “shelter in place” restrictions, curfews, cancelling events, banning large gatherings, closing non-essential businesses, and generally promoting social distancing (including in the workplace, which has resulted in a significant increase in employees working remotely). Across the country, moratoriums are in place in certain states to stop evictions and foreclosures in an effort to lessen the financial burden created by the COVID-19 pandemic and various states have even promulgated guidance to regulated servicers requiring them to formulate policies to assist mortgagors in need as a result of the COVID-19 pandemic. A number of states have enacted laws which impose significant limits on the default remedies of lenders secured by real property. While some states have begun a phased relaxation of certain of these measures, substantial restrictions on economic activity remain in place. Although it cannot be predicted, additional policy action at the federal, state and local level is possible in the near future. The COVID-19 pandemic (and any future COVID-19 outbreaks) and resulting emergency measures have led (and may continue to lead) to significant disruptions in the global supply chain, global capital markets, the economy of the United States and the economies of other nations. Concern about the potential effects of the COVID-19 pandemic and the effectiveness of measures being put in place by governmental bodies and reserve banks at various levels as well as by private enterprises to contain or mitigate its spread has adversely affected economic conditions and capital markets globally, and has led to significant volatility in global financial markets. There can be no assurance that the containment measures or other measures implemented from time to time will be successful in limiting the spread of the virus and what effect those measures will have on the economy. While non-essential activity is to some extent returning in certain jurisdictions, the timing of such return remains uncertain, and may vary substantially depending on the location and the type of activity. The disruption and volatility in the credit markets and the reduction of economic activity in severely affected sectors may continue for an extended period or indefinitely, and may worsen the recession in the United States and/or globally.

Any significant decrease in economic activity or resulting decline in the housing market could have an adverse effect on our investments in mortgage real estate assets. In particular, the COVID-19 pandemic and related economic impacts have adversely affected the housing and related markets, including as related to availability of mortgage financing and the ability of buyers and sellers and other industry participants to conduct sales, and could result in the overall decline in home values if economic conditions do not improve. Furthermore, the COVID-19 pandemic has created an uncertain and volatile interest rate environment and general fixed income patterns have deviated widely from historical trends, all of which could adversely affect our business. With respect to prepayments, given the combination of low interest rates, government stimulus and high unemployment, and other disruptions related to the COVID-19 pandemic, it has become more difficult to predict prepayment levels for the securities in our portfolio. As a result, actual prepayment results may be materially different from our estimates. With respect to our hedging activities, given recent market uncertainty, the spread between MBS, hedges and benchmark rates widened significantly. It is uncertain when normal market correlations will resume in the fixed income markets.

Further, in light of the COVID-19 pandemic’s impact on the overall economy, such as rising unemployment levels or changes in consumer behavior related to loans as well as government policies and pronouncements, borrowers may experience difficulties meeting their obligations or seek to forbear payment on or refinance their mortgage loans to avail themselves of lower rates, which may adversely affect our result of operations (particularly as related to assets we own that expose us to credit risk, as discussed below). Thus, the credit risk profile on our assets may be more pronounced in the mortgage, housing and related sectors, as a result of the COVID-19 pandemic.

We cannot predict the effect that government policies, laws and plans adopted in response to the COVID-19 pandemic and global recessionary economic conditions will have on us.

Governments have adopted, and we expect will continue to adopt, policies, laws and plans intended to address the COVID-19 pandemic and adverse developments in the credit, financial and mortgage markets. While the Federal Reserve, the U.S. government and other governments have implemented unprecedented financial support or relief measures in response to concerns surrounding the economic effects of the COVID-19 pandemic, the likelihood of such measures calming the volatility in the financial markets or addressing a long term national or global economic downturn cannot be predicted and we cannot assure you that these programs will be effective, sufficient or otherwise have a positive impact on our business.

Moreover, certain actions taken by U.S. or other governmental authorities, including the Federal Reserve, that are intended to ameliorate the social and macroeconomic effects of COVID-19 may harm our business. For example, decreases in short-term interest rates, such as those announced by the Federal Reserve during 2020, including in response to COVID-19, may have a negative impact on our results, as we have certain assets and liabilities which are sensitive to changes in interest

rates. We expect interest rates to remain low for the foreseeable future. These market interest rate declines may negatively affect our results of operations.

We may change our investment strategy, operating policies and/or asset allocations without stockholder consent, which could materially adversely affect our results of operations.

We may change our investment strategy, operating policies and/or asset allocation with respect to investments, acquisitions, leverage, growth, operations, indebtedness, capitalization and distributions at any time without the consent of our stockholders which would result in an investment portfolio with a different risk profile (including an investment portfolio that may be more concentrated in a particular class of asset). For example, related to the impact of the unprecedented conditions created by the COVID-19 pandemic, during 2020 we sold all of our MBS and substantially reduced our investments in MSR-related assets and CRT securities, resulting in our residential whole loans becoming by far our largest asset. A change in our investment strategy may increase our exposure to various risks, including but not limited to: interest rate risk, credit risk, default risk, liquidity risk, financing risk, legal or regulatory risk, and/or real estate market fluctuations. Furthermore, a change in our asset allocation could result in our making investments in asset categories different from those of our historical investments. These changes could materially adversely affect our financial condition, results of operations, the market price of our common stock or our ability to pay dividends or make distributions.

Credit and Other Risks Related to Our Investments

Our investments in residential whole loans, residential mortgage securities and MSR-related assets involve credit risk, which could materially adversely affect our results of operations.

Investors in residential mortgage assets assume the risk that the related borrowers may default on their obligations to make full and timely payments of principal and interest. Under our investment policy, we may invest in residential whole loans, residential mortgage securities, MSR-related assets and other investment assets of that may be considered to be lower credit quality. In general, these investments are less exposed to credit risk than Agency MBS because the former are not guaranteed as to principal or interest by the U.S. Government, any federal agency or any federally chartered corporation. Higher-than-expected rates of default and/or higher-than-expected loss severities on the mortgages underlying these investments could adversely affect the value of these assets. Accordingly, defaults in the payment of principal and/or interest on our residential whole loans, residential mortgage securities, MSR-related assets and other investment assets of less-than-high credit quality could result in our incurring losses of income from, and/or losses in market value relating to, these assets, which could materially adversely affect our results of operations. This risk may be more pronounced during times of market volatility and negative economic conditions, such as those being experienced in connection with the COVID-19 pandemic.

Our portfolio of residential whole loans is by far our largest asset class as of the end of 2020, and represented approximately 77% of our total assets as of December 31, 2020. We expect that our investment portfolio in residential whole loans will continue to increase during 2021. As a holder of residential whole loans, we are subject to the risk that the related borrowers may default or have defaulted on their obligations to make full and timely payments of principal and interest. A number of factors impact a borrower's ability to repay including, among other things, changes in employment status, changes in interest rates or the availability of credit, and changes in real estate values. In addition to the credit risk associated with these assets, residential whole loans are less liquid than certain of our other credit sensitive assets, which may make them more difficult to dispose of if the need or desire arises. For example, upon the onset of the volatility created by the COVID-19 pandemic, we were unable to efficiently liquidate residential whole loans to raise liquidity. If actual results are different from our assumptions in determining the prices paid to acquire such loans, particularly if the market value of the underlying properties decreases significantly subsequent to purchase, we may incur significant losses, which could materially adversely affect our results of operations.

Our investments are subject to changes in credit spreads and other risks.

Credit spreads, which at times can be very volatile and react to various macro-economic events or conditions, measure the additional yield demanded on securities by the market based on their perceived credit relative to a specific benchmark. Fixed rate securities are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. Floating rate securities are generally valued based on a market credit spread over LIBOR (which is under reform and may be replaced, as discussed below). Excessive supply of these securities combined with reduced demand will generally cause the market to require a higher yield on these securities, resulting in the use of a higher, or "wider," spread over the benchmark rate to value such securities. Under such conditions, the value of our MBS portfolio would tend to decline. Conversely, if the spread used to value such securities were to decrease, or "tighten," the value of MBS would tend to increase. In addition, MBS valuations are subject to other financial risks, including mortgage basis spread risk. In periods of market volatility, changes in

credit spreads and mortgage basis may result in changes in the value of MBS not being equally offset by changes in the value of derivative contracts used to manage portfolio valuation risks arising due to changes in interest rates. Such changes in the market value of our investments may affect our net equity, net income or cash flow directly through their impact on portfolio unrealized gains or losses, and therefore our ability to realize gains on such investments, or indirectly through their impact on our ability to borrow and access capital. This risk may be more pronounced during times of market volatility and negative economic conditions, such as those being experienced in connection with the COVID-19 pandemic.

A significant portion of our residential whole loans and residential mortgage securities are secured by properties in a small number of geographic areas and may be disproportionately affected by economic or housing downturns, our competition, natural disasters, terrorist events, pandemics, regulatory changes, adverse climate changes or other adverse events specific to those markets.

A significant number of the mortgages underlying our residential whole loans and residential mortgage securities are concentrated in certain geographic areas. For example, we have significant exposure in California, Florida, New York, New Jersey and Texas. (For a discussion of the percentage of these assets in these states, see “Credit Risk” included under Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risk” in this Annual Report on Form 10-K) Certain markets within these states (particularly in California and Florida) have experienced significant decreases in residential home values from time to time. Any event that adversely affects the economy or real estate market in any of these states could have a disproportionately adverse effect on our residential whole loan and residential mortgage securities. In general, any material decline in the economy or significant problems in a particular real estate market would likely cause a decline in the value of residential properties securing the mortgages in that market, thereby increasing the risk of delinquency, default and foreclosure of residential whole loans and the loans underlying our residential mortgage securities and the risk of loss upon liquidation of these assets. This could, in turn, have a material adverse effect on our credit loss experience on residential mortgage investments in the affected market if higher-than-expected rates of default and/or higher-than-expected loss severities on our investments in residential whole loans and residential mortgage securities were to occur.

In addition, the occurrence of a natural disaster (such as an earthquake, tornado, hurricane, flood, mudslide or wildfires), pandemic, terrorist attack or a significant adverse climate change, including potential rises in sea-levels, may cause a sudden decrease in the value of real estate in the area or areas affected and would likely reduce the value of the properties securing the mortgages collateralizing our residential whole loans or residential mortgage securities. Because certain natural disasters are not typically covered by the standard hazard insurance policies maintained by borrowers (such as hurricanes, earthquakes or certain flooding), or the proceeds payable for losses covered by any such policy are not sufficient to make the related repairs, the affected borrowers may have to pay for any repairs themselves. Under these circumstances, borrowers may decide not to repair the damaged property or may stop paying the mortgage, either of which could cause defaults and credit loss severities to increase.

The risks discussed above may be more pronounced during times of market volatility and negative economic conditions, such as those being experienced in connection with the COVID-19 pandemic.

Changes in governmental laws and regulations, fiscal policies, property taxes and zoning ordinances can also have a negative impact on property values, which could result in borrowers’ deciding to stop paying their mortgages. This circumstance could cause defaults and loss severities to increase, thereby adversely impacting our results of operations.

We are subject to counterparty risk and may be unable to seek indemnity or require counterparties to repurchase residential whole loans if they breach representations and warranties, which could cause us to suffer losses.

In connection with our residential whole loan investments, we typically enter into a loan purchase agreement, as buyer, of the loans from a seller. When we invest in certain mortgage loans, sellers may make representations and warranties about such loans that are very limited both in scope and duration. Residential mortgage loan purchase agreements may entitle the purchaser of the loans to seek indemnity or demand repurchase or substitution of the loans in the event the seller of the loans breaches a representation or warranty given to the purchaser. However, there can be no assurance that a mortgage loan purchase agreement will contain appropriate representations and warranties, that we or the trust that purchases the mortgage loans would be able to enforce a contractual right to repurchase or substitution, or that the seller of the loans will remain solvent or otherwise be able to honor its obligations under its mortgage loan purchase agreements. The inability to obtain or enforce an indemnity or require repurchase of a significant number of loans could require us to absorb the associated losses, and adversely affect our results of operations, financial condition and business.

The due diligence we undertake on potential investments may be limited and/or not reveal all of the risks associated with such investments and may not reveal other weaknesses in such assets, which could lead to losses.

Before making an investment, we typically conduct (either directly or using third-parties) certain due diligence. There can be no assurance that we will conduct any specific level of due diligence, or that, among other things, our due diligence processes will uncover all relevant facts, which could result in losses on these assets to the extent we ultimately acquire them, which, in turn, could adversely affect our results of operations, financial condition and business.

We have experienced and may experience in the future increased volatility in our GAAP results of operations due in part to the increasing contribution to financial results of assets and liabilities accounted for under the fair value option.

We have elected the fair value option accounting model for certain of our investments and financing agreements. Changes in the fair value of assets, and a portion of the changes in the fair value of liabilities, accounted for using the fair value option are recorded in our consolidated statements of operations each period, which may result in volatility in our financial results. (For example, we experienced such volatility particularly during the first and second quarters of 2020, at the height of the COVID-19-related market dislocations). There can be no assurance that such volatility in periodic financial results will not occur during 2021 or in future periods.

We have experienced, and may in the future experience, declines in the market value of certain of our investment securities resulting in our recording impairments, which have had, and may in the future have, an adverse effect on our results of operations and financial condition.

A decline in the market value of our residential mortgage securities that are accounted for as available-for-sale (or AFS) may require us to recognize impairment against such assets under GAAP. When the fair value of an AFS security is less than its amortized cost at the balance sheet date, the security is considered impaired. If we intend to sell an impaired security, or it is more likely than not that we will be required to sell the impaired security before any anticipated recovery, then we must recognize charges to earnings equal to the entire difference between the investment's amortized cost and its fair value at the balance sheet date. If we do not expect to sell an impaired security, only the portion of the impairment related to credit losses is recognized through charges to earnings with the remainder recognized through accumulated other comprehensive income/(loss) (or AOCI) on our consolidated balance sheets. Impairments recognized through other comprehensive income/(loss) (or OCI) do not impact earnings. Following the recognition of an impairment through earnings, a valuation allowance will be established for the security. The determination as to the amount of credit impairment recognized in earnings is subjective, as such determination is based on factual information available at the time of assessment as well as on our estimates of the future performance and cash flow projections. As a result, the timing and amount of impairments recognized in earnings constitute material estimates that are susceptible to significant change.

The use of models in connection with the valuation and credit losses of our assets subjects us to potential risks in the event that such models are incorrect, misleading or based on incomplete information.

As part of our risk management process, models may be used to evaluate, depending on the asset class, house price appreciation and depreciation by county or region, prepayment speeds and frequency, cost and timing of foreclosures, as well as other factors. Certain assumptions used as inputs to the models may be based on historical trends. These trends may not be indicative of future results. Furthermore, the assumptions underlying the models may prove to be inaccurate, causing the model output also to be incorrect. In particular, the economic, financial and related impacts of events like the COVID-19 pandemic are and will be very difficult to model (including as related to the housing and mortgage markets), as the catalyst for these conditions (i.e., a global pandemic) is an event that is unparalleled in modern history and therefore is subject to unique variables, assumptions and inputs, making historical data used in models less reliable. In the event models and data prove to be incorrect, misleading or incomplete, any decisions made in reliance thereon expose us to potential risks. For example, by relying on incorrect models and data, we may overestimate or underestimate credit losses, buy certain assets at prices that are too high, sell certain assets at prices that are too low or miss favorable opportunities altogether, which could have a material adverse impact on our financial results, business and growth prospects.

Valuations of some of our assets are subject to inherent uncertainty, may be based on estimates, may fluctuate over short periods of time and may differ from the values that would have been used if a ready market for these assets existed.

While the determination of the fair value of our investment assets generally takes into consideration valuations provided by third-party dealers and pricing services, the final determination of exit price fair values for our investment assets is based on our judgment, and such valuations may differ from those provided by third-party dealers and pricing services. Valuations of certain assets may be difficult to obtain or may not be reliable (particularly as related to residential whole loans, as discussed below). In general, dealers and pricing services heavily disclaim their valuations as such valuations are not intended to be binding bid

prices. Additionally, dealers may claim to furnish valuations only as an accommodation and without special compensation, and so they may disclaim any and all liability arising out of any inaccuracy or incompleteness in valuations. Depending on the complexity and illiquidity of an asset, valuations of the same asset can vary substantially from one dealer or pricing service to another. Wide disparity in asset valuations may be more pronounced during periods when market participants are engaged in distressed sales, as was experienced in the early stage of the COVID-19 related market volatility.

Our results of operations, financial condition and business could be materially adversely affected if our fair value determinations of these assets are materially higher than could actually be realized in the market.

Our investments in residential whole loans are difficult to value and are dependent upon the borrower’s ability to service or refinance their debt. The inability of the borrower to do so could materially and adversely affect our liquidity and results of operations.

The difficulty in valuation is particularly significant with respect to our less liquid investments such as our re-performing loans (or RPLs) and non-performing loans (or NPLs). RPLs are loans on which a borrower was previously delinquent but has resumed repaying. Our ability to sell RPLs for a profit depends on the borrower continuing to make payments. An RPL could become a NPL, which could reduce our earnings. Our investments in residential whole loans may require us to engage in workout negotiations, restructuring and/or the possibility of foreclosure. These processes may be lengthy and expensive. If loans become REO, we, through a designated servicer that we retain, will have to manage these properties and may not be able to sell them. See the Risk Factor captioned “Our ability to sell REO on terms acceptable to us or at all may be limited.”

We may work with our third-party servicers and seek to help a borrower to refinance an NPL or RPL to realize greater value from such loan. However, there may be impediments to executing a refinancing strategy for NPLs and RPLs. For example, many mortgage lenders have adjusted their loan programs and underwriting standards, which has reduced the availability of mortgage credit to prospective borrowers. This has resulted in reduced availability of financing alternatives for borrowers seeking to refinance their mortgage loans. In addition, the value of some borrowers’ homes may have declined below the amount of the mortgage loans on such homes resulting in higher loan-to-value ratios, which has left the borrowers with insufficient equity in their homes to permit them to refinance. To the extent prevailing mortgage interest rates rise from their current low levels, these risks would be exacerbated. The effect of the above would likely serve to make the refinancing of NPLs and RPLs potentially more difficult and less profitable for us.

Mortgage loan modification and refinancing programs and future legislative action may materially adversely affect the value of, and the returns on, our MBS and residential whole loan investments.

The U.S. Government, through the Federal Reserve, the U.S. Treasury Department, the FHA, the CFPB, and other agencies have in the past implemented, and may in the future implement, a number of federal programs designed to assist homeowners and help them avoid residential mortgage loan foreclosures, reduce or forgive certain mortgage payments, or otherwise mitigate losses for homeowners. In addition, Fannie Mae and Freddie Mac implemented their Flex Modification foreclosure prevention program, developed at the direction of the FHFA. Federal loss mitigation programs, as well as proprietary loss mitigation programs offered by investors and servicers, may involve, among other things, the modification of mortgage loans to reduce the principal amount of the loans (through forbearance and/or forgiveness) and/or the rate of interest payable on the loans, or to extend the payment terms of the loans. Especially with respect to our Non-Agency MBS and residential whole loan investments, loan modifications with respect to a given underlying loan, including, but not limited to, those related to principal payment deferrals, forbearance agreements, forgiveness and coupon reduction, could negatively impact the realized yields and cash flows on such investments. These loan modification programs, future legislative or regulatory actions, including possible amendments to the bankruptcy laws, that result in the modification of outstanding residential mortgage loans, as well as changes in the requirements necessary to qualify for refinancing mortgage loans with Fannie Mae, Freddie Mac or Ginnie Mae, may materially adversely affect the value of, and the returns on, these assets. See the Risk Factor titled “Actions by the U.S. Government designed to stabilize or reform the financial markets may not achieve their intended effect or otherwise benefit our business, and could materially adversely affect our business” in this Form 10-K.

The new U.S. presidential administration and Congress may propose and adopt changes in federal policies that have significant impacts on the legal and regulatory framework affecting the mortgage industry. These changes, including personnel changes at the applicable regulatory agencies, may alter the nature and scope of oversight affecting the mortgage finance industry generally and particularly the future role of Fannie Mae and Freddie Mac.

We may be adversely affected by risks affecting borrowers or the asset or property types in which certain of our investments may be concentrated at any given time, as well as from unfavorable changes in the related geographic regions.

We are not required to limit our assets in terms of geographic location, diversification or concentration, except that we concentrate in residential mortgage-related investments. Accordingly, our investment portfolio may be concentrated by geography (see the Risk Factor titled “A significant portion of our residential whole loans and residential mortgage securities are secured by properties in a small number of geographic areas and may be disproportionately affected by economic or housing downturns, our competition, natural disasters, terrorist events, pandemics, regulatory changes, adverse climate changes or other adverse events specific to those markets” in this Form 10-K), asset type (as is the case currently, as residential whole loans are by far our most concentrated asset type), property type and/or borrower, increasing the risk of loss to us if the particular concentration in our portfolio is subject to greater risks or is undergoing adverse developments. In addition, adverse conditions in the areas where the properties securing or otherwise underlying our investments are located (including business layoffs or downsizing, industry slowdowns, such as those experienced due to the COVID-19 pandemic, changing demographics and other factors) and local real estate conditions (such as oversupply or reduced demand) may have an adverse effect on the value of our investments. A material decline in the demand for real estate in these areas may materially and adversely affect us. Lack of diversification can increase the correlation of non-performance and foreclosure risks to these investments.

Our investments in residential whole loans subject us to servicing-related risks, including those associated with foreclosure and liquidation.

We rely on third-party servicers to service and manage the mortgages underlying our residential whole loans. The ultimate returns generated by these investments may depend on the quality of the servicer. If a servicer is not vigilant in seeing that borrowers make their required monthly payments, borrowers may be less likely to make these payments, resulting in a higher frequency of default. If a servicer takes longer to liquidate non-performing mortgages, our losses related to those loans may be higher than originally anticipated. Any failure by servicers to service these mortgages and/or to competently manage and dispose of REO properties could negatively impact the value of these investments and our financial performance. In addition, while we have contracted with third-party servicers to carry out the actual servicing of the loans (including all direct interface with the borrowers), for loans that we purchase together with the related servicing rights, we are nevertheless ultimately responsible, *vis-à-vis* the borrowers and state and federal regulators, for ensuring that the loans are serviced in accordance with the terms of the related notes and mortgages and applicable law and regulation. (See the Risk Factor captioned “Regulatory Risk and Risks Related to the Investment Company Act of 1940 - Our business is subject to extensive regulation”) In light of the current regulatory environment, such exposure could be significant even though we might have contractual claims against our servicers for any failure to service the loans to the required standard.

The COVID-19 pandemic and the resulting economic disruption it has caused may result in liquidity pressures on servicers and other third-party vendors that we rely upon. For instance, as a result of an increase in mortgagors requesting relief in the form of forbearance plans and/or other loss mitigation, servicers and other parties responsible in capital markets securitization transactions for funding advances with respect to delinquent mortgagor payments of principal and interest may begin to experience financial difficulties if mortgagors do not make monthly payments as a result of the COVID-19 pandemic. The negative impact on the business and operations of such servicers or other parties responsible for funding such advances could be significant. Sources of liquidity typically available to servicers and other relevant parties for the purpose of funding advances of monthly mortgage payments, especially entities that are not depository institutions, may not be sufficient to meet the increased need that could result from significantly higher delinquency and/or forbearance rates. The extent of such liquidity pressures in the future is not known at this time and is subject to continual change.

The foreclosure process, especially in judicial foreclosure states such as New York, Florida and New Jersey (in which states we have significant exposure), can be lengthy and expensive, and the delays and costs involved in completing a foreclosure, and then subsequently liquidating the REO property through sale, may materially increase any related loss. In addition, at such time as title is taken to a foreclosed property, it may require more extensive rehabilitation than we estimated at acquisition. Thus, a material amount of foreclosed residential mortgage loans, particularly in the states mentioned above, could result in significant losses in our residential whole loan portfolio and could materially adversely affect our results of operations. Due to the COVID-19 pandemic, there is currently a federal moratorium against eviction which is expected to remain in place, in accordance with President Biden’s day one executive order, until at least March 31, 2021.

The expanding body of federal, state and local regulations and investigations of originators and servicers may increase costs of compliance and the risks of noncompliance, and may adversely affect servicers’ ability to perform their servicing obligations.

We work with and rely on third-party servicers to service the residential mortgage loans that we acquire through consolidated trusts. The mortgages underlying the MBS that we acquire are also serviced by third-party servicers that have been hired by the bond issuers. The mortgage servicing business is subject to extensive regulation by federal, state and local

governmental authorities and is subject to various laws and judicial and administrative decisions imposing requirements and restrictions and increased compliance costs on a substantial portion of their operations. The volume of new or modified laws and regulations has increased in recent years. Some jurisdictions and municipalities have enacted laws that restrict loan servicing activities, including delaying or preventing foreclosures or forcing the modification of certain mortgages.

Federal laws and regulations have also been proposed or adopted which, among other things, could hinder the ability of a servicer to foreclose promptly on defaulted residential loans, and which could result in assignees being held responsible for violations in the residential loan origination process. For example, due to the COVID-19 pandemic, there is currently a federal moratorium against evictions which is expected to remain in place until at least March 31, 2021. In addition, certain mortgage lenders and third-party servicers have voluntarily, or as part of settlements with law enforcement authorities, established loan modification programs relating to loans they hold or service. These federal, state and local legislative or regulatory actions that result in modifications of our outstanding mortgages, or interests in mortgages acquired by us either directly through consolidated trusts or through our investments in residential MBS, may adversely affect the value of, and returns on, such investments. Mortgage servicers may be incented by the federal government to pursue such loan modifications, as well as forbearance plans and other actions intended to prevent foreclosure, even if such loan modifications and other actions are not in the best interests of the beneficial owners of the mortgages. As a consequence of the foregoing matters, our business, financial condition, results of operations and ability to pay dividends, if any, to our stockholders may be adversely affected.

Our ability to sell REO on terms acceptable to us or at all may be limited.

REO properties are illiquid relative to other assets we own. Furthermore, real estate markets are affected by many factors that are beyond our control, such as general and local economic conditions, availability of financing, interest rates and supply and demand. We cannot predict whether we will be able to sell any REO for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of an REO. In certain circumstances, we may be required to expend cash to correct defects, pay expenses or to make improvements before a property can be sold, and we cannot assure that we will have cash available to make these payments. As a result, our ownership of REOs could materially and adversely affect our liquidity and results of operations.

Our investments in MSR-related assets expose us to additional risks.

As of December 31, 2020, we had approximately \$239.0 million of investments in financial instruments whose cash flows are considered to be largely dependent on underlying MSRs that either directly or indirectly act as collateral for the investment. Generally, we have the right to receive certain cash flows from the owner of the MSRs that are generated from the servicing fees and/or excess servicing spread associated with the MSRs. While we do not directly own MSRs, our investments in MSR-related assets indirectly expose us to risks associated with MSRs, such as the illiquidity of MSRs, the risks associated with servicing MSRs (that include, for example, significant regulatory risks and costs) and the ability of the owner to successfully manage its MSR portfolio. Furthermore, the value of MSRs is highly sensitive to changes in prepayment rates. Decreasing market interest rates are generally associated with increases in prepayment rates as borrowers are able to refinance their loans at lower costs. Prepayments result in the partial or complete loss of the cash flows from the related MSR. If these or other MSR-related risks come to fruition, the value of our MSR-related assets could decline significantly.

Our investments in mortgage loan originators expose us to additional risks.

As of December 31, 2020, we had approximately \$47.1 million of investments in certain loan originators from whom we acquire mortgage loans for investment on a periodic basis. These investments have taken the form of common equity and preferred equity. Unlike our investments in residential mortgage loans and mortgage-backed securities, our investments in loan originators are unsecured and not collateralized by any property of the originators. In addition, we do not manage any of the loan originators in which we have made investments, and because none of our investments give us a controlling stake in any of the loan originators, our ability to influence the business and operations of the originators is limited, in some instances significantly so. Also, because these loan originators are private closely-held enterprises, there are significant restrictions on our ability to sell or otherwise transfer our investments (which are generally illiquid). In the event one or more of the loan originators in which we have made investments should experience a significant decline in its business and operations or otherwise not be able to respond adequately to managerial, compliance or operational challenges that it may encounter, we may be required to write-down all or a portion of the applicable investment, which could have a material adverse impact on our results of operations.

Prepayment and Reinvestment Risk

Prepayment rates on the mortgage loans underlying certain of our residential mortgage assets may materially adversely affect our profitability or result in liquidity shortfalls that could require us to sell assets in unfavorable market conditions.

In general, the mortgages collateralizing certain of our residential mortgage assets may be prepaid at any time without penalty. Prepayments result when borrowers satisfy (i.e., pay off) the mortgage upon selling or refinancing their mortgaged property. When we acquire assets collateralized by residential mortgage loans, we anticipate that the underlying mortgage loans will prepay at a projected rate which, together with expected coupon income, provides us with an expected yield on that asset. If we purchase an asset at a premium to par value, and borrowers then prepay the underlying mortgage loans at a faster rate than we expected, the increased prepayments would result in a yield lower than expected on such assets because we would be required to amortize the related premium on an accelerated basis. Conversely, if we purchase residential mortgage assets at a discount to par value, and borrowers then prepay the underlying mortgage loans at a slower rate than we expected, the decreased prepayments would result in a lower yield than expected on the asset and/or may result in a decline in the fair value of the asset, which would result in losses if the asset is accounted for at fair value or impairment for an AFS security if the fair value of the security is less than its amortized cost.

Prepayment rates on mortgage loans are influenced by changes in mortgage and market interest rates and a variety of economic, geographic, governmental and other factors beyond our control. Consequently, prepayment rates cannot be predicted with certainty and no strategy can completely insulate us from prepayment risks. In periods of declining interest rates, prepayment rates on mortgage loans generally increase. Because of prepayment risk, the market value of certain of our assets may benefit less than other fixed income securities from a decline in interest rates. If general interest rates decline at the same time, we would likely not be able to reinvest the proceeds of the prepayments that we receive in assets yielding as much as those yields on the assets that were prepaid.

With respect to certain residential mortgage assets, we have, at times, purchased assets that have a higher coupon rate than the prevailing market interest rates. In exchange for a higher coupon rate, we typically pay a premium over par value to acquire such assets. In accordance with GAAP, we amortize premiums over the life of the related asset. If the underlying mortgage loans securing these assets prepay at a more rapid rate than anticipated, we will be required to amortize the related premiums on an accelerated basis, which could adversely affect our profitability.

Risks Related to Our Use of Leverage

Our business strategy involves the use of leverage, and we may not achieve what we believe to be optimal levels of leverage or we may become overleveraged, which may materially adversely affect our liquidity, results of operations or financial condition.

Our business strategy involves the use of borrowing or “leverage.” We use the borrowed funds to finance our investment portfolio and the acquisition of additional investment assets. Although we are not required to maintain any particular debt-to-equity ratio, certain of our borrowing agreements contain provisions requiring us not to have a debt-to-equity ratio exceeding specified levels. Future increases in the amount by which the collateral value is required to contractually exceed the repurchase transaction loan amount, decreases in the market value of our residential mortgage investments, increases in interest rate volatility and changes in the availability of acceptable financing could cause us to be unable to achieve the amount of leverage we believe to be optimal. The return on our assets and cash available for distribution to our stockholders may be reduced to the extent that changes in market conditions prevent us from achieving the desired amount of leverage on our investments or cause the cost of our financing to increase relative to the income earned on our leveraged assets. If the interest income on the residential mortgage investments that we have purchased with borrowed funds fails to cover the interest expense of the related borrowings, we will experience net interest losses and may experience net losses from operations. Such losses could be significant as a result of our leveraged structure. The risks associated with leverage are more acute during periods of economic slowdown or recession, which the U.S. economy has experienced in connection with the conditions created by the COVID-19 pandemic. The use of leverage to finance our residential mortgage investments involves a number of other risks, including, among other things, the following:

- ***If we are unable to renew our borrowings at acceptable interest rates, it may force us to sell assets under adverse market conditions, which may materially adversely affect our liquidity and profitability.*** Since we rely primarily on borrowings under short-term repurchase agreements to finance our generally longer-term residential mortgage investments, our ability to achieve our investment objectives depends on our ability to borrow funds in sufficient amounts and on acceptable terms, and on our ability to renew or replace maturing borrowings on a continuous basis.

Our repurchase agreement credit lines are renewable at the discretion of our lenders and, as such, do not contain guaranteed roll-over terms. Our ability to enter into repurchase transactions in the future will depend on the market value of our residential mortgage investments pledged to secure the specific borrowings, the availability of acceptable financing and market liquidity and other conditions existing in the lending market at that time. If we are not able to renew or replace maturing borrowings, we could be forced to sell assets, including assets in an unrealized loss position, in order to maintain liquidity. Forced sales, particularly under adverse market conditions, as frequently occurred during the onset of the COVID-19 pandemic, could result in lower sales prices than ordinary market sales made in the normal course of business. If our residential mortgage investments were liquidated at prices below our amortized cost (i.e., the cost basis) of such assets, we would incur losses, which could materially adversely affect our earnings.

- ***A decline in the market value of our assets may result in margin calls that may force us to sell assets under adverse market conditions, which may materially adversely affect our liquidity and profitability.*** In general, the market value of our residential mortgage investments is impacted by changes in interest rates, prevailing market yields and other market conditions, including general economic conditions, home prices and the real estate market generally. A decline in the market value of our residential mortgage investments may limit our ability to borrow against such assets or result in lenders initiating margin calls, which require a pledge of additional collateral or cash to re-establish the required ratio of borrowing to collateral value, under our repurchase agreements. For example, during the initial stages of the COVID-19 pandemic and related market dislocations, we experienced significantly higher margin calls and haircuts with respect to our repurchase agreements. See the Risk Factor directly below. Posting additional collateral or cash to support our credit will reduce our liquidity and limit our ability to leverage our assets, which could materially adversely affect our business. As a result, we could be forced to sell a portion of our assets, including MBS in an unrealized loss position, in order to maintain liquidity.
- ***Adverse developments involving major financial institutions or involving one of our lenders could result in a rapid reduction in our ability to borrow and materially adversely affect our business, profitability and liquidity.*** A material adverse development involving one or more major financial institutions or the financial markets in general could result in our lenders reducing our access to funds available under our repurchase agreements or terminating such repurchase agreements altogether. Because all of our repurchase agreements are uncommitted and renewable at the discretion of our lenders, our lenders could determine to reduce or terminate our access to future borrowings at virtually any time, which could materially adversely affect our business and profitability. Furthermore, if a number of our lenders became unwilling or unable to continue to provide us with financing, we could be forced to sell assets, including MBS in an unrealized loss position, in order to maintain liquidity. Forced sales, particularly under adverse market conditions, may result in lower sales prices than ordinary market sales made in the normal course of business. If our residential mortgage investments were liquidated at prices below our amortized cost (i.e., the cost basis) of such assets, we would incur losses, which could adversely affect our earnings. We and many other mortgage REITs experienced these conditions in 2020 in connection with the conditions created by the COVID-19 pandemic. In addition, any uncertainty in the global finance market or weak economic conditions in Europe could cause the conditions described above to have a more pronounced effect on our European counterparties.
- ***Our profitability may be materially adversely affected by a reduction in our leverage.*** As long as we earn a positive spread between interest and other income we earn on our leveraged assets and our borrowing costs, we believe that we can generally increase our profitability by using greater amounts of leverage. There can be no assurance, however, that repurchase financing will remain an efficient source of long-term financing for our assets. The amount of leverage that we use may be limited because our lenders might not make funding available to us at acceptable rates or they may require that we provide additional collateral to secure our borrowings. If our financing strategy is not viable, we will have to find alternative forms of financing for our assets which may not be available to us on acceptable terms or at acceptable rates. In addition, in response to certain interest rate and investment environments or to changes in market liquidity, we could adopt a strategy of reducing our leverage by selling assets or not reinvesting principal payments as assets amortize and/or prepay, thereby decreasing the outstanding amount of our related borrowings. Such an action could reduce interest income, interest expense and net income, the extent of which would be dependent on the level of reduction in assets and liabilities as well as the sale prices for which the assets were sold.
- ***If a counterparty to our repurchase transactions defaults on its obligation to resell the underlying security back to us at the end of the transaction term or if we default on our obligations under the repurchase agreement, we could incur losses.*** When we engage in repurchase transactions, we generally transfer securities to lenders (i.e., repurchase agreement counterparties) and receive cash from such lenders. Because the cash we receive from the lender when we initially transfer the securities to the lender is less than the value of those securities (this difference is referred to as the “haircut”), if the lender defaults on its obligation to transfer the same securities back to us, we would incur a loss on the transaction equal to the amount of the haircut (assuming there was no change in the value of the securities). Our

exposure to defaults by counterparties may be more pronounced during periods of significant volatility in the market conditions for mortgages and mortgage-related assets as well as the broader financial markets. At December 31, 2020, we had greater than 5% stockholders' equity at risk to the following financing agreement counterparties: Barclay's Bank (approximately 20.0%), Credit Suisse (approximately 17.4%), Wells Fargo (approximately 13.4%), Goldman Sachs (approximately 7.4%) and Athene (approximately 5.3%).

In addition, generally, if we default on one of our obligations under a repurchase transaction with a particular lender, that lender can elect to terminate the transaction and cease entering into additional repurchase transactions with us. In addition, some of our repurchase agreements contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under our other repurchase agreements could also declare a default. Any losses we incur on our repurchase transactions could materially adversely affect our earnings and thus our cash available for distribution to our stockholders.

- ***Our use of repurchase agreements to borrow money may give our lenders greater rights in the event of bankruptcy.*** Borrowings made under repurchase agreements may qualify for special treatment under the U.S. Bankruptcy Code. If a lender under one of our repurchase agreements defaults on its obligations, it may be difficult for us to recover our assets pledged as collateral to such lender. In the event of the insolvency or bankruptcy of a lender during the term of a repurchase agreement, the lender may be permitted, under applicable insolvency laws, to repudiate the contract, and our claim against the lender for damages may be treated simply as an unsecured creditor. In addition, if the lender is a broker or dealer subject to the Securities Investor Protection Act of 1970, or an insured depository institution subject to the Federal Deposit Insurance Act, our ability to exercise our rights to recover our securities under a repurchase agreement or to be compensated for any damages resulting from the lender's insolvency may be further limited by those statutes. These claims would be subject to significant delay and, if and when received, may be substantially less than the damages we actually incur. In addition, in the event of our insolvency or bankruptcy, certain repurchase agreements may qualify for special treatment under the Bankruptcy Code, the effect of which, among other things, would be to allow the creditor under the agreement to avoid the automatic stay provisions of the Bankruptcy Code and take possession of, and liquidate, our collateral under our repurchase agreements without delay. Our risks associated with the insolvency or bankruptcy of a lender may be more pronounced during periods of significant volatility in the market conditions for mortgages and mortgage-related assets as well as the broader financial markets.

An increase in our borrowing costs relative to the interest we receive on our investments may materially adversely affect our profitability.

Our earnings are primarily generated from the difference between the interest income we earn on our investment portfolio, less net amortization of purchase premiums and discounts, and the interest expense we pay on our borrowings. We rely primarily on borrowings under repurchase agreements and other financing arrangements to finance the acquisition of residential mortgage investments. Our financing arrangements typically have shorter-term contractual maturities than the maturities of our mortgage investments. Even though the majority of our investments have interest rates that adjust over time based on changes in corresponding interest rate indexes, the interest we pay on our borrowings may increase at a faster pace than the interest we earn on our investments. In general, if the interest expense on our borrowings increases relative to the interest income we earn on our investments, our profitability may be materially adversely affected, including due to the following reasons:

- ***Changes in interest rates, cyclical or otherwise, may materially adversely affect our profitability.*** Interest rates are highly sensitive to many factors, including fiscal and monetary policies and domestic and international economic and political conditions, as well as other factors beyond our control. In general, we finance the acquisition of our investments through borrowings in the form of repurchase transactions, which exposes us to interest rate risk on the financed assets. The cost of our borrowings is based on prevailing market interest rates. Because the terms of our repurchase transactions typically range from one to six months at inception, the interest rates on our borrowings generally adjust more frequently (as new repurchase transactions are entered into upon the maturity of existing repurchase transactions) than the interest rates on our investments. During a period of rising interest rates, our borrowing costs generally will increase at a faster pace than our interest earnings on the leveraged portion of our investment portfolio, which could result in a decline in our net interest spread and net interest margin. The severity of any such decline would depend on our asset/liability composition, including the impact of hedging transactions, at the time as well as the magnitude and period over which interest rates increase. Further, an increase in short-term interest rates could also have a negative impact on the market value of our residential mortgage investments. If any of these events happen, we could experience a decrease in net income or incur a net loss during these periods, which may negatively impact our distributions to stockholders.

Changes in inter-bank lending rate reporting practices, the method pursuant to which LIBOR is determined, or the establishment of alternative reference rates may adversely affect our profitability.

As discussed above, the interest rates on certain of our investments, our repurchase transactions and our interest rate swap agreements (or Swaps) are generally based on LIBOR. LIBOR and other indices which are deemed “benchmarks” have been the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, or have other consequences which cannot be predicted. In particular, regulators and law enforcement agencies in the United Kingdom and elsewhere are conducting criminal and civil investigations into whether the banks that contribute information to the British Bankers’ Association (or BBA) in connection with the daily calculation of LIBOR may have been under-reporting or otherwise manipulating or attempting to manipulate LIBOR. A number of BBA member banks have reached settlements with their regulators and law enforcement agencies with respect to this alleged manipulation of LIBOR. Actions by the regulators or law enforcement agencies, as well as ICE Benchmark Administration (the current administrator of LIBOR), may result in changes to the manner in which LIBOR is determined or the establishment of alternative reference rates. For example, on July 27, 2017, the United Kingdom Financial Conduct Authority (or FCA) announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021.

Currently, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be implemented in the United Kingdom or elsewhere. While we expect LIBOR to be available in substantially its current form until the end of 2021, and likely based on IBA’s announced consultation through June 2023, if sufficient banks decline to make submissions to IBA, it is possible that LIBOR will become unavailable prior to that point. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect the rates on our repurchase facilities, securitizations or residential loans held for longer-term investment. If LIBOR is discontinued or is no longer quoted, the applicable base rate used to calculate interest on our repurchase agreements will be determined using alternative methods. In the U.S., efforts to identify a set of U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve Board and the Federal Reserve Bank of New York. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with the Secured Overnight Funding Rate (or SOFR). The Federal Reserve Bank of New York began publishing SOFR rates in April 2018. The market transition away from LIBOR and towards SOFR is expected to be gradual and complicated. There are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate and SOFR a secured lending rate, SOFR being an overnight rate and LIBOR reflecting term rates at different maturities. These and other differences create the potential for basis risk between the two rates. The impact of any basis risk difference between LIBOR and SOFR may negatively impact our interest margin. Any of these alternative methods may result in interest rates that are higher than if the LIBOR rate was available in its current form, which could have a material adverse effect on our net interest margin. In addition, the manner and timing of this shift are currently unknown. Market participants are still considering how various types of financial instruments and securitization vehicles should react to a discontinuation of LIBOR. It is possible that not all of our assets and liabilities will transition away from LIBOR at the same time, and it is possible that not all of our assets and liabilities will transition to the same alternative reference rate, in each case increasing the difficulty of hedging. We and other market participants have less experience understanding and modeling SOFR-based assets and liabilities than LIBOR-based assets and liabilities, increasing the difficulty of investing, hedging, and risk management. The process of transition involves operational risks. It is also possible that no transition will occur for many financial instruments.

Any additional changes announced by the FCA, other regulators, or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which reference rates are determined may result in a sudden or prolonged increase or decrease in the reported reference rates. If that were to occur, the level of interest payments we incur may change. In addition, although certain of our LIBOR based obligations provide for alternative methods of calculating the interest payable on certain of our obligations if LIBOR is not reported, which include requesting certain rates from major reference banks in London or New York, or alternatively using LIBOR for the immediately preceding interest period or using the initial interest rate, as applicable, uncertainty as to the extent and manner of future changes may result.

At this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be implemented in the United Kingdom or elsewhere. Uncertainty as to the nature of such potential changes, alternative reference rates or other reforms may adversely affect our profitability, which may negatively impact our distributions to stockholders.

Certain of our current lenders require, and future lenders may require, that we enter into restrictive covenants relating to our operations.

The various agreements pursuant to which we borrow money to finance our residential mortgage investments generally include customary representations, warranties and covenants, but may also contain more restrictive supplemental terms and

conditions. Although specific to each master repurchase or loan agreement, typical supplemental terms include requirements of minimum equity, leverage ratios and performance triggers relating to a decline in equity or net income over a period of time. If we fail to meet or satisfy any covenants, supplemental terms or representations and warranties, we could be in default under the affected agreements and those lenders could elect to declare all amounts outstanding under the agreements to be immediately due and payable, enforce their respective interests against collateral pledged under such agreements and restrict our ability to make additional borrowings. Certain of our financing agreements contain cross-default or cross-acceleration provisions, so that if a default or acceleration of indebtedness occurs under any one agreement, the lenders under our other agreements could also declare a default. Further, under our repurchase agreements, we are typically required to pledge additional assets to our lenders in the event the estimated fair value of the existing pledged collateral under such agreements declines and such lenders demand additional collateral, which may take the form of additional securities, loans or cash.

Future lenders may impose similar or additional restrictions and other covenants on us. If we fail to meet or satisfy any of these covenants, we could be in default under these agreements, and our lenders could elect to declare outstanding amounts due and payable, require the posting of additional collateral and enforce their interests against then-existing collateral. We could also be subject to cross-default and acceleration rights and, with respect to collateralized debt, the posting of additional collateral and foreclosure rights upon default. Further, this could also make it difficult for us to satisfy the qualification requirements necessary to maintain our status as a REIT for U.S. federal income tax purposes.

The use of non-recourse long-term financing structures expose us to risks, which could result in losses to us.

We use securitization financing for certain of our residential whole loan investments. In such structures, our financing sources typically have only a claim against the special purpose vehicle which we sponsor rather than a general claim against us. Prior to any such financing, we generally seek to finance our investments with relatively short-term repurchase agreements until a sufficient portfolio of assets is accumulated. As a result, we are subject to the risk that we would not be able to acquire, during the period that any short-term repurchase agreements are available, sufficient eligible assets or securities to maximize the efficiency of a securitization. We also bear the risk that we would not be able to obtain new short-term repurchase agreements or would not be able to renew any short-term repurchase agreements after they expire should we need more time to seek and acquire sufficient eligible assets or securities for a securitization. In addition, conditions in the capital markets may make the issuance of any such securitization less attractive to us even when we do have sufficient eligible assets or securities. While we would generally intend to retain a portion of the interests issued under such securitizations and, therefore, still have exposure to any investments included in such securitizations, our inability to enter into such securitizations may increase our overall exposure to risks associated with direct ownership of such investments, including the risk of default. If we are unable to obtain and renew short-term repurchase agreements or to consummate securitizations to finance the selected investments on a long-term basis, we may be required to seek other forms of potentially less attractive financing or to liquidate assets at an inopportune time or price.

These financing arrangements require us to make certain representations and warranties regarding the assets that collateralize the borrowings. Although we perform due diligence on the assets that we acquire, certain representations and warranties that we make in respect of such assets may ultimately be determined to be inaccurate. Such representations and warranties may include, but are not limited to, issues such as the validity of the lien; the absence of delinquent taxes or other liens; the loans' compliance with all local, state and federal laws and the delivery of all documents required to perfect title to the lien. In the event of a breach of a representation or warranty, we may be required to repurchase affected loans, make indemnification payments to certain indemnified parties or address any claims associated with such breach. Further, we may have limited or no recourse against the seller from whom we purchased the loans. Such recourse may be limited due to a variety of factors, including the absence of a representation or warranty from the seller corresponding to the representation provided by us or the contractual expiration thereof. A breach of a representation or warranty could adversely affect our results of operations and liquidity.

Certain of our financing arrangements are rated by one or more rating agencies and we may sponsor financing facilities in the future that are rated by credit agencies. The related agency or rating agencies may suspend rating notes at any time. Rating agency delays may result in our inability to obtain timely ratings on new notes, which could adversely impact the availability of borrowings or the interest rates, advance rates or other financing terms and adversely affect our results of operations and liquidity. Further, if we are unable to secure ratings from other agencies, limited investor demand for unrated notes could result in further adverse changes to our liquidity and profitability.

Risks Associated with Adverse Developments in the Mortgage Finance and Credit Markets and Financial Markets Generally

Market conditions for mortgages and mortgage-related assets as well as the broader financial markets may materially adversely affect the value of the assets in which we invest.

Our results of operations are materially affected by conditions in the markets for mortgages and mortgage-related assets, including MBS, as well as the broader financial markets and the economy generally. Significant adverse changes in financial market conditions, such as those experienced in response to the COVID-19 pandemic, leading to the forced sale of large quantities of mortgage-related and other financial assets would result in significant volatility in the market for mortgages and mortgage-related assets and potentially significant losses for ourselves and certain other market participants. In addition, concerns over actual or anticipated low economic growth rates, higher levels of unemployment or uncertainty regarding future U.S. monetary policy (particularly in light of the uncertainties related to the new U.S. presidential administration and Congress) may contribute to increased interest rate volatility. Declines in the value of our investments, or perceived market uncertainty about their value, may make it difficult for us to obtain financing on favorable terms or at all, or maintain our compliance with terms of any financing arrangements already in place. Additionally, increased volatility and/or deterioration in the broader residential mortgage and MBS markets could materially adversely affect the performance and market value of our investments.

A lack of liquidity in our investments may materially adversely affect our business.

The assets that comprise our investment portfolio and that we acquire are not traded on an exchange. A portion of our investments are subject to legal and other restrictions on resale and are otherwise generally less liquid than exchange-traded securities. Any illiquidity of our investments may make it difficult for us to sell such investments if the need or desire arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, as frequently occurred during the onset of the COVID-19 pandemic, we may realize significantly less than the value at which we have previously recorded our investments. Further, we may face other restrictions on our ability to liquidate an investment in a business entity to the extent that we have or could be attributed with material, non-public information regarding such business entity. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which could adversely affect our results of operations and financial condition.

Actions by the U.S. Government designed to stabilize or reform the financial markets may not achieve their intended effect or otherwise benefit our business, and could materially adversely affect our business.

In July 2010, the U.S. Congress enacted the Dodd-Frank Act, in part to impose significant investment restrictions and capital requirements on banking entities and other organizations that are significant to U.S. financial markets. For instance, the Dodd-Frank Act imposes significant restrictions on the proprietary trading activities of certain banking entities and subjects other systemically significant entities and activities regulated by the Federal Reserve to increased capital requirements and quantitative limits for engaging in such activities. The Dodd-Frank Act also seeks to reform the asset-backed securitization market (including the MBS market) by requiring the retention of a portion of the credit risk inherent in the pool of securitized assets and by imposing additional registration and disclosure requirements. The Dodd-Frank Act also imposes significant regulatory restrictions on the origination and servicing of residential mortgage loans. The Dodd-Frank Act's extensive requirements, and implementation by regulatory agencies such as the Commodity Futures Trading Commission (or CFTC), CFPB, FDIC, Federal Reserve, and the SEC may have a significant effect on the financial markets, and may affect the availability or terms of financing, derivatives or MBS, each of which could have a material adverse effect on our business.

In addition, the U.S. Government, the Federal Reserve, U.S. Treasury and other governmental and regulatory bodies have increased focus and scrutiny on our industry. New proposals for legislation continue to be introduced in the U.S. Congress that could further substantially increase regulation of our industry, impose restrictions on the operations and general ability of firms within the industry to conduct business consistent with historical practices, including in the areas of compensation, interest rates, financial product offerings and disclosures, and have an effect on bankruptcy proceedings with respect to consumer residential real estate mortgages, among other things. International financial regulators are examining standard setting for systemically significant entities, such as those considered by the Third Basel Accords (Basel III) to be incorporated by domestic entities. We cannot predict whether or when such actions may occur or what effect, if any, such actions could have on our business, results of operations and financial condition.

The Federal Reserve announced in November 2008 a program of large-scale purchases of Agency MBS in an attempt to lower longer-term interest rates and contribute to an overall easing of adverse financial conditions. Subject to specified investment guidelines, the portfolios of Agency MBS purchased through the programs established by the U.S. Treasury and the Federal Reserve may be held to maturity and, based on mortgage market conditions, adjustments may be made to these portfolios. This flexibility may adversely affect the pricing and availability of Agency MBS during the remaining term of these portfolios.

On March 27, 2020, the CARES Act was signed into law. Among the provisions in this wide-ranging law are protections for homeowners experiencing financial difficulties due to the COVID-19 pandemic, including forbearance provisions and procedures. Borrowers with federally backed mortgage loans, regardless of delinquency status, may request loan forbearance for a six-month period, which could be extended for another six-month period if necessary. Federally backed mortgage loans are loans secured by first- or subordinate-liens on 1-4 family residential real property, including individual units of condominiums and cooperatives, which are insured or guaranteed pursuant to certain government housing programs, such as by the FHA or U.S. Department of Agriculture, or are purchased or securitized by Fannie Mae or Freddie Mac. The CARES Act also includes a temporary 60 day foreclosure moratorium that applies to federally backed mortgage loans, which lasted until July 24, 2020 and was extended, in accordance with President Biden's day one executive order, to at least March 31, 2021 by Fannie Mae, FHA and the U.S. Department of Agriculture. Some states and local jurisdictions have also implemented moratoriums on foreclosures.

In December 2020, the Consolidated Appropriations Act, 2021 was signed into law, which is an Omnibus spending bill that included a second COVID-19 stimulus bill (the "Second Stimulus"). In addition to providing stimulus checks for individuals and families, the Second Stimulus provides for, among other things, (i) an extension of federal unemployment insurance benefits, (ii) funding to help individuals connect remotely during the pandemic, (iii) tax credits for companies offering paid sick leave and (iv) funding for vaccine distribution and development. As further described below, the Second Stimulus provided an additional \$25 billion in tax-free rental assistance and an executive order by President Biden extended the temporary eviction moratorium promulgated by the CDC (described below) through March 31, 2021.

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

Regulatory Risk and Risks Related to the Investment Company Act of 1940

Our business is subject to extensive regulation.

Our business is subject to extensive regulation by federal and state governmental authorities, self-regulatory organizations and securities exchanges. We are required to comply with numerous federal and state laws. The laws, rules and regulations comprising this regulatory framework change frequently, as can the interpretation and enforcement of existing laws, rules and regulations. Some of the laws, rules and regulations to which we are subject are intended primarily to safeguard and protect consumers, rather than stockholders or creditors. From time to time, we may receive requests from federal and state agencies for records, documents and information regarding our policies, procedures and practices regarding our business activities. We incur significant ongoing costs to comply with these government regulations.

Although we do not originate or directly service residential mortgage loans, we must comply with various federal and state laws, rules and regulations as a result of owning MBS and residential whole loans. These rules generally focus on consumer protection and include, among others, rules promulgated under the Dodd-Frank Act, and the Gramm-Leach-Bliley Financial Modernization Act of 1999 (or Gramm-Leach-Bliley). These requirements can and do change as statutes and regulations are enacted, promulgated, amended and interpreted, and the recent trend among federal and state lawmakers and regulators has been toward increasing laws, regulations and investigative proceedings in relation to the mortgage industry generally. For example, on December 10, 2020, the CFPB issued a final rule that adopts a set of "bright-line" loan pricing thresholds to replace the previous General Qualified Mortgage 43% debt-to-income threshold calculated in accordance with "Appendix Q" and removes Appendix Q (or General QM Final Rule). The effective date of the General QM Final Rule is March 1, 2021, but the mandatory compliance date is July 1, 2021. On December 10, 2020, the CFPB also issued a final rule that creates a new category of a qualified mortgage, referred to as a "Seasoned QM" (or Seasoned QM Final Rule). A loan is eligible to become a Seasoned QM if it is a first-lien, fixed rate loans that meets certain performance requirements over a seasoning period of 36 months, is held in portfolio until the end of the seasoning period by the originating creditor or first purchaser, complies with general restrictions on product features and points and fees, and meets certain underwriting requirements. The effective date for the Seasoned QM Final Rule is March 1, 2021. At this time, however, there can be no

assurance what impact these final rules will have on the mortgage market and the “ability-to- repay” rules. Furthermore, the temporary qualified mortgage provision applicable to certain mortgage loans eligible for purchase or guarantee by the GSEs under the ability-to- repay, commonly referred to as the “GSE Patch,” will expire on the earlier of (i) July 1, 2021 or (ii) the date that the GSEs exit conservatorship. We cannot predict the impact of its expiration on the mortgage market.

Although we believe that we have structured our operations and investments to comply with existing legal and regulatory requirements and interpretations, changes in regulatory and legal requirements, including changes in their interpretation and enforcement by lawmakers and regulators, could materially and adversely affect our business and our financial condition, liquidity and results of operations.

Maintaining our exemption from registration under the Investment Company Act imposes significant limits on our operations.

We conduct our operations so that neither we nor any of our subsidiaries are required to register as an investment company under the Investment Company Act. Section 3(a)(1)(A) of the Investment Company Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer’s total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis (i.e., the 40% Test). Excluded from the term “investment securities” are, among other things, U.S. Government securities and securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company for private funds set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

We are a holding company and conduct our real estate business primarily through wholly-owned subsidiaries. We conduct our real estate business so that we do not come within the definition of an investment company because less than 40% of the value of our adjusted total assets on an unconsolidated basis will consist of “investment securities.” The securities issued by any wholly-owned or majority-owned subsidiaries that we may form in the future that are excepted from the definition of “investment company” based on Section 3(c)(1) or 3(c)(7) of the Investment Company Act, together with any other investment securities we may own, may not have a value in excess of 40% of the value of our adjusted total assets on an unconsolidated basis. We monitor our holdings to ensure continuing and ongoing compliance with the 40% Test. In addition, we believe we will not be considered an investment company under Section 3(a)(1)(A) of the Investment Company Act because we will not engage primarily or hold ourselves out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, through our wholly-owned subsidiaries, we will be primarily engaged in the non-investment company businesses of these subsidiaries.

If the value of securities issued by our subsidiaries that are excepted from the definition of “investment company” by Section 3(c)(1) or 3(c)(7) of the Investment Company Act, together with any other investment securities we own, exceeds 40% of our adjusted total assets on an unconsolidated basis, or if one or more of such subsidiaries fail to maintain an exception or exemption from the Investment Company Act, we could, among other things, be required either (a) to substantially change the manner in which we conduct our operations to avoid being required to register as an investment company, (b) to effect sales of our assets in a manner that, or at a time when, we would not otherwise choose to do so or (c) to register as an investment company under the Investment Company Act, any of which could have an adverse effect on us and the market price of our securities. If we were required to register as an investment company under the Investment Company Act, we would become subject to substantial regulation with respect to our capital structure (including our ability to use leverage), management, operations, transactions with affiliated persons (as defined in the Investment Company Act), portfolio composition, including restrictions with respect to diversification and industry concentration, and other matters.

We expect that our subsidiaries that invest in residential mortgage loans (whether through a consolidated trust or otherwise) will rely upon the exemption from registration as an investment company under the Investment Company Act pursuant to Section 3(c)(5)(C) of the Investment Company Act, which is available for entities “primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate.” This exemption generally requires that at least 55% of each of these subsidiaries’ assets be comprised of qualifying real estate assets and at least 80% of each of their portfolios be comprised of qualifying real estate assets and real estate-related assets under the Investment Company Act. Mortgage loans that were fully and exclusively secured by real property are generally qualifying real estate assets for purposes of the exemption. All or substantially all of our residential mortgage loans are fully and exclusively secured by real property with a loan-to-value ratio of less than 100%. As a result, we believe our residential mortgage loans that are fully and exclusively secured by real property meet the definition of qualifying real estate assets. To the extent we own any residential mortgage loans with a loan-to-value ratio of greater than 100%, we intend to classify, depending on guidance from

the SEC staff, only the portion of the value of such loans that does not exceed the value of the real estate collateral as qualifying real estate assets and the excess as real estate-related assets.

In August 2011, the SEC issued a “concept release” pursuant to which they solicited public comments on a wide range of issues relating to companies engaged in the business of acquiring mortgages and mortgage-related instruments and that rely on Section 3(c)(5)(C) of the Investment Company Act. The concept release and the public comments thereto have not yet resulted in SEC rulemaking or interpretative guidance and we cannot predict what form any such rulemaking or interpretive guidance may take. There can be no assurance, however, that the laws and regulations governing the Investment Company Act status of REITs, or guidance from the SEC or its staff regarding the exemption from registration as an investment company on which we rely, will not change in a manner that adversely affects our operations. We expect each of our subsidiaries relying on Section 3(c)(5)(C) to rely on guidance published by the SEC staff or on our analyses of guidance published with respect to other types of assets, if any, to determine which assets are qualifying real estate assets and real estate-related assets. To the extent that the SEC staff publishes new or different guidance with respect to these matters, we may be required to adjust our strategy accordingly. In addition, we may be limited in our ability to make certain investments and these limitations could result in us holding assets we might wish to sell or selling assets we might wish to hold.

Certain of our subsidiaries may rely on the exemption provided by Section 3(c)(6) to the extent that they hold residential mortgage loans through majority owned subsidiaries that rely on Section 3(c)(5)(C). The SEC staff has issued little interpretive guidance with respect to Section 3(c)(6) and any guidance published by the staff could require us to adjust our strategy accordingly.

To the extent that the SEC staff provides more specific guidance regarding any of the matters bearing upon the exemptions or exceptions from registration under the Investment Company Act that we and our subsidiaries rely on, we may be required to adjust our strategy accordingly. Any additional guidance from the SEC staff could provide additional flexibility to us, or it could further inhibit our ability to pursue the strategies we have chosen.

There can be no assurance that the laws and regulations governing the Investment Company Act status of REITs, including guidance regarding these exemptions from the Division of Investment Management of the SEC, will not change in a manner that adversely affects our operations.

Risks Related to Our Use of Hedging Strategies

Our use of hedging strategies to mitigate our interest rate exposure may not be effective.

In accordance with our operating policies, we may pursue various types of hedging strategies, including Swaps, to seek to mitigate or reduce our exposure to losses from adverse changes in interest rates. Our hedging activity will vary in scope based on the level and volatility of interest rates, the type of assets held and financing sources used and other changing market conditions. No hedging strategy, however, can completely insulate us from the interest rate risks to which we are exposed and there is no guarantee that the implementation of any hedging strategy would have the desired impact on our results of operations or financial condition. Certain of the U.S. federal income tax requirements that we must satisfy in order to qualify as a REIT may limit our ability to hedge against such risks. We will not enter into derivative transactions if we believe that they will jeopardize our qualification as a REIT.

Interest rate hedging may fail to protect or could adversely affect us because, among other things:

- interest rate hedging can be expensive, particularly during periods of rising and volatile interest rates;
- available interest rate hedges may not correspond directly with the interest rate risk for which protection is sought;
- the duration of the hedge may not match the duration of the related hedged instrument;
- the credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the party owing money in the hedging transaction may default on its obligation to pay.

We primarily use Swaps to hedge against future increases in interest rates on our repurchase agreements. Should a Swap counterparty be unable to make required payments pursuant to such Swap, the hedged liability would cease to be hedged for the remaining term of the Swap. In addition, we may be at risk for any collateral held by a hedging counterparty to a Swap, should

such counterparty become insolvent or file for bankruptcy. Our hedging transactions, which are intended to limit losses, may actually adversely affect our earnings, which could reduce our cash available for distribution to our stockholders.

We may enter into hedging instruments that could expose us to contingent liabilities in the future, which could materially adversely affect our results of operations.

Subject to maintaining our qualification as a REIT, part of our financing strategy involves entering into hedging instruments that could require us to fund cash payments in certain circumstances (e.g., the early termination of a hedging instrument caused by an event of default or other voluntary or involuntary termination event or the decision by a hedging counterparty to request the posting of collateral that it is contractually owed under the terms of a hedging instrument). With respect to the termination of an existing Swap, the amount due would generally be equal to the unrealized loss of the open Swap position with the hedging counterparty and could also include other fees and charges. These economic losses will be reflected in our financial results of operations and our ability to fund these obligations will depend on the liquidity of our assets and access to capital at the time. Any losses we incur on our hedging instruments could materially adversely affect our earnings and thus our cash available for distribution to our stockholders.

The characteristics of hedging instruments present various concerns, including illiquidity, enforceability, and counterparty risks, which could adversely affect our business and results of operations.

As indicated above, from time to time we enter into Swaps. Entities entering into Swaps are exposed to credit losses in the event of non-performance by counterparties to these transactions. Rules issued by the CFTC that became effective in October 2012 require the clearing of all Swap transactions through registered derivatives clearing organizations, or swap execution facilities, through standardized documents under which each Swap counterparty transfers its position to another entity whereby the centralized clearinghouse effectively becomes the counterparty to each side of the Swap. It is the intent of the Dodd-Frank Act that the clearing of Swaps in this manner is designed to avoid concentration of swap risk in any single entity by spreading and centralizing the risk in the clearinghouse and its members. In addition to greater initial and periodic margin (collateral) requirements and additional transaction fees both by the swap execution facility and the clearinghouse, the Swap transactions are now subjected to greater regulation by both the CFTC and the SEC. These additional fees, costs, margin requirements, documentation requirements, and regulations could adversely affect our business and results of operations.

Clearing facilities or exchanges upon which our hedging instruments are traded may increase margin requirements on our hedging instruments in the event of adverse economic developments.

In response to events having or expected to have adverse economic consequences or which create market uncertainty, clearing facilities or exchanges upon which some of our hedging instruments (i.e., interest rate swaps) are traded may require us to post additional collateral against our hedging instruments. For example, in response to the U.S. approaching its debt ceiling without resolution and the federal government shutdown, in October 2013, the Chicago Mercantile Exchange announced that it would increase margin requirements by 12% for all over-the-counter interest rate swap portfolios that its clearinghouse guaranteed. This increase was subsequently rolled back shortly thereafter upon the news that Congress passed legislation to temporarily suspend the national debt ceiling and reopen the federal government, and provide a time period for broader negotiations concerning federal budgetary issues. In the event that future adverse economic developments or market uncertainty (including those due to governmental, regulatory, or legislative action or inaction) result in increased margin requirements for our hedging instruments, it could materially adversely affect our liquidity position, business, financial condition and results of operations.

We may fail to qualify for hedge accounting treatment, which could materially adversely affect our results of operations.

We record derivative and hedge transactions in accordance with GAAP, specifically according to the Financial Accounting Standards Board (or FASB) Accounting Standards Codification Topic on Derivatives. Under these standards, we may fail to qualify for hedge accounting treatment for a number of reasons, including if we use instruments that do not meet the definition of a derivative, we fail to satisfy hedge documentation and hedge effectiveness assessment requirements or our instruments are not highly effective. If we fail to qualify for hedge accounting treatment, though the fundamental economic performance of our business would be unaffected, our operating results for financial reporting purposes may be materially adversely affected because losses on the derivatives we enter into would be recorded in net income, rather than AOCI, a component of stockholders' equity.

Risks Related to Our Taxation as a REIT and the Taxation of Our Assets

If we fail to remain qualified as a REIT, we will be subject to tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our stockholders.

We have elected to qualify as a REIT and intend to comply with the provisions of the Internal Revenue Code of 1986, as amended (or the Code), related to REIT qualification. Accordingly, we will not be subject to U.S. federal income tax to the extent we distribute 100% of our REIT taxable income (which is generally our taxable income, computed without regard to the dividends paid deduction, any net income from prohibited transactions, and any net income from foreclosure property) to stockholders within the timeframe permitted under the Code and provided that we comply with certain income, asset ownership and other tests applicable to REITs. We believe that we currently meet all of the REIT requirements and intend to continue to qualify as a REIT under the provisions of the Code. Many of the REIT requirements, however, are highly technical and complex. The determination of whether we are a REIT requires an analysis of various factual matters and circumstances, some of which may not be totally within our control and some of which involve interpretation. For example, if we are to qualify as a REIT, annually at least 75% of our gross income must come from, among other sources, interest on obligations secured by mortgages on real property or interests in real property, gain from the disposition of real property, including mortgages or interests in real property (other than sales or dispositions of real property, including mortgages on real property, or securities that are treated as mortgages on real property, that we hold primarily for sale to customers in the ordinary course of a trade or business (i.e., prohibited transactions)), dividends or other distributions on, and gains from the disposition of shares in other REITs, commitment fees received for agreements to make real estate loans and certain temporary investment income. In addition, the composition of our assets must meet certain requirements at the close of each quarter. We are also required to distribute to stockholders at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and by excluding net capital gain). There can be no assurance that we will be able to satisfy these or other requirements or that the Internal Revenue Service (or IRS) or a court would agree with any conclusions or positions we have taken in interpreting the REIT requirements.

Even a technical or inadvertent mistake could jeopardize our REIT qualification unless we meet certain statutory relief provisions. If we were to fail to qualify as a REIT in any taxable year for any reason, we would be subject to U.S. federal income tax on our taxable income, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of our common stock. Unless we were entitled to relief under certain Code provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year in which we failed to qualify as a REIT.

Our failure to maintain our qualification as a REIT would cause our stock to be delisted from the NYSE.

The NYSE requires, as a condition to the listing of our shares, that we maintain our REIT status. Consequently, if we fail to maintain our REIT status, our shares would promptly be delisted from the NYSE, which would decrease the trading activity of such shares. This could make it difficult to sell shares and would likely cause the market volume of the shares trading to decline.

If we were delisted as a result of losing our REIT status and desired to relist our shares on the NYSE, we would have to reapply to the NYSE to be listed as a domestic corporation. As the NYSE's listing standards for REITs are less onerous than its standards for domestic corporations, it would be more difficult for us to become a listed company under these heightened standards. We might not be able to satisfy the NYSE's listing standards for a domestic corporation. As a result, if we were delisted from the NYSE, we might not be able to relist as a domestic corporation, in which case our shares could not trade on the NYSE.

REIT distribution requirements could adversely affect our ability to execute our business plan.

To maintain our qualification as a REIT, we must distribute at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and excluding any net capital gain) to our stockholders within the timeframe permitted under the Code. We generally must make these distributions in the taxable year to which they relate, or in the following taxable year if declared before we timely (including extensions) file our tax return for the year and if paid with or before the first regular dividend payment after such declaration. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income at regular corporate income tax rates. In addition, if we should fail to distribute during each calendar year at least the sum of (a) 85% of our REIT ordinary income for such year, (b) 95% of our REIT capital gain net income for such year, and (c) any undistributed taxable income from prior periods, we would be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (x) the amounts actually distributed, plus (y) the amounts of income we retained and on which we have paid corporate income tax.

The dividend distribution requirement limits the amount of cash we have available for other business purposes, including amounts to fund our growth. Additionally, our taxable income may substantially exceed our net income as determined by GAAP. As an example, realized capital losses may be included in our GAAP net income, but may not be deductible in computing our taxable income. In addition, we may invest in assets that generate taxable income in excess of economic income or in advance of the corresponding cash flow from the assets. Also, our ability, or the ability of our subsidiaries, to deduct interest may be limited under Section 163(j) of the Code. To the extent that we generate such non-cash taxable income or have limitations on our deductions in a taxable year, we may have to borrow funds on unfavorable terms, sell investments at disadvantageous prices, distribute amounts that would otherwise be invested in future acquisitions or make a taxable distribution of our stock to make distributions sufficient to maintain our qualification as a REIT or avoid corporate income tax in a particular year. These alternatives could increase our costs or reduce our stockholders' equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we qualify as a REIT for U.S. federal income tax purposes, we may be required to pay certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, excise taxes, state or local income, property and transfer taxes, such as mortgage recording taxes, and other taxes. In addition, in order to meet the REIT qualification requirements, to prevent the recognition of certain types of non-cash income, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory (i.e., prohibited transactions tax) we may hold some of our assets through TRSs or other subsidiary corporations that will be subject to corporate level income tax at regular rates. In addition, if we lend money to a TRS, the TRS may be unable to deduct all or a portion of the interest paid to us, which could result in an even higher corporate level tax liability. Furthermore, the Code imposes a 100% excise tax on certain transactions between a TRS and a REIT that are not conducted at an arm's-length basis. We intend to structure any transaction with a TRS on terms that we believe are arm's-length to avoid incurring this 100% excise tax. There can be no assurances, however, that we will be able to avoid application of the 100% excise tax. Any of these taxes would reduce our operating cash flow and thus our cash available for distribution to our stockholders.

If our foreign TRS is subject to U.S. federal income tax at the entity level, it would greatly reduce the amounts those entities would have available to pay its creditors and distribute to us.

There is a specific exemption from regular U.S. federal income tax for non-U.S. corporations that restrict their activities in the United States to trading stock and securities (or any activity closely related thereto) for their own account, whether such trading (or such other activity) is conducted by the corporation or its employees through a resident broker, commission agent, custodian or other agent. We intend that our foreign TRS will rely on that exemption or otherwise operate in a manner so that it will not be subject to regular U.S. federal income tax on its net income at the entity level. If the IRS succeeded in challenging that tax treatment, it would greatly reduce the amount that the foreign TRS would have available to pay to its creditors and to distribute to us. In addition, even if our foreign TRS qualifies for that exemption, it may nevertheless be subject to U.S. federal withholding tax on certain types of income.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.

To remain qualified as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. In addition, in certain cases, the modification of a debt instrument could result in the conversion of the instrument from a qualifying real estate asset to a wholly or partially non-qualifying asset that must be contributed to a TRS or disposed of in order for us to maintain our qualification as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make and, in certain cases, to maintain ownership of, certain attractive investments.

Our use of TRSs may cause us to fail to qualify as a REIT

The net income of our TRSs is not required to be distributed to us, and such undistributed TRS income is generally not subject to our REIT distribution requirements. However, if the accumulation of cash or reinvestment of significant earnings in our TRSs causes the fair market value of our securities in those entities, taken together with other non-qualifying assets, to exceed 25% of the fair market value of our assets, in each case as determined for REIT asset testing purposes, we would, absent

timely responsive action, fail to maintain our qualification as a REIT. Additionally, if the accumulation of cash or reinvestment of significant earnings in our TRSs causes the fair market value of our securities in those entities to exceed 20% of the fair market value of our assets, in each case as determined for REIT asset testing purposes, we would, absent timely responsive action, similarly fail to maintain our qualification as a REIT.

We may generate taxable income that differs from our GAAP income on our Non-Agency MBS and residential whole loan investments purchased at a discount to par value, which may result in significant timing variances in the recognition of income and losses.

We have acquired and intend to continue to acquire Non-Agency MBS and residential whole loans at prices that reflect significant market discounts on their unpaid principal balances. For financial statement reporting purposes, we generally establish a portion of the purchase discount on Non-Agency MBS as a Credit Reserve. This Credit Reserve is generally not accreted into income for financial statement reporting purposes. For tax purposes, however, we are not permitted to anticipate, or establish a reserve for, credit losses prior to their occurrence. As a result, discount on securities acquired in the primary or secondary market is included in the determination of taxable income and is not impacted by losses until such losses are incurred. Such differences in accounting for tax and GAAP can lead to significant timing variances in the recognition of income and losses. Taxable income on Non-Agency MBS purchased at a discount to their par value may be higher than GAAP earnings in early periods (before losses are actually incurred) and lower than GAAP earnings in periods during and subsequent to when realized credit losses are incurred. Dividends will be declared and paid at the discretion of our Board and will depend on REIT taxable earnings, our financial results and overall financial condition, maintenance of our REIT qualification and such other factors as our Board may deem relevant from time to time.

The tax on prohibited transactions may limit our ability to engage in transactions, including certain methods of securitizing mortgage loans, that would be treated as sales for U.S. federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, but including mortgage loans, held primarily for sale to customers in the ordinary course of business. We might be subject to this tax if we were to dispose of or securitize loans or MBS securities in a manner that was treated as a sale of the loans or MBS for U.S. federal income tax purposes. Therefore, to avoid the prohibited transactions tax, we may choose to engage in certain sales of loans through a TRS and not at the REIT level, and we may be limited as to the structures we are able to utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us. We do not believe that our securitizations to date have been subject to this tax, but there can be no assurances that the IRS would agree with such treatment. If the IRS successfully challenged such treatment, our results of operations could be materially adversely affected.

The "taxable mortgage pool" rules may increase the taxes that we or our stockholders may incur and may limit the manner in which we effect future securitizations.

Securitizations by us or our subsidiaries could result in the creation of taxable mortgage pools for U.S. federal income tax purposes. The real estate mortgage investment conduit (or REMIC) provisions of the Code generally provide that REMICs are the only form of pass-through entity permitted to issue debt obligations with two or more maturities if the payments on those obligations bear a relationship to the mortgage obligations held by such entity. If we engage in a non-REMIC securitization transaction, directly or indirectly through a QRS, in which the assets held by the securitization vehicle consist largely of mortgage loans or MBS, in which the securitization vehicle issues to investors two or more classes of debt instruments that have different maturities, and in which the timing and amount of payments on the debt instruments is determined in large part by the amounts received on the mortgage loans or MBS held by the securitization vehicle, the securitization vehicle will be a taxable mortgage pool. As long as we or another REIT holds a 100% interest in the equity interests in a taxable mortgage pool, either directly or through a QRS, the taxable mortgage pool will not be subject to tax. A portion of the income that we realize with respect to the equity interest we hold in a taxable mortgage pool will, however, be considered to be excess inclusion income and, as a result, a portion of the dividends that we pay to our stockholders will be considered to consist of excess inclusion income. Such excess inclusion income is treated as unrelated business taxable income (or UBTI) for tax-exempt stockholders, is subject to withholding for foreign stockholders (without the benefit of any treaty reduction), and is not subject to reduction by net operating loss carryovers. In addition to the extent that our stock is owned by tax-exempt "disqualified organizations," such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we may incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we may reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax. Historically, we have not generated excess inclusion income; however, despite our efforts, we may not be able to avoid creating or distributing excess inclusion income to our stockholders in the future. In addition, we could face limitations in selling equity interests to outside investors in securitization transactions that are taxable mortgage pools or selling any debt

securities issued in connection with these securitizations that might be considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

We have not established a minimum dividend payment level, and there is no guarantee that we will maintain current dividend payment levels or pay dividends in the future.

In order to maintain our qualification as a REIT, we must comply with a number of requirements under U.S. federal tax law, including that we distribute at least 90% of our REIT taxable income within the timeframe permitted under the Code, which is calculated generally before the dividends paid deduction and excluding net capital gain. Dividends will be declared and paid at the discretion of our Board and will depend on our REIT taxable earnings, our financial results and overall condition, maintenance of our REIT qualification and such other factors as our Board may deem relevant from time to time. We have not established a minimum dividend payment level for our common stock and our ability to pay dividends may be negatively impacted by adverse changes in our operating results. Therefore, our dividend payment level may fluctuate significantly, and, under some circumstances, we may not pay dividends at all.

Our reported GAAP net income may differ from the amount of REIT taxable income and dividend distribution requirements and, therefore, our GAAP results may not be an accurate indicator of future taxable income and dividend distributions.

Generally, the cumulative net income we report over the life of an asset will be the same for GAAP and tax purposes, although the timing of this income recognition over the life of the asset could be materially different. Differences exist in the accounting for GAAP net income and REIT taxable income which can lead to significant variances in the amount and timing of when income and losses are recognized under these two measures. Due to these differences, our reported GAAP financial results could materially differ from our determination of REIT taxable income and our dividend distribution requirements, and, therefore, our GAAP results may not be an accurate indicator of future taxable income and dividend distributions.

Over time, accounting principles, conventions, rules, and interpretations may change, which could affect our reported GAAP and taxable earnings, and stockholders' equity.

Accounting rules for the various aspects of our business change from time to time. Changes in GAAP, or the accepted interpretation of these accounting principles, can affect our reported income, earnings, and stockholders' equity. In addition, changes in tax accounting rules or the interpretations thereof could affect our REIT taxable income and our dividend distribution requirements. These changes may materially adversely affect our results of operations.

The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to remain qualified as a REIT.

We enter into certain financing arrangements that are structured as sale and repurchase agreements pursuant to which we nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase these assets at a later date in exchange for a purchase price. Economically, these agreements are financings that are secured by the assets sold pursuant thereto. We generally believe that we would be treated for REIT asset and income test purposes as the owner of the assets that are the subject of any such sale and repurchase agreement notwithstanding that such agreement may transfer record ownership of the assets to the counterparty during the term of the agreement. It is possible, however, that the IRS could assert that we did not own the assets during the term of the sale and repurchase agreement, in which case we could fail to remain qualified as a REIT.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code could substantially limit our ability to hedge our business. Any income from a properly designated hedging transaction we enter into to manage the risk of interest rate changes with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets, or from certain other limited types of hedging transactions, generally does not constitute "gross income" for purposes of the 75% or 95% gross income tests. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we may have to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because a TRS would be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in a TRS will generally not provide any tax benefit, except for being carried forward against future taxable income in the TRS.

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

We may acquire debt instruments in the secondary market for less than their face amount. The discount at which such debt instruments are acquired may reflect doubts about their ultimate collectability rather than current market interest rates. The amount of such discount will nevertheless generally be treated as “market discount” for U.S. federal income tax purposes, which we are required to include in our taxable income either over time or as principal payments are received, as applicable. If we collect less on the debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions.

Some of the debt instruments that we acquire may have been issued with original issue discount. We will be required to report such original issue discount based on a constant yield method and will be taxed based on the assumption that all future projected payments due on such debt instruments will be made. If such debt instruments turn out not to be fully collectible, an offsetting loss deduction will become available only in the later year that uncollectability is provable.

In addition, we may acquire debt instruments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding instrument are “significant modifications” under the applicable U.S. Treasury regulations, the modified instrument will be considered to have been reissued to us in a debt-for-debt exchange with the borrower. In that event, we may be required to recognize taxable gain to the extent the principal amount of the modified instrument exceeds our adjusted tax basis in the unmodified instrument, even if the value of the instrument or the payment expectations have not changed. Following such a taxable modification, we would hold the modified loan with a cost basis equal to its principal amount for U.S. federal income tax purposes.

Finally, in the event that any debt instruments acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular instrument are not made when due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. Similarly, we may be required to accrue interest income with respect to debt instruments at its stated rate regardless of whether corresponding cash payments are received or are ultimately collectible. In each case, while we would in general ultimately have an offsetting loss deduction available to us when such interest was determined to be uncollectible, the utility of that deduction could depend on our having taxable income in that later year or thereafter.

For these and other reasons, we may have difficulty making distributions sufficient to maintain our qualification as a REIT or avoid corporate income tax and the 4% excise tax in a particular year.

The interest apportionment rules may affect our ability to comply with the REIT asset and gross income tests.

Most of the purchased credit deteriorated and non-performing loans that we have acquired were acquired by us at a discount from their outstanding principal amount, because our pricing was generally based on the value of the underlying real estate that secures those mortgage loans. Treasury Regulation Section 1.856-5(c) (the “interest apportionment regulation”) provides that if a mortgage is secured by both real property and other property, a REIT is required to apportion its annual interest income to the real property security based on a fraction, the numerator of which is the value of the real property securing the loan, determined when the REIT commits to acquire the loan, and the denominator of which is the highest “principal amount” of the loan during the year. If a mortgage is secured by both real property and personal property and the value of the personal property does not exceed 15% of the aggregate value of the property securing the mortgage, the mortgage is treated as secured solely by real property for this purpose. Revenue Procedure 2014-51 interprets the “principal amount” of the loan to be the face amount of the loan, despite the Code requiring taxpayers to treat any market discount, that is the difference between the purchase price of the loan and its face amount, for all purposes (other than certain withholding and information reporting purposes) as interest rather than principal.

The interest apportionment regulation applies only if the debt in question is secured both by real property and personal property. We believe that all of the mortgage loans that we acquire at a discount under the circumstances contemplated by Revenue Procedure 2014-51 are secured only by real property, and no other property value is taken into account in our underwriting and pricing. Accordingly, we believe that the interest apportionment regulation does not apply to our portfolio.

Nevertheless, if the IRS were to assert successfully that our mortgage loans were secured by property other than real estate, that the interest apportionment regulation applied for purposes of our REIT testing, and that the position taken in Revenue Procedure 2014-51 should be applied to our portfolio, then depending upon the value of the real property securing our loans and their face amount, and the sources of our gross income generally, we might not be able to meet the REIT 75% gross income test, and possibly the asset tests applicable to REITs. If we did not meet these tests, we could potentially either lose our

REIT status or be required to pay a tax penalty to the IRS. With respect to the REIT 75% asset test, Revenue Procedure 2014-51 provides a safe harbor under which the IRS will not challenge a REIT's treatment of a loan as being a real estate asset in an amount equal to the lesser of (1) the greater of (a) the current value of the real property securing the loan or (b) the fair market value of the real property securing the loan determined as of the date the REIT committed to acquire the loan or (2) the fair market value of the loan on the date of the relevant quarterly REIT asset testing date. This safe harbor, if it applied to us, would help us comply with the REIT asset tests following the acquisition of distressed debt if the value of the real property securing the loan were to subsequently decline. If we did not meet one or more of the REIT asset tests, then we could potentially either lose our REIT status or be required to pay a tax penalty to the IRS.

Dividends paid by REITs do not qualify for the reduced tax rates available for “qualified dividend income.”

The maximum regular U.S. federal income tax rate for qualified dividend income paid to domestic stockholders that are individuals, trusts and estates is currently 20%. Dividends paid by REITs, however, are generally not eligible for the reduced qualified dividend rates. For taxable years beginning before January 1, 2026, non-corporate taxpayers may deduct up to 20% of certain pass-through business income, including “qualified REIT dividends” (generally, dividends received by a REIT stockholder that are not designated as capital gain dividends or qualified dividend income), subject to certain limitations, resulting in an effective maximum U.S. federal income tax rate of 29.6% on such income. Although the reduced U.S. federal income tax rate applicable to qualified dividend income does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends and the reduced corporate tax rate could cause certain non-corporate investors to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock.

We may in the future choose to make distributions in our own stock, in which case you could be required to pay income taxes in excess of any cash distributions you receive.

We may in the future make taxable distributions that are payable in cash and shares of our common stock at the election of each stockholder. Taxable stockholders receiving such distributions will be required to include the full amount of the distribution as ordinary income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such distributions in excess of the cash distributions received. If a U.S. stockholder sells the stock that it receives as a distribution in order to pay this tax, the sale proceeds may be less than the amount included in income with respect to the distribution, depending on the market price of our stock at the time of the sale. Furthermore, with respect to certain non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such distributions, including in respect of all or a portion of such distribution that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on distributions, it may put downward pressure on the market price of our common stock.

The IRS has issued guidance authorizing elective cash/stock dividends to be made by public REITs where there is a minimum amount of cash that must be paid as part of the dividend, provided that certain requirements are met. It is unclear whether and to what extent we would be able to or choose to pay taxable distributions in cash and stock. In addition, no assurance can be given that the IRS will not impose additional requirements in the future with respect to taxable cash/stock distributions, including on a retroactive basis, or assert that the requirements for such taxable cash/stock distributions have not been met.

New legislation or administrative or judicial action, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to remain qualified as a REIT.

The present U.S. federal income tax treatment of REITs and their shareholders may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the U.S. federal income tax treatment of an investment in us. Revisions in U.S. federal income tax laws and interpretations thereof, including those dealing with REITs, are constantly under review by persons involved in the legislative process, the IRS and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations. Such changes could affect or cause us to change our investments and commitments and affect the tax considerations of an investment in us. We cannot predict the long-term effect of any future law changes on REITs and their stockholders. Any such changes could have an adverse effect on an investment in our stock or on the market value or the resale potential of our assets.

Risks Related to Our Corporate Structure

Our ownership limitations may restrict business combination opportunities.

To qualify as a REIT under the Code, no more than 50% of the value of our outstanding shares of capital stock may be owned, directly or under applicable attribution rules, by five or fewer individuals (as defined by the Code to include certain entities) during the last half of each taxable year. To preserve our REIT qualification, among other things, our charter generally prohibits direct or indirect ownership by any person of more than 9.8% of the number or value of the outstanding shares of our capital stock. Generally, shares owned by affiliated owners will be aggregated for purposes of the ownership limit. Any transfer of shares of our capital stock or other event that, if effective, would violate the ownership limit will be void as to that number of shares of capital stock in excess of the ownership limit and the intended transferee will acquire no rights in such shares. Shares issued or transferred that would cause any stockholder to own more than the ownership limit or cause us to become “closely held” under Section 856(h) of the Code will automatically be converted into an equal number of shares of excess stock. All excess stock will be automatically transferred, without action by the prohibited owner, to a trust for the exclusive benefit of one or more charitable beneficiaries that we select, and the prohibited owner will not acquire any rights in the shares of excess stock. The restrictions on ownership and transfer contained in our charter could have the effect of delaying, deferring or preventing a change in control or other transaction in which holders of shares of common stock might receive a premium for their shares of common stock over the then current market price or that such holders might believe to be otherwise in their best interests. The ownership limit provisions also may make our shares of common stock an unsuitable investment vehicle for any person seeking to obtain, either alone or with others as a group, ownership of more than 9.8% of the number or value of our outstanding shares of capital stock.

Provisions of Maryland law and other provisions of our organizational documents may limit the ability of a third-party to acquire control of the Company.

Certain provisions of the Maryland General Corporation Law (or MGCL) may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interests, including:

- “business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding voting stock or an affiliate or associate of ours who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of our then outstanding stock) or an affiliate of an interested stockholder for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose two supermajority stockholder voting requirements to approve these combinations (unless our common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares); and
- “control share” provisions that provide that holders of “control shares” of our company (defined as voting shares of stock which, when aggregated with all other shares controlled by the acquiring stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

Our bylaws provide that we are not subject to the “control share” provisions of the MGCL. However, our Board may elect to make the “control share” statute applicable to us at any time, and may do so without stockholder approval.

Title 3, Subtitle 8 of the MGCL permits our Board, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to elect on behalf of our company to be subject to statutory provisions that may have the effect of delaying, deferring or preventing a transaction or a change in control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest. Our Board may elect to opt in to any or all of the provisions of Title 3, Subtitle 8 of the MGCL without stockholder approval at any time. In addition, without our having elected to be subject to Subtitle 8, our charter and bylaws already (1) provide for a classified board, (2) require the affirmative vote of the holders of at least 80% of the votes entitled to be cast in the election of directors for the removal of any director from our Board, which removal will be allowed only for cause and (3) vest in our Board the exclusive power to fix the number of directorships. These provisions may delay or prevent a change of control of our company.

Future offerings of debt securities, which would rank senior to our common stock upon liquidation, and future offerings of equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by making offerings of debt or additional offerings of equity securities, including commercial paper, senior or subordinated notes and series or classes of preferred stock or common stock. Upon liquidation, holders of our debt securities and shares of preferred stock, if any, and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Preferred stock could have a preference on liquidating distributions or a preference on dividend payments or both that could limit our ability to make a dividend distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

Our Board may approve the issuance of capital stock with terms that may discourage a third-party from acquiring the Company.

Our charter permits our Board to issue shares of preferred stock, issuable in one or more classes or series. We may issue a class of preferred stock to individual investors in order to comply with the various REIT requirements or to finance our operations. Our charter further permits our Board to classify or reclassify any unissued shares of preferred or common stock and establish the preferences and rights (including, among others, voting, dividend and conversion rights) of any such shares of stock, which rights may be superior to those of shares of our common stock. Thus, our Board could authorize the issuance of shares of preferred or common stock with terms and conditions that could have the effect of discouraging a takeover or other transaction in which holders of the outstanding shares of our common stock might receive a premium for their shares over the then current market price of our common stock.

Future issuances or sales of shares could cause our share price to decline.

Sales of substantial numbers of shares of our common stock in the public market, or the perception that such sales might occur, could adversely affect the market price of our common stock. In addition, the sale of these shares could impair our ability to raise capital through a sale of additional equity securities. Other issuances of our common stock, such as through equity awards to our employees, could have an adverse effect on the market price of our common stock. In addition, future issuances of our common stock may be dilutive to existing stockholders.

The declaration, amount and payment of future cash dividends on shares of our common stock are subject to uncertainty due to disruption in the mortgage, housing or related sectors, such as market conditions related to COVID-19.

The declaration, amount and payment of any future dividends on shares of our common stock will be at the sole discretion of our Board. From time to time, our Board may adjust our quarterly cash dividend on our shares of our common stock from prior quarters. The payment of dividends may be more uncertain during severe market disruption in the mortgage, housing or related sectors, such as those experienced as a result of the COVID-19 pandemic. For example, during the first quarter of 2020, we revoked and suspended quarterly cash dividends on each of our common stock and 7.50% Series B Cumulative Redeemable Preferred Stock (or the Series B Preferred Stock) and, in connection with the now-terminated forbearance agreements that we entered into subsequent to the end of the first quarter, we were prohibited from paying dividends on our common stock and Series B Preferred Stock during the term of such forbearance agreements.

Other Business Risks

We are dependent on our executive officers and other key personnel for our success, the loss of any of whom may materially adversely affect our business.

Our success is dependent upon the efforts, experience, diligence, skill and network of business contacts of our executive officers and other key personnel. The departure of any of our executive officers and/or key personnel could have a material adverse effect on our operations and performance.

We are dependent on information systems and their failure (including in connection with cyber-attacks) could significantly disrupt our business.

Our business is highly dependent on our information and communications systems. Any failure or interruption of our systems or cyber-attacks or security breaches of our networks or systems could cause delays or other problems in our securities

trading activities, which could have a material adverse effect on operating results, the market price of our common stock and other securities and our ability to pay dividends to our stockholders. In addition, we also face the risk of operational failure, termination or capacity constraints of any of the third-parties with which we do business or that facilitate our business activities, including clearing agents or other financial intermediaries we use to facilitate our securities transactions as well as the servicers of our loans.

Computer malware, viruses, and computer hacking and phishing and cyber-attacks have become more prevalent in our industry and may occur on our systems in the future. Additionally, due to the transition to remote working environments as a result of the COVID-19 pandemic, there is an elevated risk of such events occurring. Although we have not detected a material cybersecurity breach to date, there can be no assurance that we are or will be fully protected against cyber risks and security breaches and not be vulnerable to new and evolving threats to our information technology systems. We rely heavily on financial, accounting and other data processing systems. It is difficult to determine what, if any, negative impact may directly result from any specific interruption or cyber-attacks or security breaches of our networks or systems (or networks or systems of, among other third-parties, our lenders and servicers) or any failure to maintain performance, reliability and security of our technical infrastructure. As a result, any such computer malware, viruses, and computer hacking and phishing attacks may negatively affect our operations.

We operate in a highly competitive market for investment opportunities and competition may limit our ability to acquire desirable investments, which could materially adversely affect our results of operations.

We operate in a highly competitive market for investment opportunities. Our profitability depends, in large part, on our ability to acquire residential mortgage assets or other investments at favorable prices. In acquiring our investments, we compete with a variety of institutional investors, including other REITs, public and private funds, commercial and investment banks, commercial finance and insurance companies and other financial institutions. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. Many of our competitors are not subject to the operating constraints associated with REIT compliance or maintenance of an exemption from the Investment Company Act similar to ours. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments, establish business relationships that we would not be willing to enter into, or compete aggressively against us to acquire residential mortgage assets from our existing asset sellers or financing counterparties. Furthermore, government or regulatory action and competition for investment securities of the types and classes which we acquire may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable investments may be limited in the future and we may not be able to take advantage of attractive investment opportunities from time to time, as we can provide no assurance that we will be able to identify and make investments that are consistent with our investment objectives.

Deterioration in the condition of European banks and financial institutions could have a material adverse effect on our business.

In the years following the financial and credit crisis of 2007-2008, certain of our repurchase agreement counterparties in the United States and Europe experienced financial difficulty and were either rescued by government assistance or otherwise benefited from accommodative monetary policy of central banks. Several European governments implemented measures to attempt to shore up their financial sectors through loans, credit guarantees, capital infusions, promises of continued liquidity funding and interest rate cuts. Additionally, other governments of the world's largest economic countries also implemented interest rate cuts. Although economic and credit conditions have stabilized in the past few years, there is no assurance that these and other plans and programs will be successful in the longer term, and, in particular, when governments and central banks begin to significantly unwind or otherwise reverse these programs and policies. If unsuccessful, this could materially adversely affect our financing and operations as well as those of the entire mortgage sector in general.

Several of our financing counterparties are European banks (or their U.S. based subsidiaries) that have provided financing to us, particularly repurchase agreement financing for the acquisition of residential mortgage assets. If European banks and financial institutions experience a deterioration in financial condition, there is the possibility that this would also negatively affect the operations of their U.S. banking subsidiaries. This risk could be more pronounced in light of Brexit. This could adversely affect our financing and operations as well as those of the entire mortgage sector in general.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Office Leases

We currently pay monthly rent pursuant to three office leases. In November 2018, we amended the lease for our corporate headquarters in New York, New York, under the same terms and conditions, to extend the expiration date for the lease by up to one year, through June 30, 2021, with a mutual option to terminate on or after February 15, 2021. For the year ended December 31, 2020, we recorded an expense of approximately \$2.9 million in connection with the lease for our current corporate headquarters.

In addition, in November 2018, we executed a lease agreement on new office space in New York, New York. We plan to relocate our corporate headquarters to this new office space upon the substantial completion of the building. The lease term specified in the agreement is fifteen years with an option to renew for an additional five years. Our current estimate of annual lease rental expense under the new lease, excluding escalation charges which at this point are unknown, is approximately \$4.6 million. We currently expect to relocate to the space in the first fiscal quarter of 2021, but this timing as well as when we are required to begin making payments and recognize rental and other expenses under the new lease, is dependent on when the space is actually available for use.

Item 3. Legal Proceedings.

There are no material legal proceedings to which we are a party or to which any of our assets are subject.

Item 4. Mine Safety Disclosures

Not applicable.

PART II**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.****Market Information**

Our common stock is listed on the New York Stock Exchange, under the symbol “MFA”. Our preferred stock Series B and C issuances are also listed on the NYSE, under the symbols “MFA/PB” and “MFA/PC”, respectively.

Holders

As of February 17, 2021, we had 515 registered holders of our common stock. Such information was obtained through our registrar and transfer agent, based on the results of a broker search.

Dividends

No dividends may be paid on our common stock unless full cumulative dividends have been paid on our preferred stock. We have paid full cumulative dividends on our preferred stock on a quarterly basis through December 31, 2020. We have historically declared cash dividends on our common stock on a quarterly basis. During 2020 and 2019, we declared total cash dividends to holders of our common stock of \$56.5 million (\$0.125 per share) and \$361.0 million (\$0.80 per share), respectively. In general, our common stock dividends have been characterized as ordinary income to our stockholders for income tax purposes. However, a portion of our common stock dividends may, from time to time, be characterized as capital gains or return of capital. For the year ended December 31, 2020, the portion of our common stock dividends that was deemed to be a return of capital was \$0.05 per share of common stock. For the years ended December 31, 2019 and 2018, the portions of our common stock dividends that were deemed to be capital gains were \$0.1672 and \$0.1290 per share of common stock, respectively. (For additional dividend information, see Notes 11(a) and 11(b) to the consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.)

We elected to be taxed as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 1998 and, as such, anticipate distributing at least 90% of our REIT taxable income within the timeframe permitted by the Code. Although we may borrow funds to make distributions, cash for such distributions has generally been, and is expected to continue to be, largely generated from our results of our operations.

The table below provides details of dividends on our common stock declared during the years 2020 and 2019:

| Year | Declaration Date | Record Date | Payment Date | Dividend per Share |
|-------------|-------------------------|--------------------|---------------------|---------------------------|
| 2020 | December 17, 2020 | December 30, 2020 | January 29, 2021 | \$ 0.075 <i>(1)</i> |
| | August 6, 2020 | September 30, 2020 | October 30, 2020 | 0.05 |
| 2019 | December 12, 2019 | December 30, 2019 | January 31, 2020 | \$ 0.20 |
| | September 12, 2019 | September 30, 2019 | October 31, 2019 | 0.20 |
| | June 12, 2019 | July 1, 2019 | July 31, 2019 | 0.20 |
| | March 6, 2019 | March 29, 2019 | April 30, 2019 | 0.20 |

(1) At December 31, 2020, we had accrued dividends and dividend equivalents payable of \$34.0 million related to the common stock dividend declared on December 17, 2020. This dividend is considered taxable income to the recipient in 2021. For more information see our 2020 Dividend Tax Information on our website.

We have not established a minimum payout level for our common stock. Dividends are declared and paid at the discretion of our Board and depend on our cash available for distribution, financial condition, ability to maintain our qualification as a REIT, and such other factors that our Board may deem relevant. (See Part I, Item 1A., “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Annual Report on Form 10-K, for information regarding the sources of funds used for dividends and for a discussion of factors, if any, which may adversely affect our ability to pay dividends.)

Purchases of Equity Securities

On November 2, 2020, our Board authorized a share repurchase program under which we may repurchase up to \$250 million of our common stock through the end of 2022. The Board's authorization replaces the authorization under our existing stock repurchase program that was adopted in December 2013, which authorized us to repurchase up to 10 million shares of common stock and under which approximately 6.6 million shares remained available for repurchase.

The stock repurchase program does not require the purchase of any minimum number of shares. The timing and extent to which we repurchase our shares will depend upon, among other things, market conditions, share price, liquidity, regulatory requirements and other factors, and repurchases may be commenced or suspended at any time without prior notice. Acquisitions under the share repurchase program may be made in the open market, through privately negotiated transactions or block trades or other means, in accordance with applicable securities laws.

During the year ended December 31, 2020, we repurchased 14,085,678 shares of our common stock through the stock repurchase program at an average cost of \$3.61 per share and a total cost of approximately \$50.8 million, net of fees and commissions paid to the sales agent of approximately \$141,000. In addition, during the year ended December 31, 2020 the Company repurchased 17,593,576 warrants for \$33.7 million that were included in the stock repurchase program. At December 31, 2020, approximately \$165.7 million remained outstanding for future repurchases under the repurchase program. We did not repurchase any shares of our common stock during the year ended December 31, 2019.

The following table presents information with respect to (i) shares of common stock repurchased by us under the stock repurchase program and (ii) restricted shares withheld (under the terms of grants under our Equity Compensation Plan (or Equity Plan)) to offset tax withholding obligations that occur upon the vesting and release of restricted stock awards and/or restricted stock units (or RSUs) and (iii) eligible shares remaining/approximate dollar value for repurchase under the stock repurchase program, in each case during the fourth quarter of 2020:

| Month | Total Number of Shares Purchased | Weighted Average Price Paid Per Share (1) | Total Number of Shares Repurchased as Part of Publicly Announced Repurchase Program or Employee Plan | Maximum Number of Shares/Approximate Dollar Value that May Yet be Purchased Under the Repurchase Program or Employee Plan |
|-------------------------------------|----------------------------------|---|--|---|
| October 1-31, 2020: | | | | |
| Shares Repurchased (2) | — | — | — | 6,616,355 (3) |
| November 1-30, 2020: | | | | |
| Shares Repurchased (4) | 9,670,777 | \$ 3.51 | 9,670,777 | \$ 216,143,946 (5) |
| December 1-31, 2020: | | | | |
| Shares Repurchased (4) | 4,414,901 | 3.82 | 4,414,901 | \$ 165,655,435 (5) |
| Total Shares Repurchased (4) | 14,085,678 | \$ 3.61 | 14,085,678 | \$ 165,655,435 (5) |
| Warrants Repurchased (4) | 17,593,576 | \$ 3.86 | 17,593,576 | N/A (5) |
| Employee Transactions (6) | 23,508 | \$ 3.61 | N/A | N/A |

(1) Includes brokerage commissions.

(2) As of October 31, 2020, we had repurchased an aggregate of 3,383,645 shares under the repurchase program adopted in December 2013. This plan terminated on November 2, 2020, as it was replaced by a new plan on that date.

(3) Amount presented in shares.

(4) As of December 31, 2020, we had repurchased an aggregate of 14,085,678 shares under the repurchase program adopted on November 2, 2020. We are authorized to purchase \$250 million worth of shares through to December 31, 2022. In addition, in December 2020, we repurchased warrants issued to Apollo and Athene for approximately \$33.7 million, reflecting the market value of the warrants at the time of the repurchase. These warrant repurchases are also included in the repurchase program adopted on November 2, 2020.

(5) Amount presented in dollar value.

(6) Our Equity Plan provides that the value of the shares delivered or withheld be based on the price of our common stock on the date the relevant transaction occurs. These shares were withheld in November 2020.

Discount Waiver, Direct Stock Purchase and Dividend Reinvestment Plan

In September 2003, we initiated a Discount Waiver, Direct Stock Purchase and Dividend Reinvestment Plan (or the DRSP) to provide existing stockholders and new investors with a convenient and economical way to purchase shares of our common stock. Under the DRSP, existing stockholders may elect to automatically reinvest all or a portion of their cash dividends in additional shares of our common stock and existing stockholders and new investors may make optional cash purchases of shares of our common stock in amounts ranging from \$50 (or \$1,000 for new investors) to \$10,000 on a monthly basis and, with our prior approval, in excess of \$10,000. At our discretion, we may issue shares of our common stock under the DRSP at discounts of up to 5% from the prevailing market price at the time of purchase. Computershare Shareowner Services LLC is the administrator of the DRSP (or the Plan Agent). Stockholders who own common stock that is registered in their own name and who want to participate in the DRSP must deliver a completed enrollment form to the Plan Agent. Stockholders who own common stock that is registered in a name other than their own (e.g., broker, bank or other nominee) and who want to participate in the DRSP must either request such nominee holder to participate on their behalf or request that such nominee holder re-register our common stock in the stockholder's name and deliver a completed enrollment form to the Plan Agent. During the years ended 2020 and 2019, we issued 235,635 and 322,888 shares of common stock through the DRSP generating net proceeds of approximately \$1.0 million and \$2.4 million, respectively.

At-the-Market Offering Program

On August 16, 2019 we entered into a distribution agreement under the terms of which we may offer and sell shares of our common stock having an aggregate gross sales price of up to \$400.0 million (or the ATM Shares), from time to time, through various sales agents, pursuant to an at-the-market equity offering program (or the ATM Program). Sales of the ATM Shares, if any, may be made in negotiated transactions or by transactions that are deemed to be "at-the-market" offerings, as defined in Rule 415 under the 1933 Act, including sales made directly on the NYSE or sales made to or through a market maker other than an exchange. The sales agents are entitled to compensation of up to two percent of the gross sales price per share for any shares of common stock sold under the distribution agreement.

During the year ended December 31, 2020, we did not sell any shares of common stock through the ATM Program. At December 31, 2020, approximately \$390.0 million remained outstanding for future offerings under this program. During the year ended December 31, 2019, we sold 1,357,526 shares of common stock through the ATM Program at a weighted average price of \$7.40, raising proceeds of approximately \$9.9 million, net of fees and commissions paid to sales agents of approximately \$100,000.

Item 6. Reserved.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with our financial statements and accompanying notes included in Item 8 of this Annual Report on Form 10-K.

GENERAL

We are an internally-managed REIT primarily engaged in the business of investing, on a leveraged basis, in residential mortgage assets, including residential whole loans, residential mortgage securities and MSR-related assets. Our principal business objective is to deliver shareholder value through the generation of distributable income and through asset performance linked to residential mortgage credit fundamentals. We selectively invest in residential mortgage assets with a focus on credit analysis, projected prepayment rates, interest rate sensitivity and expected return.

As previously disclosed, as a result of the market disruptions experienced related to the unprecedented conditions arising in connection with the onset of the COVID-19 pandemic in early 2020, during the first and second quarters of 2020 we engaged in asset sales and took other actions that significantly changed our asset composition. In particular, we sold all of our Agency and Legacy Non-Agency MBS investments, and substantially reduced our investments in MSR-related assets, RPL/NPL MBS and CRT securities. As a result of these actions, our primary investment assets as of December 31, 2020, are comprised of our residential whole loans. During the second quarter, to further help stabilize our financial position and liquidity, we entered into a \$500 million senior secured credit agreement. In addition, during the second quarter, in conjunction with our previously disclosed exit from forbearance arrangements with lenders, we entered into several new asset-backed financing arrangements and renegotiated financing arrangements for certain assets with existing lenders, which together resulted in us essentially refinancing the majority of our investment portfolio.

During the third and fourth quarters of 2020, we continued to make significant progress on initiatives to lower the cost of financing our investments with more durable forms of borrowing. For example, we completed a \$390 million securitization transaction of Non-QM assets in early September, which generated \$92.7 million of additional liquidity and lowered the funding rate for the associated assets by approximately 165 basis points. In addition, during the fourth quarter we completed two Non-QM securitizations totaling \$951.6 million, which generated \$214.6 million of additional liquidity and lowered the funding rate for the associated assets by approximately 193 basis points. Additionally, during the fourth quarter we undertook steps to reduce our exposure to higher cost forms of financing that we had obtained in connection with our exit from forbearance in the second quarter. On October 9, 2020, we repaid \$400 million of the principal outstanding on the senior secured loan, and the remaining balance of this facility of \$81.25 million was repaid on October 30, 2020. The repayments were made without penalty or yield maintenance. Subsequent to the end of the fourth quarter, we completed a securitization solely consisting of \$217.5 million of Business Purpose Rental Loans, generating approximately \$48.4 million of additional liquidity. As the weighted average coupon of the bonds sold was approximately 1.06%, this transaction is expected to lower the funding rate of the underlying assets by more than 150 basis points. In addition, on January 6, 2021, we redeemed all of our outstanding \$100 million aggregate principal amount of 8.00% Senior Notes Due 2042. In connection with this redemption, we recorded in our fourth quarter interest expense a non-cash charge of approximately \$3.1 million representing remaining unamortized deferred expenses incurred when the Senior Notes were originally issued in 2012.

At December 31, 2020, we had total assets of approximately \$6.9 billion, of which \$5.3 billion, or 77%, represented residential whole loans acquired through interests in certain trusts established to acquire the loans. Our Purchased Performing Loans, which as of December 31, 2020 comprised approximately 65% of our residential whole loans, include: (i) loans to finance (or refinance) one-to four-family residential properties that are not considered to meet the definition of a "Qualified Mortgage" in accordance with guidelines adopted by the Consumer Financial Protection Bureau (or Non-QM loans), (ii) short-term business purpose loans collateralized by residential properties made to non-occupant borrowers who intend to rehabilitate and sell the property for a profit (or Rehabilitation loans or Fix and Flip loans), (iii) loans to finance (or refinance) non-owner occupied one-to four-family residential properties that are rented to one or more tenants (or Single-family rental loans), and (iv) previously originated loans secured by residential real estate that is generally owner occupied (or Seasoned performing loans). In addition, at December 31, 2020, we had approximately \$161.0 million in investments in residential mortgage securities, which represented approximately 2% of our total assets. At such date, our portfolio included \$104.2 million of CRT securities and \$56.8 million of Non-Agency MBS which were primarily comprised of RPL/NPL MBS. At December 31, 2020, our investments in MSR-related assets were \$239.0 million, or 3% of our total assets. Our MSR-related assets include term notes whose cash flows are considered to be largely dependent on MSR collateral and loan participations to provide financing to mortgage originators that own MSRs. Our remaining investment-related assets, which represent approximately 5% of our total assets at December 31, 2020, were primarily comprised of REO, capital contributions made to loan origination partners and MBS and loan-related receivables.

The results of our business operations are affected by a number of factors, many of which are beyond our control, and primarily depend on, among other things, the level of our net interest income and the market value of our assets, which is driven by numerous factors, including the supply and demand for residential mortgage assets in the marketplace, the terms and availability of adequate financing, general economic and real estate conditions (both on a national and local level), the impact of government actions in the real estate and mortgage sector, and the credit performance of our credit sensitive residential mortgage assets. Changes in these factors, or uncertainty in the market regarding the potential for changes in these factors, can result in significant changes in the value and/or performance of our investment portfolio. Further, our GAAP results may be impacted by market volatility, resulting in changes in market values of certain financial instruments for which changes in fair value are recorded in net income each period, such as CRT securities, and certain residential whole loans. Our net interest income varies primarily as a result of changes in interest rates, the slope of the yield curve (i.e., the differential between long-term and short-term interest rates), borrowing costs (i.e., our interest expense) and prepayment speeds, the behavior of which involves various risks and uncertainties. Interest rates and conditional prepayment rates (or CPRs) (which measure the amount of unscheduled principal prepayment on an asset as a percentage of the asset balance), vary according to the type of investment, conditions in the financial markets, competition and other factors, none of which can be predicted with any certainty. With the adoption in January 2020 of new accounting standards for the measurement and recognition of credit losses, and given the extent of current and anticipated future investments in residential whole loans, our financial results are impacted by estimates of credit losses that are required to be recorded when loans that are not accounted for at fair value through net income are acquired or originated, as well as changes in these credit loss estimates that will be required to be made periodically.

With respect to our business operations, increases in interest rates, in general, may over time cause: (i) the interest expense associated with our borrowings to increase; (ii) the value of certain of our residential mortgage assets and, correspondingly, our stockholders' equity to decline; (iii) coupons on our adjustable-rate assets to reset, on a delayed basis, to higher interest rates; (iv) prepayments on our assets to decline, thereby slowing the amortization of purchase premiums and the accretion of our purchase discounts, and slowing our ability to redeploy capital to generally higher yielding investments; and (v) the value of our derivative hedging instruments, if any, and, correspondingly, our stockholders' equity to increase. Conversely, decreases in interest rates, in general, may over time cause: (i) the interest expense associated with our borrowings to decrease; (ii) the value of certain of our residential mortgage assets and, correspondingly, our stockholders' equity to increase; (iii) coupons on our adjustable-rate assets, on a delayed basis, to lower interest rates; (iv) prepayments on our assets to increase, thereby accelerating the amortization of purchase premiums and the accretion of our purchase discounts, and accelerating the redeployment of our capital to generally lower yielding investments; and (v) the value of our derivative hedging instruments, if any, and, correspondingly, our stockholders' equity to decrease. In addition, our borrowing costs and credit lines are further affected by the type of collateral we pledge and general conditions in the credit market.

Our investments in residential mortgage assets expose us to credit risk, meaning that we are generally subject to credit losses due to the risk of delinquency, default and foreclosure on the underlying real estate collateral. Our investment process for credit sensitive assets focuses primarily on quantifying and pricing credit risk. With respect to investments in Purchased Performing Loans, we believe that sound underwriting standards, including low LTVs at origination, significantly mitigate our risk of loss. Further, we believe the discounted purchase prices paid on certain non-performing and Purchased Credit Deteriorated Loans mitigate our risk of loss in the event that, as we expect on most such investments, we receive less than 100% of the par value of these investments. (see Part I, Item 1A., "Risk Factors - Credit and Other Risks Related to our Investments" and Item 7A., "Quantitative and Qualitative Disclosures About Market Risk" of this Annual Report on Form 10-K.)

Premiums arise when we acquire an MBS at a price in excess of the aggregate principal balance of the mortgages securing the MBS (i.e., par value) or when we acquire residential whole loans at a price in excess of their aggregate principal balance. Conversely, discounts arise when we acquire an MBS at a price below the aggregate principal balance of the mortgages securing the MBS or when we acquire residential whole loans at a price below their aggregate principal balance. Accretible purchase discounts on these investments are accreted to interest income. Purchase premiums, which are primarily carried on certain of our CRT securities and Non-QM loans, are amortized against interest income over the life of the investment using the effective yield method, adjusted for actual prepayment activity. An increase in the prepayment rate, as measured by the CPR, will typically accelerate the amortization of purchase premiums, thereby reducing the interest income earned on these assets.

CPR levels are impacted by, among other things, conditions in the housing market, new regulations, government and private sector initiatives, interest rates, availability of credit to home borrowers, underwriting standards and the economy in general. In particular, CPR reflects the conditional repayment rate (or CRR), which measures voluntary prepayments of a loan, and the conditional default rate (or CDR), which measures involuntary prepayments resulting from defaults. CPRs on our residential mortgage securities and whole loans may differ significantly. For the year ended December 31, 2020, the weighted average CPR on our Non-QM loan portfolio was 22.5%.

It is generally our business strategy to hold our residential mortgage assets as long-term investments. On at least a quarterly basis, excluding investments for which the fair value option has been elected or for which specialized loan accounting is otherwise applied, we assess our ability and intent to continue to hold each asset and, as part of this process, we monitor our residential mortgage securities and MSR-related assets that are designated as AFS for impairment. A change in our ability and/or intent to continue to hold any of these securities that are in an unrealized loss position, or a deterioration in the underlying characteristics of these securities, could result in our recognizing future impairment charges or a loss upon the sale of any such security.

Our residential mortgage investments have longer-term contractual maturities than our financing liabilities. Even though the majority of our investments have interest rates that adjust over time based on short-term changes in corresponding interest rate indices (typically following an initial fixed-rate period for our Hybrids), the interest rates we pay on our borrowings will typically change at a faster pace than the interest rates we earn on our investments. In order to reduce this interest rate risk exposure, we may enter into derivative instruments, which in the past have generally been comprised of Swaps. The majority of our Swap derivative instruments have generally been designated as cash-flow hedges against a portion of our then current and forecasted LIBOR-based repurchase agreements. Following the significant interest rate decreases that occurred late in the first quarter of 2020, we unwound all of our Swap transactions at the end of the first quarter.

Recent Market Conditions and Our Strategy

At December 31, 2020, our residential mortgage asset portfolio, which includes residential whole loans and REO, residential mortgage securities and MSR-related assets, was approximately \$6.0 billion compared to \$13.1 billion at December 31, 2019. As previously disclosed, we engaged in asset sales and took other actions during 2020 related to the impact of the unprecedented conditions created by the COVID-19 pandemic, that significantly changed our asset composition. As a result of these actions, our primary investment asset as of December 31, 2020 is our residential whole loan portfolio.

The following table presents the activity for our residential mortgage asset portfolio for the year ended December 31, 2020:

| (In Millions) | December 31, 2019 | Runoff (1) | Acquisitions | Sales | Other (2) | December 31, 2020 | Change |
|---------------------------------|----------------------|-------------------|-----------------|-------------------|-----------------|-------------------|-------------------|
| Residential whole loans and REO | \$ 7,860 | \$ (1,920) | \$ 1,345 | \$ (1,780) | \$ 70 | \$ 5,575 | \$ (2,285) |
| MSR-related assets | 1,217 | (77) | 4 | (683) | (222) | 239 | (978) |
| Residential mortgage securities | 3,984 | (558) | 160 | (3,000) | (425) | 161 | (3,823) |
| Totals | \$ 13,061 | \$ (2,555) | \$ 1,509 | \$ (5,463) | \$ (577) | \$ 5,975 | \$ (7,086) |

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

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

At December 31, 2020, our total recorded investment in residential whole loans and REO was \$5.6 billion, or 93.3% of our residential mortgage asset portfolio. Of this amount, (i) \$4.2 billion is presented as Residential whole loans, at carrying value (of which \$3.5 billion were Purchased Performing Loans and \$673.7 million were Purchased Credit Deteriorated Loans), and (ii) \$1.2 billion is presented as Residential whole loans, at fair value, in our consolidated balance sheets. For the year ended December 31, 2020, we recognized approximately \$258.8 million of income on Residential whole loans, at carrying value in Interest Income on our consolidated statements of operations, representing an effective yield of 4.91% (excluding servicing costs), with Purchased Performing Loans generating an effective yield of 4.90% and Purchased Credit Deteriorated Loans generating an effective yield of 4.99%. In addition, we recorded a net gain on residential whole loans measured at fair value through earnings of \$94.2 million in Other Income, net in our consolidated statements of operations for the year ended December 31, 2020. At December 31, 2020 and 2019, we had REO with an aggregate carrying value \$249.7 million and \$411.7 million, respectively, which is included in Other assets on our consolidated balance sheets. During 2020, we sold Non-QM loans with an amortized cost of \$1.8 billion, realizing losses of \$273.0 million and sold Residential whole loans, at fair value with an aggregate unpaid principal balance of \$24.1 million, realizing net losses of \$0.8 million.

During 2020, economic conditions were negatively impacted by the unprecedented conditions resulting from the COVID-19 pandemic. In response to the financial impact of the COVID-19 pandemic on borrowers, and in compliance with various federal and state guidelines, starting in the first quarter of 2020 we offered short-term relief to certain borrowers who were contractually current at the time the pandemic started to impact the economy. Under the terms of such plans, for certain borrowers a deferral plan was entered into where missed payments were deferred to the maturity of the related loan, with a corresponding change to the loan's next payment due date. In addition, certain borrowers were granted up to a seven-month

“zero pay” forbearance with payments required to resume at the conclusion of the plan. For these borrowers, delinquent payments were permitted to be placed on specified repayment plans. While the majority of the borrowers granted relief have resumed making payments at the conclusion of such deferral and forbearance periods, certain borrowers, particularly in our Non-QM loan portfolio, continue to be impacted financially by the COVID-19 pandemic and have not yet resumed payments. When these borrowers became more than 90 days delinquent on payments, any interest income receivable related to the associated loans was reversed in accordance with our non-accrual policies. At December 31, 2020, Non-QM loans with an amortized cost of \$148.4 million, or 6.4% of the portfolio, were more than 90 days delinquent. For these and other borrowers that have been impacted by the COVID-19 pandemic, we are continuing to evaluate loss mitigation options with respect to these loans, including forbearance, repayment plans, loan modification and foreclosure. In addition, at December 31, 2020, Rehabilitation Loans to fix and flip borrowers with an amortized cost of \$136.3 million, or 23.4% of the portfolio were more than 90 days delinquent. Because rehabilitation loans are shorter term and repayment is usually dependent on completion of the rehabilitation project and sale of the property, the strategy to resolve delinquent rehabilitation loans differs from owner occupied loans. Consequently, forbearance and repayment plans are offered less frequently. However, we seek to work with delinquent fix and flip borrowers whose projects are close to completion or are listed for sale in order to provide the borrower the opportunity to sell the property and repay our loan. In circumstances where the borrower is not able to complete the project or we are not able to work with the borrower to our mutual benefit, foreclosure or other forms of resolution are pursued.

During 2020, we sold our remaining investments in Agency MBS for \$1.5 billion, realizing losses of \$19.3 million, and disposed of all of our Legacy Non-Agency MBS for \$1.1 billion, realizing gains of \$168.2 million. As of December 31, 2020, our RPL/NPL MBS portfolio totaled \$53.9 million. During 2020, we sold \$200.7 million of these securities, realizing a loss of \$60.2 million. The net yield on our RPL/NPL MBS portfolio was 5.64% for 2020, compared to 5.04% for 2019. In addition, our investments in MSR-related assets at December 31, 2020 totaled \$239.0 million. During the three months ended March 31, 2020, we recognized an impairment loss related to our term notes backed by MSR collateral of \$280.8 million based on our intent to sell, or the likelihood we would be required to sell, such notes. Later in 2020, we sold \$711.7 million of term notes backed by MSR-related collateral, realizing a gain of \$28.7 million. The net yield on our MSR-related assets was 7.26% for 2020, compared to 5.19% for 2019. Our investments in CRT securities totaled \$104.2 million at December 31, 2020. During 2020, we sold \$243.0 million of CRT securities, realizing a loss of \$27.0 million.

We adopted the new accounting standard addressing the measurement of credit losses on financial instruments (CECL) on January 1, 2020. CECL requires that reserves for credit losses be estimated at the reporting date based on expected cash flows for the life of the loan or financial asset, including anticipated prepayments and reasonable and supportable forecasts of future economic conditions. For 2020, we recorded a provision for credit losses on residential whole loans held at carrying value of \$13.4 million. The total allowance for credit losses recorded on residential whole loans held at carrying value at December 31, 2020 was \$86.8 million. In addition, as of December 31, 2020, CECL reserves for credit losses totaling approximately \$1.2 million were recorded related to undrawn commitments on loans held at carrying value. Further, we recorded an allowance for credit losses on other financial instruments of \$9.0 million as of December 31, 2020. We did not record a provision for credit losses on other financial instruments for 2019.

Our GAAP book value per common share was \$4.54 as of December 31, 2020. Book value per common share decreased from \$7.04 as of December 31, 2019. Economic book value per common share, a non-GAAP financial measure of our financial position that adjusts GAAP book value by the amount of unrealized mark-to-market gains on our residential whole loans held at carrying value, was \$4.92 at December 31, 2020, a decrease from \$7.44 as of December 31, 2019. The decrease in GAAP and Economic book value during 2020 primarily reflects the net loss recorded for the year, the net reduction in amounts recorded in shareholders equity related to AFS securities and derivative hedging transactions, the impact of dividends distributions and the combined impact of the transactions that occurred in the fourth quarter that resulted in the repurchase and the exercise of warrants issued in connection with the senior secured term loan. For additional information regarding the calculation of Economic book value per share including a reconciliation to GAAP book value per share, refer to page 54 under the heading “Economic Book Value”.

For more information regarding market factors which impact our portfolio, see Part I, Item 1A. “Risk Factors” and Item 7A. “Quantitative and Qualitative Disclosures About Market Risk” of this Annual Report on Form 10-K.

Information About Our Assets

The table below presents certain information about our asset allocation at December 31, 2020:

ASSET ALLOCATION

| (Dollars in Millions) | Residential Whole Loans, at Carrying Value (1) | Residential Whole Loans, at Fair Value | Residential Mortgage Securities | MSR-Related Assets | Other, net (2) | Total |
|--|---|--|---------------------------------------|-----------------------|-------------------|-----------------|
| Fair Value/Carrying Value | 4,108 | 1,217 | 161 | 239 | 1,137 | 6,862 |
| Financing Agreements with non-mark-to-market collateral provisions | (906) | (253) | — | — | — | (1,159) |
| Financing Agreements with mark-to-market collateral provisions | (839) | (285) | (89) | (125) | — | (1,338) |
| Less Securitized Debt | (1,261) | (254) | — | — | — | (1,515) |
| Less Convertible Senior Notes | — | — | — | — | (225) | (225) |
| Less Senior Notes | — | — | — | — | (100) | (100) |
| Net Equity Allocated | <u>\$ 1,102</u> | <u>\$ 425</u> | <u>\$ 72</u> | <u>\$ 114</u> | <u>\$ 812</u> | <u>\$ 2,525</u> |
| Debt/Net Equity Ratio (3) | <u>2.7 x</u> | <u>1.9 x</u> | <u>1.2 x</u> | <u>1.1 x</u> | | <u>1.7 x</u> |

(1) Includes \$2.3 billion of Non-QM loans, \$563.4 million of Rehabilitation loans, \$442.5 million of Single-family rental loans, \$136.2 million of Seasoned performing loans, and \$630.3 million of Purchased Credit Deteriorated Loans. At December 31, 2020, the total fair value of these loans is estimated to be approximately \$4.3 billion.

(2) Includes \$814.4 million of cash and cash equivalents, \$7.2 million of restricted cash, \$249.7 million of real estate owned, and \$47.1 million of capital contributions made to loan origination partners, as well as other assets and other liabilities.

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

Residential Whole Loans

The following table presents the contractual maturities of our residential whole loan portfolios at December 31, 2020. Amounts presented do not reflect estimates of prepayments or scheduled amortization.

| (In Thousands) | Purchased Performing Loans (1) | Purchased Credit Deteriorated Loans (2) | Residential Whole Loans, at Fair Value |
|-------------------------------|-----------------------------------|--|--|
| Amount due: | | | |
| Within one year | \$ 551,385 | \$ 363 | \$ 4,008 |
| After one year: | | | |
| Over one to five years | 53,638 | 3,783 | 5,203 |
| Over five years | 2,916,601 | 669,562 | 1,207,691 |
| Total due after one year | <u>\$ 2,970,239</u> | <u>\$ 673,345</u> | <u>\$ 1,212,894</u> |
| Total residential whole loans | <u>\$ 3,521,624</u> | <u>\$ 673,708</u> | <u>\$ 1,216,902</u> |

(1) Excludes an allowance for credit losses of \$43.5 million at December 31, 2020.

(2) Excludes an allowance for credit losses of \$43.4 million at December 31, 2020.

The following table presents, at December 31, 2020, the dollar amount of certain of our residential whole loans, contractually maturing after one year, and indicates whether the loans have fixed interest rates or adjustable interest rates:

| (In Thousands) | Purchased Performing Loans (1)(2) | Purchased Credit Deteriorated Loans (1)(3) | Residential Whole Loans at Fair Value (1) |
|-----------------|--------------------------------------|---|--|
| Interest rates: | | | |
| Fixed | \$ 996,198 | \$ 484,943 | \$ 902,797 |
| Adjustable | 1,974,041 | 188,402 | 310,097 |
| Total | <u>\$ 2,970,239</u> | <u>\$ 673,345</u> | <u>\$ 1,212,894</u> |

(1) Includes loans on which borrowers have defaulted and are not making payments of principal and/or interest as of December 31, 2020.

(2) Excludes an allowance for credit losses of \$43.5 million at December 31, 2020.

(3) Excludes an allowance for credit losses of \$43.4 million at December 31, 2020.

For additional information regarding our residential whole loan portfolios, see Note 3 to the consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.

Residential Mortgage Securities

Non-Agency MBS

The following table presents information with respect to our Non-Agency MBS at December 31, 2020 and 2019. During the three months ended June 30, 2020, we disposed of substantially all of our investments in Legacy Non-Agency MBS:

| (In Thousands) | December 31, | |
|-----------------------|--------------|--------------|
| | 2020 | 2019 |
| Non-Agency MBS | | |
| Face/Par | \$ 57,847 | \$ 2,195,303 |
| Fair Value | 56,766 | 2,063,529 |
| Amortized Cost | 49,042 | 1,668,088 |

CRT Securities

At December 31, 2020, our total investment in CRT securities was \$104.2 million, with a net unrealized gain of \$18.0 million, a weighted average yield of 7.36% and a weighted average time to maturity of 18.5 years. At December 31, 2019, our total investment in CRT securities was \$255.4 million, with a net unrealized gain of \$6.2 million, a weighted average yield of 4.18% and weighted average time to maturity of 10.3 years.

Agency MBS

During the six months ended June 30, 2020, we disposed of all of our Agency MBS. At December 31, 2019, our total investment in Agency MBS was \$1.7 billion, with a net unrealized loss of \$3.4 million and a weighted average coupon of 3.83%.

MSR-Related Assets

At December 31, 2020 and 2019, we had \$239.0 million and \$1.2 billion, respectively, of term notes issued by SPVs that have acquired the rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. At December 31, 2020, these term notes had an amortized cost of \$184.9 million, gross unrealized gains of approximately \$54.0 million, a weighted average yield of 12.30% and a weighted average term to maturity of 9.2 years. At December 31, 2019, these term notes had an amortized cost of \$1.2 billion, gross unrealized gains of \$5.2 million, a weighted average yield of 4.75% and a weighted average term to maturity of 5.3 years.

We have participated in a loan where we committed to lend \$32.6 million of which no amount was drawn at December 31, 2020. The facility expires in August, 2021.

Tax Considerations

Current period estimated taxable income

We estimate that for 2020, our taxable loss was approximately \$3.9 million. We have until the filing of our 2020 tax return (due not later than October 15, 2021) to declare the distribution of any 2020 REIT taxable income not previously distributed.

Key differences between GAAP net income and REIT Taxable Income

Residential Whole Loans and Residential Mortgage Securities

The determination of taxable income attributable to residential whole loans and Non-Agency MBS is dependent on a number of factors, including timing of principal and interest payments, defaults, loss mitigation efforts and loss severities. Potential timing differences arise with respect to the accretion of discount and amortization of premium into income as well as the recognition of realized losses for tax purposes as compared to GAAP. For example: a) impairments generally are not recognized by us for income tax purposes until the asset is written-off or sold; b) capital losses may only be recognized by us to the extent of its capital gains; capital losses in excess of capital gains generally are carried over by us for potential offset against its future capital gains and c) tax hedge losses resulting from the termination of interest rate swaps by us generally are amortized over the remaining term of the swap.

In estimating taxable income for such investments during the year, management considers estimates of the amount of discount and premium expected to be accreted. Such estimates require significant judgment and actual results may differ from these estimates. Moreover, the deductibility of realized losses and their effect on discount accretion and premium amortization are analyzed on an asset-by-asset basis and, while they will result in a reduction of taxable income, this reduction tends to occur gradually and, primarily for Non-Agency MBS, in periods after the realized losses are reported. In addition, for securitization and resecuritization transactions that were treated as a sale of the underlying residential whole loans or MBS for tax purposes, taxable gain or loss, if any, resulting from the unwind of such transactions is not recognized in GAAP net income.

Use of fair value accounting for certain residential whole loans and residential mortgage securities for GAAP, but not for tax, gives rise to potential timing differences. In addition, for tax purposes the residential whole loans contributed to a variable interest entity (or VIE) used to facilitate our second quarter 2017 and fourth quarter 2020 loan securitization transactions were deemed to be sold for tax purposes, but not for GAAP reporting purposes.

Our total Non-Agency MBS portfolio for tax differs from our portfolio reported for GAAP primarily due to the fact that for tax purposes: (i) certain of the MBS contributed to the VIEs used to facilitate MBS resecuritization transactions were deemed to be sold; and (ii) the tax basis of underlying MBS considered to be reacquired in connection with the unwind of such transactions became the fair value of such securities at the time of the unwind. For GAAP reporting purposes the underlying MBS that were included in these MBS resecuritization transactions were not considered to be sold. Consequently, our REIT taxable income calculated in a given period may differ significantly from our GAAP net income.

Securitization transactions result in differences between GAAP net income and REIT Taxable Income

For tax purposes, depending on the transaction structure, a securitization and/or resecuritization transaction may be treated either as a sale or a financing of the underlying collateral. As a result, the income recognized from securitization and resecuritization transactions may differ for tax and GAAP purposes. For tax purposes, we own or may in the future acquire interests in securitization and /or resecuritization trusts, in which several of the classes of securities are or will be issued with original issue discount (or OID). As the holder of the retained interests in the trust, we generally will be required to include OID in our current gross interest income over the term of the applicable securities as the OID accrues. The rate at which the OID is recognized into taxable income is calculated using a constant rate of yield to maturity, with realized losses impacting the amount of OID recognized in REIT taxable income once they are actually incurred. For tax purposes, REIT taxable income may be recognized in excess of economic income (i.e., OID) or in advance of the corresponding cash flow from these assets, thereby affecting our dividend distribution requirement to stockholders. In addition, for securitization and/or resecuritization transactions that were treated as a sale of the underlying collateral for tax purposes, the unwinding of any such transaction will likely result in a taxable gain or loss that is likely not recognized in GAAP net income since securitization and resecuritization transactions are typically accounted for as financing transactions for GAAP purposes. The tax basis of underlying residential

whole loans or MBS re-acquired in connection with the unwind of such transactions becomes the fair market value of such assets at the time of the unwind.

Taxable income of consolidated TRS subsidiaries is included in GAAP income, but may not be included in REIT Taxable Income

Net income generated by our TRS subsidiaries is included in consolidated GAAP net income, but may not be included in REIT taxable income in the same period. Net income of U.S. domiciled TRS subsidiaries is included in REIT taxable income when distributed by the TRS. Net income of foreign domiciled TRS subsidiaries is included in REIT taxable income as if distributed to the REIT in the taxable year it is earned by the foreign domiciled TRS.

Results of Operations

In this section, we discuss the results of our operations for the year ended December 31, 2020 compared to the year ended December 31, 2019. For a discussion related to our results of operations for the year ended December 31, 2019 compared to the year ended December 31, 2018, please refer to [Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”](#) in our Annual Report on Form 10-K for the Year Ended December 31, 2019, which was filed with the SEC on February 21, 2020, and is available on the SEC’s website at www.sec.gov and on our website at www.mfafinancial.com.

Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019

General

For 2020, we had a net loss available to our common stock and participating securities of \$709.2 million, or \$1.57 per basic and diluted common share, compared to net income available to common stock and participating securities for 2019 of \$363.1 million, or \$0.80 per basic and \$0.79 per diluted common share. Following the unprecedented disruption in residential mortgage markets due to concerns related to the COVID-19 pandemic that was experienced late in the first quarter and into the second quarter of 2020, management was focused on taking actions to bolster and stabilize our balance sheet, improve our liquidity position and renegotiate the financing associated with our remaining investments. The actions included disposing our Agency and Legacy Non-Agency MBS portfolios, substantially reducing our investments in MSR-related assets, RPL/NPL MBS and CRT securities and sales of certain residential whole loans. These disposals resulted in net realized losses for the year totaling \$188.9 million. Further, we recorded impairment losses on certain residential mortgage securities and MSR-related assets of \$344.4 million. We also recorded impairment losses on other assets of \$72.4 million, primarily related to write-downs of the carrying values of investments in certain loan originators. In addition, as we had entered into forbearance agreements with the majority of our remaining lenders that were in place for most of the second quarter, our financing costs were dramatically increased during this period. The combination of the impact of asset sales and higher financing costs during the forbearance period resulted in the significant reduction in net interest income from our investments. During the year ended December 31, 2020, we also incurred unusually high professional services and other costs in connection with negotiating forbearance arrangements with our lenders, entering into new financing arrangements and reinstating prior financing arrangements on the exit from forbearance. Finally, we recorded losses totaling \$57.0 million on terminated Swaps that had previously been designated as hedges for accounting purposes, expenses totaling \$25.3 million on the early payment of a senior secured credit agreement and \$10.5 million of net unrealized losses on residential mortgage securities measured at fair value through earnings. These losses were partially offset by \$94.2 million in net gains on our residential whole loans measured at fair value through earnings. Further, we recorded a provision for credit losses on residential whole loans held at carrying value and other financial instruments of \$22.4 million, which includes a provision for credit losses on undrawn commitments of \$1.2 million, during the year ended December 31, 2020.

Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends primarily upon the volume of interest-earning assets and interest-bearing liabilities and the corresponding interest rates earned or paid. Our net interest income varies primarily as a result of changes in interest rates, the slope of the yield curve (i.e., the differential between long-term and short-term interest rates), borrowing costs (i.e., our interest expense) and prepayment speeds on our investments. Interest rates and CPRs (which measure the amount of unscheduled principal prepayment on a bond or loan as a percentage of its unpaid balance) vary according to the type of investment, conditions in the financial markets and other factors, none of which can be predicted with any certainty.

The changes in average interest-earning assets and average interest-bearing liabilities and their related yields and costs are discussed in greater detail below under “Interest Income” and “Interest Expense.”

For 2020, our net interest spread and margin were 0.66% and 1.24%, respectively, compared to a net interest spread and margin of 1.96% and 2.35%, respectively, for 2019. Our net interest income decreased by \$158.7 million, or 63.66%, to \$90.6 million from \$249.4 million for 2019. For 2020, net interest income for our residential mortgage securities and MSR-related asset portfolios decreased by approximately \$118.5 million compared to 2019, primarily due to lower average amounts invested in these securities due to portfolio sales in the current period. Net interest income also includes lower net interest income from residential whole loans held at carrying value of approximately \$23.0 million for 2020 compared to 2019 primarily due to lower yields earned on these assets and higher funding costs as a result of entering into forbearance agreements. In addition, we also incurred approximately \$16.2 million in interest expense related to the senior secured credit agreement we entered into during the second quarter of 2020 and approximately \$6.6 million higher interest expense on our Convertible Senior Notes issued in June 2019. Net interest income for 2020 also includes \$38.1 million of interest expense associated with residential whole loans held at fair value, reflecting a \$6.8 million decrease in borrowing costs related to these investments compared to 2019. Coupon interest income received from residential whole loans held at fair value is presented as a component of the total income earned on these investments and therefore is included in Other Income, net rather than net interest income. On January 6, 2021, we completed the redemption of our Senior Notes. In connection with this redemption, we recorded in our 2020 interest expense a non-cash charge of approximately \$3.1 million representing remaining unamortized deferred expenses incurred when the Senior Notes were originally issued.

Analysis of Net Interest Income

The following table sets forth certain information about the average balances of our assets and liabilities and their related yields and costs for the years ended December 31, 2020 and 2019. Average yields are derived by dividing interest income by the average amortized cost of the related assets, and average costs are derived by dividing interest expense by the daily average balance of the related liabilities, for the periods shown. The yields and costs include premium amortization and purchase discount accretion which are considered adjustments to interest rates.

| (Dollars in Thousands) | For the Year Ended December 31, | | | | | |
|---|---------------------------------|------------|--------------------|-----------------|------------|--------------------|
| | 2020 | | | 2019 | | |
| | Average Balance | Interest | Average Yield/Cost | Average Balance | Interest | Average Yield/Cost |
| Assets: | | | | | | |
| Interest-earning assets: | | | | | | |
| Residential whole loans, at carrying value (1) | \$ 5,267,932 | \$ 258,764 | 4.91 % | \$ 4,372,653 | \$ 243,980 | 5.58 % |
| Agency MBS (2) | 390,876 | 8,852 | 2.26 | 2,220,246 | 55,901 | 2.52 |
| Legacy Non-Agency MBS (2) | 267,417 | 28,828 | 10.78 | 1,265,843 | 146,646 | 11.58 |
| RPL/NPL MBS (2) | 158,432 | 8,936 | 5.64 | 1,059,046 | 53,424 | 5.04 |
| Total MBS | 816,725 | 46,616 | 5.71 | 4,545,135 | 255,971 | 5.63 |
| CRT securities (2) | 151,133 | 7,521 | 4.98 | 384,583 | 18,583 | 4.83 |
| MSR-related assets (2) | 495,582 | 35,957 | 7.26 | 1,014,943 | 52,647 | 5.19 |
| Cash and cash equivalents (3) | 502,598 | 676 | 0.13 | 195,795 | 3,393 | 1.73 |
| Other interest-earning assets | 102,447 | 9,850 | 9.61 | 105,718 | 7,152 | 6.77 |
| Total interest-earning assets | 7,336,417 | 359,384 | 4.90 | 10,618,827 | 581,726 | 5.48 |
| Total non-interest-earning assets | 1,785,408 | | | 2,459,369 | | |
| Total assets | \$ 9,121,825 | | | \$ 13,078,196 | | |
| Liabilities and stockholders' equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Collateralized financing agreements (4)(5) | \$ 5,067,519 | \$ 202,851 | 4.00 % | \$ 8,586,684 | \$ 292,050 | 3.40 % |
| Securitized debt (6) | 725,200 | 22,947 | 3.16 | 632,265 | 23,294 | 3.68 |
| Convertible Senior Notes | 224,462 | 15,581 | 6.94 | 129,886 | 8,965 | 6.94 |
| Senior Notes (7) | 96,894 | 11,138 | 8.31 | 96,837 | 8,047 | 8.31 |
| Senior secured credit agreement | 147,643 | 16,241 | 11.00 | — | — | — |
| Total interest-bearing liabilities | 6,261,718 | 268,758 | 4.24 | 9,445,672 | 332,356 | 3.52 |
| Total non-interest-bearing liabilities | 129,170 | | | 230,434 | | |
| Total liabilities | 6,390,888 | | | 9,676,106 | | |
| Stockholders' equity | 2,730,937 | | | 3,402,090 | | |
| Total liabilities and stockholders' equity | \$9,121,825 | | | \$13,078,196 | | |
| Net interest income/net interest rate spread (8) | | \$ 90,626 | 0.66 % | | \$ 249,370 | 1.96 % |
| Net interest-earning assets/net interest margin (9) | \$ 1,074,699 | | 1.24 % | \$ 1,173,155 | | 2.35 % |

(1) Excludes residential whole loans held at fair value that are reported as a component of total non-interest-earning assets.

(2) Yields presented throughout this Annual Report on Form 10-K are calculated using average amortized cost data for securities which excludes unrealized gains and losses and includes principal payments receivable on securities. For GAAP reporting purposes, purchases and sales are reported on the trade date. Average amortized cost data used to determine yields is calculated based on the settlement date of the associated purchase or sale as interest income is not earned on purchased assets and continues to be earned on sold assets until settlement date.

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

(4) Collateralized financing agreements include the following: Secured term notes, Non-mark-to-market term-asset based financing, and repurchase agreements. For additional information, see Note 6, included under Item 8 of this Annual Report on Form 10-K.

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

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

(7) Interest expense for 2020 includes a non-cash charge of \$3.1 million recorded in the connection with the redemption of these notes that was completed early in 2021. The yield presented for the period excludes the impact of that charge.

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

(9) Net interest margin reflects annualized net interest income divided by average interest-earning assets.

Rate/Volume Analysis

The following table presents the extent to which changes in interest rates (yield/cost) and changes in the volume (average balance) of interest-earning assets and interest-bearing liabilities have affected our interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) the changes attributable to changes in volume (changes in average balance multiplied by prior rate); (ii) the changes attributable to changes in rate (changes in rate multiplied by prior average balance); and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately, based on absolute values, to the changes due to rate and volume.

| (In Thousands) | Year Ended December 31, 2020 Compared to Year Ended December 31, 2019 | | |
|--|---|--------------------|---|
| | Increase/(Decrease) due to | | Total Net Change in Interest Income/Expense |
| | Volume | Rate | |
| Interest-earning assets: | | | |
| Residential whole loans, at carrying value (1) | \$ 46,182 | \$ (31,398) | \$ 14,784 |
| Residential mortgage securities | (168,639) | (51,778) | (220,417) |
| MSR-related assets | (32,978) | 16,288 | (16,690) |
| Cash and cash equivalents | 2,230 | (4,947) | (2,717) |
| Other interest earning assets | (227) | 2,925 | 2,698 |
| Total net change in income from interest-earning assets | \$ (153,432) | \$ (68,910) | \$ (222,342) |
| Interest-bearing liabilities: | | | |
| Residential whole loan at carrying value financing agreements | \$ 25,863 | \$ 9,216 | \$ 35,079 |
| Residential whole loan at fair value financing agreements | (4,697) | 909 | (3,788) |
| Residential mortgage securities repurchase agreements | (100,010) | (6,427) | (106,437) |
| MSR-related assets repurchased agreements | (14,176) | 2,049 | (12,127) |
| Other repurchase agreements | (1,427) | (499) | (1,926) |
| Securitized debt | 3,178 | (3,525) | (347) |
| Convertible Senior Notes and Senior Notes | 11,452 | (1,745) | 9,707 |
| Senior secured credit agreement | 16,241 | — | 16,241 |
| Total net change in expense from interest-bearing liabilities | (63,576) | (22) | (63,598) |
| Net change in net interest income | \$ (89,856) | \$ (68,888) | \$ (158,744) |

(1) Excludes residential whole loans held at fair value which are reported as a component of non-interest-earning assets.

The following table presents certain quarterly information regarding our net interest spread and net interest margin for the quarterly periods presented:

| Quarter Ended | Total Interest-Earning Assets and Interest-Bearing Liabilities | |
|--------------------|--|-------------------------|
| | Net Interest Spread (1) | Net Interest Margin (2) |
| December 31, 2020 | 1.07 % | 1.49 % |
| September 30, 2020 | 0.03 | 0.76 |
| June 30, 2020 | (0.90) | 0.02 |
| March 31, 2020 | 1.82 | 2.20 |
| December 31, 2019 | 2.33 | 2.68 |
| September 30, 2019 | 1.82 | 2.19 |
| June 30, 2019 | 1.90 | 2.29 |
| March 31, 2019 | 1.98 | 2.41 |

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

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

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

| Quarter Ended | Purchased Performing Loans | | | Purchased Credit Deteriorated Loans | | | Total Residential Whole Loans, at Carrying Value | | |
|--------------------|----------------------------|---------------------|-------------------------|-------------------------------------|---------------------|-------------------------|--|---------------------|-------------------------|
| | Net Yield (1) | Cost of Funding (2) | Net Interest Spread (3) | Net Yield (1) | Cost of Funding (2) | Net Interest Spread (3) | Net Yield (1) | Cost of Funding (2) | Net Interest Spread (3) |
| December 31, 2020 | 4.57 % | 2.77 % | 1.80 % | 5.16 % | 3.02 % | 2.14 % | 4.66 % | 2.81 % | 1.85 % |
| September 30, 2020 | 4.58 | 3.42 | 1.16 | 4.89 | 3.22 | 1.67 | 4.63 | 3.39 | 1.24 |
| June 30, 2020 | 5.17 | 6.34 | (1.17) | 5.07 | 6.03 | (0.96) | 5.15 | 6.30 | (1.15) |
| March 31, 2020 | 5.10 | 3.44 | 1.66 | 4.84 | 3.39 | 1.45 | 5.07 | 3.43 | 1.64 |
| December 31, 2019 | 5.24 | 3.61 | 1.63 | 5.79 | 3.51 | 2.28 | 5.31 | 3.59 | 1.72 |
| September 30, 2019 | 5.55 | 3.92 | 1.63 | 5.76 | 3.79 | 1.97 | 5.58 | 3.90 | 1.68 |
| June 30, 2019 | 5.71 | 4.22 | 1.49 | 5.75 | 3.98 | 1.77 | 5.72 | 4.17 | 1.55 |
| March 31, 2019 | 5.93 | 4.27 | 1.66 | 5.77 | 4.06 | 1.71 | 5.89 | 4.21 | 1.68 |

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

(2) Reflects annualized interest expense divided by average balance of repurchase agreements and securitized debt. Total Residential whole loans, at carrying value cost of funding include, 3, 5, 3, 5 and 6 basis points associated with Swaps to hedge interest rate sensitivity on these assets for the quarters ended March 31, 2020, December 31, 2019, September 30, 2019, June 30, 2019 and March 31, 2019, respectively. Cost of funding for the quarter ended June 30, 2020 includes the impact of amortization of \$10.7 million of losses previously recorded in OCI related to Swaps unwound during the quarter ended March 31, 2020 that had been previously designated as hedges for accounting purposes. The amortization of these losses increased the funding cost by 116 basis points for Purchased Performing Loans, 107 basis points for Purchased Credit Deteriorated Loans, and 115 basis points for total Residential whole loans, at carrying value during the quarter ended June 30, 2020. At June 30, 2020, following the closing of certain financing transactions and our exit from forbearance arrangements, and an evaluation of our anticipated future financing transactions, \$49.9 million of unamortized losses on Swaps previously designated as hedges for accounting purposes was transferred from OCI to earnings, as it was determined that certain financing transactions that were previously expected to be hedged by these Swaps were no longer probable of occurring. In addition, cost of funding for the quarter ended June 30, 2020 is significantly higher than prior periods as it reflects default interest and/or higher rates charged by lenders while we were under a forbearance agreement. In addition, during the quarter ended September 30, 2020, we transferred from AOCI to earnings approximately \$7.2 million of losses on Swaps that had been previously designated as hedges for accounting purposes as we had assessed that the underlying transactions were no longer probable of occurring.

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

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

| Quarter Ended | Residential Mortgage Securities | | | MSR-Related Assets | | |
|--------------------|---------------------------------|---------------------|------------------------------|--------------------|-----------------|------------------------------|
| | Net Yield (1) | Cost of Funding (2) | Net Interest Rate Spread (3) | Net Yield (1) | Cost of Funding | Net Interest Rate Spread (3) |
| December 31, 2020 | 7.22 % | 2.71 % | 4.51 % | 12.27 % | 2.67 % | 9.60 % |
| September 30, 2020 | 6.75 | 3.60 | 3.15 | 11.79 | 3.43 | 8.36 |
| June 30, 2020 | 6.09 | 5.23 | 0.86 | 9.96 | 6.21 | 3.75 |
| March 31, 2020 | 5.40 | 2.72 | 2.68 | 4.74 | 2.56 | 2.18 |
| December 31, 2019 | 6.54 | 3.26 | 3.28 | 4.88 | 2.82 | 2.06 |
| September 30, 2019 | 7.44 | 3.21 | 4.23 | 5.26 | 3.23 | 2.03 |
| June 30, 2019 | 5.42 | 2.98 | 2.44 | 5.34 | 3.48 | 1.86 |
| March 31, 2019 | 5.34 | 2.98 | 2.36 | 5.39 | 3.56 | 1.83 |

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

(2) Reflects annualized interest expense divided by average balance of repurchase agreements, including the cost of Swaps allocated based on the proportionate share of the overall estimated weighted average portfolio duration and securitized debt. Agency MBS cost of funding includes 78, 36, 1, (9) and (13) basis points and Legacy Non-Agency MBS cost of funding includes 52, 24, 1, (14) and (20) basis points associated with Swaps to hedge interest rate sensitivity on these assets for the quarters ended March 31, 2020, December 31, 2019, September 30, 2019, June 30, 2019 and March 31, 2019, respectively. Cost of funding for the quarter ended June 30, 2020 includes the impact of amortization of \$278,000 of losses previously recorded in OCI related to Swaps unwound during the quarter ended March 31, 2020 that had been previously designated as hedges for accounting purposes. The amortization of these losses increased the funding cost by 174 basis points for total RPL/NPL MBS during the quarter ended June 30, 2020. At June 30, 2020, following the closing of certain financing transactions and our exit from forbearance arrangements, and an evaluation of our anticipated future financing transactions, \$49.9 million of unamortized losses on Swaps previously designated as hedges for accounting purposes was transferred from OCI to earnings, as it was determined that certain financing transactions that were previously expected to be hedged by these Swaps were no longer probable of occurring. In addition, during the quarter ended September 30, 2020, we transferred from AOCI to earnings approximately \$7.2 million of losses on Swaps that had been previously designated as hedges for accounting purposes as we had assessed that the underlying transactions were no longer probable of occurring.

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

Interest Income

Interest income on our residential whole loans held at carrying value increased by \$14.8 million, or 6.1%, for 2020 to \$258.8 million compared to \$244.0 million for 2019. This increase primarily reflects a \$895.3 million increase in the average balance of this portfolio to \$5.3 billion for 2020 from \$4.4 billion for 2019, partially offset by a decrease in the yield (excluding servicing costs) to 4.91% for 2020 from 5.58% for 2019.

Due to previously discussed asset sales and impairment charges, the average amortized cost of our residential mortgage securities portfolio decreased \$4.0 billion to \$1.0 billion for 2020 from \$4.9 billion for 2019 and interest income on our residential mortgage securities portfolio decreased \$220.4 million to \$54.1 million for 2020 from \$274.6 million for 2019. Interest income on our MSR-related assets decreased by \$16.7 million to \$36.0 million for 2020 compared to \$52.6 million for 2019. This decrease primarily reflects a \$519.4 million decrease in the average balance of these investments for 2020 to \$495.6 million compared to \$1.0 billion for 2019, partially offset by an increase in the yield to 7.26% for 2020 from 5.19% for 2019. The yield increased primarily due to the impact of impairment charges recorded during 2020 on the amortized cost of these assets.

Interest Expense

Our interest expense for 2020 decreased by \$63.6 million, or 19.1%, to \$268.8 million, from \$332.4 million for 2019. This decrease primarily reflects a decrease in our average repurchase agreement borrowings to finance our residential mortgage securities portfolio, MSR-related assets and residential whole loans held at fair value partially offset by an increase in our average borrowings to finance residential whole loans held at carrying value and an increase in financing rates on our financing agreements. In addition in 2020, we incurred interest expense of approximately \$16.2 million related to the senior secured credit agreement we entered into during the second quarter of 2020 and higher interest expense of \$6.6 million on our Convertible Senior Notes issued in June 2019. On January 6, 2021, we completed the redemption of our Senior Notes. In connection with this redemption, we recorded in our 2020 interest expense a non-cash charge of approximately \$3.1 million representing remaining unamortized deferred expenses incurred when the Senior Notes were originally issued. The effective interest rate paid on our borrowings increased to 4.24% for 2020, from 3.52% for 2019.

Provision for Credit Losses on Residential Whole Loans Held at Carrying Value and other financial instruments

For 2020, we recorded a provision for credit losses on residential whole loans held at carrying value of \$13.4 million (which includes a provision for credit losses on undrawn commitments of \$1.2 million) compared to a provision of \$2.6 million for 2019. In addition, we recorded a provision for credit losses on other financial instruments of \$9.0 million for 2020. We did not record a provision for credit losses on other financial instruments for 2019. As previously discussed, on January 1, 2020, we adopted the new accounting standard addressing the measurement of credit losses on financial instruments (CECL). With respect to our residential whole loans held at carrying value and other financial instruments, CECL requires that reserves for credit losses are estimated at the reporting date based on expected cash flows over the life of the loan or financial instrument, including anticipated prepayments and reasonable and supportable forecasts of future economic conditions.

Other Income, net

For 2020, Other (Loss)/Income, net decreased by \$832.0 million, to a \$606.1 million loss, compared to \$225.9 million of income for 2019. The components of Other Income, net for the years ended 2020 and 2019 are summarized in the table below:

| (In Thousands) | For the Year Ended December 31, | |
|---|--|-------------------|
| | 2020 | 2019 |
| Impairment and other losses on securities available-for-sale and other assets | \$ (425,082) | \$ (180) |
| Net realized (loss)/ gain on sales of residential mortgage securities and residential whole loans | (188,847) | 62,002 |
| Net gain on residential whole loans measured at fair value through earnings | 94,213 | 158,330 |
| Transfer from OCI of loss on swaps previously designated as hedges for accounting purposes | (57,034) | — |
| Expenses recognized on payoff of Senior secured credit agreement | (25,287) | — |
| Net unrealized (loss)/gain on residential mortgage securities measured at fair value through earnings | (10,486) | 7,080 |
| Liquidation gains on Purchased Credit Deteriorated Loans and other loan related income | 5,945 | 14,711 |
| Other | 457 | (16,086) |
| Total Other (Loss)/Income, net | \$ (606,121) | \$ 225,857 |

Operating and Other Expense

During 2020, we had compensation and benefits and other general and administrative expenses of \$56.7 million, or 2.08% of average equity, compared to \$52.6 million, or 1.55% of average equity, for 2019. Compensation and benefits expense decreased \$1.2 million to \$31.0 million for 2020, compared to \$32.2 million for 2019, primarily reflecting a reduction in annual bonus compensation for the current year period partially offset by a provision for estimated severance costs in connection with a reduction in workforce that occurred in the third quarter of 2020. Our other general and administrative expenses increased by \$5.3 million to \$25.7 million for 2020 compared to \$20.4 million for 2019, primarily due to higher costs for professional services, corporate insurance, administrative expenses associated with financing arrangements, corporate income tax and the write-off of certain internally developed software and deferred financing costs, partially offset by lower costs associated with deferred compensation to Directors in the current year period, which were impacted by the changes in our stock price. In addition, during 2020 we also incurred professional service and other costs of \$44.4 million related to negotiating forbearance arrangements with our lenders entering into new financing arrangements and reinstating prior financing arrangements on the exit from forbearance.

Operating and Other Expense during 2020 also includes \$40.4 million of loan servicing and other related operating expenses related to our residential whole loan activities. These expenses decreased compared to the prior year period by approximately \$1.5 million, primarily due to lower servicing fees and non-recoverable advances on our residential whole loan and REO portfolios, partially offset by costs related to loan securitization activities.

Selected Financial Ratios

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

| At or for the Quarter Ended | Return on Average Total Assets (1) | Return on Average Total Stockholders' Equity (2)(3) | Total Average Stockholders' Equity to Total Average Assets (4) | Dividend Payout Ratio (5) | Leverage Multiple (6) | Book Value per Share of Common Stock (7) | Economic Book Value per Share of Common Stock (8) |
|-----------------------------|------------------------------------|---|--|---------------------------|-----------------------|--|---|
| December 31, 2020 | 2.12 % | 7.24 % | 35.72 % | 0.94 | 1.7 | \$ 4.54 | \$ 4.92 |
| September 30, 2020 | 4.17 | 13.85 | 33.23 | 0.29 | 1.9 | 4.61 | 4.92 |
| June 30, 2020 | 4.33 | 15.70 | 30.08 | — | 2.0 | 4.51 | 4.46 |
| March 31, 2020 | (26.72) | (26.58) | 24.99 | — | 3.4 | 4.34 | 4.09 |
| December 31, 2019 | 2.92 | 11.90 | 25.48 | 0.95 | 3.0 | 7.04 | 7.44 |
| September 30, 2019 | 2.79 | 11.24 | 25.80 | 1.00 | 2.8 | 7.09 | 7.41 |
| June 30, 2019 | 2.74 | 10.91 | 26.13 | 1.00 | 2.8 | 7.11 | 7.40 |
| March 31, 2019 | 2.66 | 10.40 | 26.71 | 1.05 | 2.7 | 7.11 | 7.32 |

(1) Reflects annualized net income available to common stock and participating securities divided by average total assets.

(2) Reflects annualized net income divided by average total stockholders' equity.

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

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

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

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

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

(8) "Economic book value" is a non-GAAP financial measure of our financial position. To calculate our Economic book value, our portfolios of Residential whole loans at carrying value are adjusted to their fair value, rather than the carrying value that is required to be reported under the GAAP accounting model applied to these loans. For additional information please refer to page 54 under the heading "Economic Book Value".

Economic Book Value

"Economic book value" is a non-GAAP financial measure of our financial position. To calculate our Economic book value, our portfolios of Residential whole loans at carrying value are adjusted to their fair value, rather than the carrying value that is required to be reported under the GAAP accounting model applied to these loans. This adjustment is also reflected in the table below in our end of period stockholders' equity. Management considers that Economic book value provides investors

with a useful supplemental measure to evaluate our financial position as it reflects the impact of fair value changes for all of our residential mortgage investments, irrespective of the accounting model applied for GAAP reporting purposes. Economic book value does not represent and should not be considered as a substitute for Stockholders' Equity, as determined in accordance with GAAP, and our calculation of this measure may not be comparable to similarly titled measures reported by other companies.

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

| (In Millions, Except Per Share Amounts) | Quarter Ended: | | | | | | | |
|--|-------------------|--------------------|---------------|----------------|-------------------|--------------------|---------------|----------------|
| | December 31, 2020 | September 30, 2020 | June 30, 2020 | March 31, 2020 | December 31, 2019 | September 30, 2019 | June 30, 2019 | March 31, 2019 |
| GAAP Total Stockholders' Equity | \$ 2,524.8 | \$ 2,565.7 | \$ 2,521.1 | \$ 2,440.7 | \$ 3,384.0 | \$ 3,403.4 | \$ 3,403.4 | \$ 3,404.5 |
| Preferred Stock, liquidation preference | (475.0) | (475.0) | (475.0) | (475.0) | (200.0) | (200.0) | (200.0) | (200.0) |
| GAAP Stockholders' Equity for book value per common share | 2,049.8 | 2,090.7 | 2,046.1 | 1,965.7 | 3,184.0 | 3,203.4 | 3,203.4 | 3,204.5 |
| Adjustments: | | | | | | | | |
| Fair value adjustment to Residential whole loans, at carrying value | 173.9 | 141.1 | (25.3) | (113.5) | 182.4 | 145.8 | 131.2 | 92.1 |
| Stockholders' Equity including fair value adjustment to Residential whole loans, at carrying value (Economic book value) | \$ 2,223.7 | \$ 2,231.8 | \$ 2,020.8 | \$ 1,852.2 | \$ 3,366.4 | \$ 3,349.2 | \$ 3,334.6 | \$ 3,296.6 |
| GAAP book value per common share | \$ 4.54 | \$ 4.61 | \$ 4.51 | \$ 4.34 | \$ 7.04 | \$ 7.09 | \$ 7.11 | \$ 7.11 |
| Economic book value per common share | \$ 4.92 | \$ 4.92 | \$ 4.46 | \$ 4.09 | \$ 7.44 | \$ 7.41 | \$ 7.40 | \$ 7.32 |
| Number of shares of common stock outstanding | 451.7 | 453.3 | 453.2 | 453.1 | 452.4 | 451.7 | 450.6 | 450.5 |

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements include the accounts of all of our subsidiaries. The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements, giving due consideration to materiality. Actual results could differ from these estimates.

Our accounting policies are described in Note 2 to the consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K. Management believes the policies which more significantly rely on estimates and judgments to be as follows:

Allowance for Credit Losses on Residential Whole Loans

An allowance for credit losses is recorded at acquisition, and maintained on an ongoing basis, for all losses expected over the life of the respective loan. Any required credit loss allowance would reduce the net carrying value of the loan with a corresponding charge to earnings, and may increase or decrease over time. Significant judgments are required in determining any allowance for credit loss, including assumptions regarding the loan cash flows expected to be collected, including related economic forecasts, the value of the underlying collateral and our ability to collect on any other forms of security, such as a personal guaranty provided either by the borrower or an affiliate of the borrower.

Fair Value Measurements - Residential Whole Loans

GAAP requires the categorization of fair value measurements into three broad levels that form a hierarchy. The following describes the valuation methodologies used for our financial instrument investments categorized as level 3 in the valuation hierarchy, which require the most significant estimates and judgments to be made.

We determine the fair value of our residential whole loans after considering valuations obtained from a third-party who specializes in providing valuations of residential mortgage loans. The valuation approach applied generally depends on whether the loan is considered performing or non-performing at the date the valuation is performed. For performing loans, estimates of fair value are derived using a discounted cash flow approach, where estimates of cash flows are determined from the scheduled payments, adjusted using forecasted prepayment, default and loss given default rates. For non-performing loans, asset liquidation cash flows are derived based on the estimated time to liquidate the loan, the estimated value of the collateral, expected costs and estimated home price appreciation. Estimated cash flows for both performing and non-performing loans are discounted at yields considered appropriate to arrive at a reasonable exit price for the asset. Indications of loan value such as actual trades, bids, offers and generic market color may be used in determining the appropriate discount yield. Certain business purpose loans, primarily rehabilitation loans with an original loan terms of nine to thirteen months, that are performing are valued at their carrying amount given their relatively short term to maturity and expectation of full repayment. For non-performing rehabilitation loans, adjustments to the carrying value are made to record the loan at estimated fair value based on an evaluation of several factors, including the period the loan has been delinquent, the status of the project and the estimated value of the underlying collateral. The estimation of cash flows used in pricing models is inherently subjective and imprecise. Changes in market conditions, as well as changes in the assumptions or methodology used to determine fair value, could result in a significant increase or decrease in fair value.

Residential whole loans, at fair value are recorded on our consolidated balance sheets at fair value and changes in their fair value are recorded through earnings. With respect to Residential whole loans, at carrying value, the fair value for these loans is disclosed in the footnotes to the consolidated financial statements and changes in their fair value do not impact earnings.

Recent Accounting Standards to Be Adopted in Future Periods

In August 2020, the Financial Accounting Standards Board (or FASB) issued accounting standards update (or ASU) 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40) Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* (or ASU 2020-06). ASU 2020-06 was issued in order to reduce the complexity associated with recording financial instruments with characteristics of both liabilities and equity by eliminating certain accounting models associated with such instruments and enhancing disclosure requirements. ASU 2020-06 is effective for us for fiscal years beginning after December 15, 2021. Early adoption is permitted, but no earlier than in fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. We do not expect ASU 2020-06 to have a material impact on our accounting or disclosures.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of cash generally consist of borrowings under repurchase agreements and other collateralized financings, payments of principal and interest we receive on our investment portfolio, cash generated from our operating results and, to the extent such transactions are entered into, proceeds from capital market and structured financing transactions. Our most significant uses of cash are generally to pay principal and interest on our financing transactions, to purchase residential mortgage assets, to make dividend payments on our capital stock, to fund our operations, to meet margin calls and to make other investments that we consider appropriate.

We seek to employ a diverse capital raising strategy under which we may issue capital stock and other types of securities. To the extent we raise additional funds through capital market transactions, we currently anticipate using the net proceeds from such transactions to acquire additional residential mortgage-related assets, consistent with our investment policy, and for working capital, which may include, among other things, the repayment of our financing transactions. There can be no assurance, however, that we will be able to access the capital markets at any particular time or on any particular terms. We have available for issuance an unlimited amount (subject to the terms and limitations of our charter) of common stock, preferred stock, depository shares representing preferred stock, warrants, debt securities, rights and/or units pursuant to our automatic shelf registration statement and, at December 31, 2020, we had approximately 8.7 million shares of common stock available for issuance pursuant to our DRSP shelf registration statement. During 2020, we issued 235,635 shares of common stock through

our DRSP, raising net proceeds of approximately \$1.0 million. During 2020, we did not sell any shares of common stock through our ATM Program.

On March 2, 2020, we completed the issuance of 11.0 million shares of our Series C Preferred Stock with a par value of \$0.01 per share, and a liquidation preference of \$25.00 per share plus accrued and unpaid dividends, in an underwritten public offering. The total net proceeds we received from the offering were approximately \$266.0 million, after deducting offering expenses and the underwriting discount.

During the year ended December 31, 2020, we repurchased 14,085,678 shares of our common stock through the stock repurchase program at an average cost of \$3.61 per share and a total cost of approximately \$50.8 million, net of fees and commissions paid to the sales agent of approximately \$141,000. In addition, as previously discussed, during the year ended December 31, 2020 we repurchased 17,593,576 warrants for \$33.7 million that were included in the stock repurchase program. At December 31, 2020, approximately \$165.7 million remained outstanding for future repurchases under the repurchase program.

Financing agreements

Our borrowings under financial agreements include a combination of shorter term and longer arrangements. Certain of these arrangements are collateralized directly by our residential mortgage investments or otherwise have recourse to us, while securitized debt financing is non-recourse financing. Further, certain of our financing agreements contain terms that allow the lender to make margin calls on us based on changes in the value of the underlying collateral securing the borrowing. As of December 31, 2020, we had \$1.3 billion of total unpaid principal balance related to asset-backed financing agreements with mark-to-market collateral provisions and \$2.7 billion of total unpaid principal balance related to asset-backed financing agreements that do not include mark-to-market collateral provisions. Repurchase agreements and other forms of collateralized financing are renewable at the discretion of our lenders and, as such, our lenders could determine to reduce or terminate our access to future borrowings at virtually any time. The terms of the repurchase transaction borrowings under our master repurchase agreements, as such terms relate to repayment, margin requirements and the segregation of all securities that are the subject of repurchase transactions, generally conform to the terms contained in the standard master repurchase agreement published by the Securities Industry and Financial Markets Association (or SIFMA) or the global master repurchase agreement published by SIFMA and the International Capital Market Association. In addition, each lender typically requires that we include supplemental terms and conditions to the standard master repurchase agreement. Typical supplemental terms and conditions, which differ by lender, may include changes to the margin maintenance requirements, required haircuts (or the percentage amount by which the collateral value is contractually required to exceed the loan amount), purchase price maintenance requirements, requirements that all controversies related to the repurchase agreement be litigated in a particular jurisdiction and cross default and setoff provisions. Other non-repurchase agreement financing arrangements also contain provisions governing collateral maintenance.

With respect to margin maintenance requirements for agreements secured by harder to value assets, such as residential whole loans, Non-Agency MBS and MSR-related assets, margin calls are typically determined by our counterparties based on their assessment of changes in the fair value of the underlying collateral and in accordance with the agreed upon haircuts specified in the transaction confirmation with the counterparty. We address margin call requests in accordance with the required terms specified in the applicable agreement and such requests are typically satisfied by posting additional cash or collateral on the same business day. We review margin calls made by counterparties and assess them for reasonableness by comparing the counterparty valuation against our valuation determination. When we believe that a margin call is unnecessary because our assessment of collateral value differs from the counterparty valuation, we typically hold discussions with the counterparty and are able to resolve the matter. In the unlikely event that resolution cannot be reached, we will look to resolve the dispute based on the remedies available to us under the terms of the repurchase agreement, which in some instances may include the engagement of a third party to review collateral valuations. For certain other agreements that do not include such provisions, we could resolve the matter by substituting collateral as permitted in accordance with the agreement or otherwise request the counterparty to return the collateral in exchange for cash to unwind the financing. For additional information regarding our various types of financing arrangements, including those with non mark-to-market terms and the haircuts for those agreements with mark-to-market collateral provisions, see Note 6 to the consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.

We expect that we will continue to pledge residential mortgage assets as part of certain of our ongoing financing arrangements. When the value of our residential mortgage assets pledged as collateral experiences rapid decreases, margin calls under our financing arrangements could materially increase, causing an adverse change in our liquidity position. Additionally, if one or more of our financing counterparties choose not to provide ongoing funding, our ability to finance our long-maturity assets would decline or otherwise become available on possibly less advantageous terms. Further, when liquidity tightens, our

counterparties to our short term arrangements with mark-to-market collateral provisions may increase their required collateral cushion (or margin) requirements on new financings, including financings that we roll with the same counterparty, thereby reducing our ability to use leverage. Access to financing may also be negatively impacted by ongoing volatility in financial markets, thereby potentially adversely impacting our current or future lenders' ability or willingness to provide us with financing. In addition, there is no assurance that favorable market conditions will exist to permit us to consummate additional securitization transactions if we determine to seek that form of financing.

Our ability to meet future margin calls will be affected by our ability to use cash or obtain financing from unpledged collateral, the amount of which can vary based on the market value of such collateral, our cash position and margin requirements. Our cash position fluctuates based on the timing of our operating, investing and financing activities and is managed based on our anticipated cash needs. (See "Interest Rate Risk" included under Item 7A. of this Annual Report on Form 10-K and our Consolidated Statements of Cash Flows, included under Item 8 of this Annual Report on Form 10-K.)

At December 31, 2020, we had a total of \$4.1 billion of residential whole loans, residential mortgage securities and MSR-related assets and \$7.2 million of restricted cash pledged to our financing counterparties. At December 31, 2020, we had access to various sources of liquidity including \$814.4 million of cash and cash equivalents. Our sources of liquidity do not include restricted cash. In addition, at December 31, 2020, we had \$61.9 million of unencumbered residential whole loans. Further, we believe that we have unused capacity in certain borrowing lines, given that the amount currently borrowed is less than the maximum advance rate permitted by the facility. This unused capacity serves to act as a buffer against potential margin calls on certain pledged assets in the event that asset prices do not decline by more than a specified amount.

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

| Quarter Ended (1) | Asset-backed Financing | | | Securitized Debt | | |
|--------------------|---------------------------|-----------------------|----------------------------------|---------------------------|-----------------------|----------------------------------|
| | Quarterly Average Balance | End of Period Balance | Maximum Balance at Any Month-End | Quarterly Average Balance | End of Period Balance | Maximum Balance at Any Month-End |
| (In Thousands) | | | | | | |
| December 31, 2020 | \$ 2,833,649 | \$ 2,497,290 | \$ 2,823,306 | \$ 1,202,292 | \$ 1,514,509 | \$ 1,514,509 |
| September 30, 2020 | 3,511,453 | 3,217,678 | 3,613,968 | 610,120 | 837,683 | 837,683 |
| June 30, 2020 | 4,736,610 | 3,692,845 | 5,024,926 | 538,245 | 516,102 | 541,698 |
| March 31, 2020 | 9,233,808 | 7,768,180 | 9,486,555 | 558,007 | 533,733 | 594,458 |
| December 31, 2019 | 8,781,646 | 9,139,821 | 9,139,821 | 590,813 | 570,952 | 594,458 |
| September 30, 2019 | 8,654,350 | 8,571,422 | 8,833,159 | 617,689 | 605,712 | 621,071 |
| June 30, 2019 | 8,621,895 | 8,630,642 | 8,639,311 | 645,972 | 627,487 | 649,405 |
| March 31, 2019 | 8,282,621 | 8,509,713 | 8,509,713 | 675,678 | 659,184 | 679,269 |
| December 31, 2018 | 7,672,309 | 7,879,087 | 7,879,087 | 699,207 | 684,420 | 702,377 |
| September 30, 2018 | 6,594,050 | 7,278,270 | 7,278,270 | 665,572 | 714,203 | 744,521 |
| June 30, 2018 | 6,189,916 | 5,892,228 | 6,319,178 | 432,283 | 518,655 | 523,490 |
| March 31, 2018 | 6,519,390 | 6,558,860 | 6,558,860 | 357,819 | 351,278 | 361,002 |

(1) The information presented in the table above excludes \$230.0 million of Convertible Senior Notes issued in June 2019 and \$100.0 million of Senior Notes issued in April 2012. The outstanding balance of both the Convertible Senior Notes and Senior Notes have been unchanged since issuance. Subsequent to the end of the third quarter of 2020, we repaid in full the outstanding principal balance of the senior secured term loan facility. Subsequent to the end of the fourth quarter of 2020, we redeemed all of our outstanding Senior Notes.

Cash Flows and Liquidity for the Year Ended December 31, 2020

Our cash, cash equivalents and restricted cash increased by \$686.9 million during the year ended December 31, 2020, reflecting: \$6.4 billion provided by our investing activities, \$5.7 billion used in our financing activities and \$38.4 million provided by our operating activities.

At December 31, 2020, our debt-to-equity multiple was 1.7 times compared to 3.0 times at December 31, 2019. At December 31, 2020, we had borrowings under asset-backed financing agreements of \$2.5 billion of which \$2.3 billion were secured by residential whole loans, and \$213.9 million were secured by residential mortgage securities and MSR-related assets. In addition, at December 31, 2020, we had securitized debt of \$1.5 billion in connection with our loan securitization transactions. At December 31, 2019, we had borrowings under asset-backed financing agreements of \$9.1 billion, of which \$4.7 billion were secured by residential whole loans, \$1.6 billion were secured by Agency MBS, \$1.1 billion were secured by Legacy Non-Agency MBS, \$495.1 million were secured by RPL/NPL MBS, \$203.6 million were secured by CRT securities, \$962.5 million were secured by MSR-related assets and \$57.2 million were secured by other interest-earning assets. In addition, at December 31, 2019, we had securitized debt of \$571.0 million in connection with our loan securitization transactions.

During 2020, \$6.4 billion was provided by our investing activities. We paid \$1.5 billion for purchases of residential whole loans, loan related investments and capitalized advances, and purchased \$163.7 million of Residential mortgage securities and MSR-related assets. In addition, during 2020, we received cash of \$633.2 million from prepayments and scheduled amortization on our Residential mortgage securities and MSR-related assets, and we sold certain of our investment securities, MSR-related assets, and other assets for \$3.8 billion, realizing net gains of \$85.0 million. While we generally intend to hold our MBS and CRT securities as long-term investments, we may sell certain of our securities in order to manage our interest rate risk and liquidity needs, meet other operating objectives and adapt to market conditions. In particular, during 2020, we sold our remaining Agency MBS and Legacy Non-Agency MBS portfolios and substantially reduced our investments in MSR-related assets and CRT securities. During 2020, we received \$1.8 billion of principal payments on residential whole loans and loan related investments and \$279.8 million of proceeds on sales of REO.

In connection with our repurchase agreement financing and Swaps (if any), we routinely receive margin calls/reverse margin calls from our counterparties and make margin calls to our counterparties. Margin calls and reverse margin calls, which requirements vary over time, may occur daily between us and any of our counterparties when the value of collateral pledged changes from the amount contractually required. The value of securities pledged as collateral fluctuates reflecting changes in: (i) the face (or par) value of our assets; (ii) market interest rates and/or other market conditions; and (iii) the market value of our Swaps. Margin calls/reverse margin calls are satisfied when we pledge/receive additional collateral in the form of additional assets and/or cash.

The table below summarizes our margin activity with respect to our repurchase agreement financings and derivative hedging instruments for the quarterly periods presented:

| For the Quarter Ended (1) | Collateral Pledged to Meet Margin Calls | | | | |
|---------------------------|---|--------------|---|---|---|
| | Fair Value of Securities Pledged | Cash Pledged | Aggregate Assets Pledged For Margin Calls | Cash and Securities Received for Reverse Margin Calls | Net Assets Received/(Pledged) for Margin Activity |
| (In Thousands) | | | | | |
| December 31, 2020 | \$ — | \$ 2,004 | \$ 2,004 | \$ — | \$ (2,004) |
| September 30, 2020 | — | 2,526 | 2,526 | 2,199 | (327) |
| June 30, 2020 | — | 108,999 | 108,999 | 322,682 | 213,683 |
| March 31, 2020 | 30,187 | 213,392 | 243,579 | 67,343 | (176,236) |

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

We are subject to various financial covenants under our financing agreements, which include minimum liquidity and net worth requirements, net worth decline limitations and maximum debt-to-equity ratios. We were in compliance with all financial covenants through December 31, 2020.

During 2020, we paid \$113.5 million for cash dividends on our common stock and dividend equivalents and paid cash dividends of \$29.8 million on our preferred stock. On December 17, 2020, we declared our fourth quarter 2020 dividend on our common stock of \$0.075 per share; on January 29, 2021, we paid this dividend, which totaled approximately \$34.0 million, including dividend equivalents of approximately \$137,000.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We seek to manage our risks related to interest rates, liquidity, prepayment speeds, market value and the credit quality of our assets while, at the same time, seeking to provide an opportunity to stockholders to realize attractive total returns through ownership of our capital stock. While we do not seek to avoid risk, we seek, consistent with our investment policies, to: assume risk that can be quantified based on management's judgment and experience and actively manage such risk; earn sufficient returns to justify the taking of such risks; and maintain capital levels consistent with the risks that we undertake.

INTEREST RATE RISK

We generally acquire interest-rate sensitive assets and fund them with interest-rate sensitive liabilities, a portion of which are typically hedged with Swaps. We are exposed to interest rate risk on our residential mortgage assets, as well as on our liabilities. Changes in interest rates can affect our net interest income and the fair value of our assets and liabilities.

In general, when interest rates change, borrowing costs on our financing agreements will change more quickly than the yield on our assets. In a rising interest rate environment, the borrowing costs of our repurchase agreements may increase faster than the interest income on our assets, thereby reducing our net income. In order to mitigate compression in net income based on such interest rate movements, we may use Swaps to lock in a portion of the net interest spread between assets and liabilities.

When interest rates change, the fair value of our residential mortgage assets could change at a different rate than the fair value of our liabilities. We measure the sensitivity of our portfolio to changes in interest rates by estimating the duration of our assets and liabilities. Duration is the approximate percentage change in fair value for a 100 basis point parallel shift in the yield curve. In general, our assets have higher duration than our liabilities and in order to reduce this exposure we use Swaps to reduce the gap in duration between our assets and liabilities.

The fair value of our re-performing residential whole loans is dependent on the value of the underlying real estate collateral, past and expected delinquency status of the borrower as well as the level of interest rates. For certain residential whole loans that were purchased as re-performing loans, because the borrower is not delinquent on their mortgage payments but is less likely to prepay the loan due to weak credit history and/or high LTV, we believe these loans exhibit positive duration. We estimate the duration of our re-performing residential whole loans using management's assumptions.

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

The fair value of our non-performing residential whole loans is typically primarily dependent on the value of the underlying real estate collateral and the time required for collateral liquidation. Since neither the value of the collateral nor the liquidation timeline is generally sensitive to interest rates, we believe their fair value exhibits little sensitivity to interest rates. We estimate the duration of our non-performing residential whole loans using management's assumptions.

The interest rates for the vast majority of our investments, financings and hedging transactions are either explicitly or indirectly based on LIBOR. At present, it is not possible to predict the effect of such change, including the establishment of potential alternative reference rates, on the economy or markets we are active in either currently or in the future, or on any of our assets or liabilities whose interest rates are based on LIBOR. We are in the process of evaluating the potential impact of a discontinuation of LIBOR on our portfolio, as well as the related accounting impact. However, we expect that in the near term, we will work closely with the Trustee companies and/or other entities that are involved in calculating the interest rates for our residential mortgage securities and securitized debt, our loan servicers for our hybrid and floating rate loans, and with the various counterparties to our financing and hedging transactions in order to determine what changes, if any, are required to be made to existing agreements for these transactions.

Shock Table

The information presented in the following “Shock Tables” projects the potential impact of sudden parallel changes in interest rates on our net interest income and portfolio value, including the impact of Swaps (if any), over the next 12 months based on the assets in our investment portfolio at December 31, 2020 and 2019. All changes in income and value are measured as the percentage change from the projected net interest income and portfolio value under the base interest rate scenario at December 31, 2020 and 2019.

December 31, 2020

| Change in Interest Rates (Dollars in Thousands) | Estimated Value of Assets (1) | Estimated Value Securitized and Other Fixed Rate Debt | Estimated Value of Financial Instruments | Change in Estimated Value | Percentage Change in Net Interest Income | Percentage Change in Portfolio Value |
|--|-------------------------------|---|--|---------------------------|--|--------------------------------------|
| +100 Basis Point Increase | \$ 6,858,041 | \$ 34,247 | \$ 6,892,288 | \$ (123,596) | 6.27 % | (1.76) % |
| + 50 Basis Point Increase | \$ 6,943,725 | \$ 16,231 | \$ 6,959,956 | \$ (55,928) | 3.10 % | (0.80) % |
| Actual at December 31, 2020 | \$ 7,017,668 | \$ (1,784) | \$ 7,015,884 | \$ — | — | — |
| - 50 Basis Point Decrease | \$ 7,079,872 | \$ (19,800) | \$ 7,060,072 | \$ 44,188 | (3.87) % | 0.63 % |
| -100 Basis Point Decrease | \$ 7,130,336 | \$ (37,815) | \$ 7,092,521 | \$ 76,637 | (8.03) % | 1.09 % |

December 31, 2019

| Change in Interest Rates (Dollars in Thousands) | Estimated Value of Assets (1) | Estimated Value of Swaps | Estimated Value of Financial Instruments | Change in Estimated Value | Percentage Change in Net Interest Income | Percentage Change in Portfolio Value |
|--|-------------------------------|--------------------------|--|---------------------------|--|--------------------------------------|
| +100 Basis Point Increase | \$ 13,336,868 | \$ 25,982 | \$ 13,362,850 | \$ (225,169) | (3.63) % | (1.66) % |
| + 50 Basis Point Increase | \$ 13,486,554 | \$ (792) | \$ 13,485,762 | \$ (102,257) | (1.51) % | (0.75) % |
| Actual at December 31, 2019 | \$ 13,615,584 | \$ (27,565) | \$ 13,588,019 | \$ — | — | — |
| - 50 Basis Point Decrease | \$ 13,723,957 | \$ (54,339) | \$ 13,669,618 | \$ 81,599 | 1.26 % | 0.60 % |
| -100 Basis Point Decrease | \$ 13,811,673 | \$ (81,113) | \$ 13,730,560 | \$ 142,541 | 2.01 % | 1.05 % |

(1) Such assets include residential whole loans and REO, MBS and CRT securities, MSR-related assets, cash and cash equivalents and restricted cash.

Certain assumptions have been made in connection with the calculation of the information set forth in the Shock Table and, as such, there can be no assurance that assumed events will occur or that other events will not occur that would affect the outcomes. The base interest rate scenario assumes interest rates at December 31, 2020 and 2019. The analysis presented utilizes assumptions and estimates based on management’s judgment and experience. Furthermore, while we generally expect to retain the majority of our assets and the associated interest rate risk to maturity, future purchases and sales of assets could materially change our interest rate risk profile. It should be specifically noted that the information set forth in the above table and all related disclosure constitute forward-looking statements within the meaning of Section 27A of the 1933 Act and Section 21E of the 1934 Act. Actual results could differ significantly from those estimated in the Shock Table above.

The Shock Table quantifies the potential changes in net interest income and portfolio value, which includes the value of our Swaps (if any) and securitized and other fixed rate date (which are carried at fair value), should interest rates immediately change (i.e., are shocked). The Shock Table presents the estimated impact of interest rates instantaneously rising 50 and 100 basis points, and falling 50 and 100 basis points. The cash flows associated with our portfolio for each rate shock are calculated based on assumptions, including, but not limited to, prepayment speeds, yield on replacement assets, the slope of the yield curve and composition of our portfolio. Assumptions made with respect to the interest rate sensitive liabilities include anticipated interest rates, collateral requirements as a percent of repurchase agreement financings, and the amounts and terms of borrowing. At December 31, 2020 and 2019, we applied a floor of 0% for all anticipated interest rates included in our assumptions. Due to this floor, it is anticipated that any hypothetical interest rate shock decrease would have a limited positive impact on our funding costs; however, because prepayments speeds are unaffected by this floor, it is expected that any increase in our prepayment speeds (occurring as a result of any interest rate shock decrease or otherwise) could result in an acceleration of premium amortization on our Agency MBS and discount accretion on our Non-Agency MBS and in the reinvestment of principal repayments in lower yielding assets. As a result, because the presence of this floor limits the positive impact of

interest rate decrease on our funding costs, hypothetical interest rate shock decreases could cause a decline in the fair value of our financial instruments and our net interest income.

At December 31, 2020, the impact on portfolio value was approximated using estimated net effective duration (i.e., the price sensitivity to changes in interest rates), including the effect of securitized and other fixed rate debt, of 1.43, which is the weighted average of 2.42 for our Residential whole loans, 0.75 for our Non-Agency investments, (2.11) for our securitized debt and other fixed rate debt, and 0.06 for our Other assets and cash and cash equivalents. Estimated convexity (i.e., the approximate change in duration relative to the change in interest rates) of the portfolio was (0.67), which is the weighted average of (0.85) for our Residential whole loans, zero for our securitized and other fixed rate debt, zero for our Non-Agency MBS, and zero for our Other assets and cash and cash equivalents. At December 31, 2019, the impact on portfolio value was an approximated using estimated net effective duration (i.e., the price sensitivity to changes in interest rates), including the effect of Swaps and securitized debt and other fixed rate debt, of 1.36, which is the weighted average of 1.50 for our Agency MBS, 0.94 for our Non-Agency investments, 2.35 for our Residential whole loans, (1.32) for our Swaps and securitized debt and other fixed rate debt, and 0.18 for our Other assets and cash and cash equivalents. Estimated convexity (i.e., the approximate change in duration relative to the change in interest rates) of the portfolio was (0.61), which is the weighted average of (0.61) for our Agency MBS, zero for our Swaps and securitized debt and other fixed rate debt, (0.12) for our Non-Agency MBS, (0.89) for our Residential whole loans, and zero for our Other assets and cash and cash equivalents. The impact on our net interest income is driven mainly by the difference between portfolio yield and cost of funding of our repurchase agreements. Our asset/liability structure is generally such that an increase in interest rates would be expected to result in a decrease in net interest income, as our borrowings are generally shorter in term than our interest-earning assets. When interest rates are shocked, prepayment assumptions are adjusted based on management's expectations along with the results from the prepayment model.

CREDIT RISK

We are exposed to credit risk through our credit sensitive residential mortgage investments, in particular residential whole loans and CRT securities and to a lesser extent our investments in RPL/NPL MBS and MSR-related assets. As discussed above, during 2020 we engaged in asset sales and took other actions that significantly changed our asset composition. As a result, our primary credit risk currently relates to our residential whole loans.

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

Residential Whole Loans

We are exposed to credit risk from our investments in residential whole loans. (See Part I, Item 1A., "Risk Factors - Credit and Other Risks Related to our Investments" of this Annual Report on Form 10-K). Our investment process for non-performing and Purchased Credit Deteriorated Loans is focused on quantifying and pricing credit risk. Non-Performing and Purchased Credit Deteriorated Loans are acquired at purchase prices that are generally discounted to the contractual loan balances based on a number of factors, including the impaired credit history of the borrower and the value of the collateral securing the loan. In addition, as we generally own the mortgage-servicing rights associated with these loans, our process is also focused on selecting a sub-servicer with the appropriate expertise to mitigate losses and maximize our overall return. This involves, among other things, performing due diligence on the sub-servicer prior to their engagement as well as ongoing oversight and surveillance. To the extent that delinquencies and defaults on these loans are higher than our expectation at the time the loans were purchased, the discounted purchase price at which the asset is acquired is intended to provide a level of protection against financial loss.

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

The following table presents certain information about our Residential whole loans, at carrying value at December 31, 2020:

| (Dollars in Thousands) | Purchased Performing Loans | | Purchased Credit Deteriorated Loans | | Total |
|--|----------------------------|------------|-------------------------------------|------------|--------------|
| | Loans with an LTV: | | Loans with an LTV: | | |
| | 80% or Below | Above 80% | 80% or Below | Above 80% | |
| Amortized cost | \$ 3,399,481 | \$ 122,143 | \$ 432,695 | \$ 241,013 | \$ 4,195,332 |
| Unpaid principal balance (UPB) | \$ 3,344,402 | \$ 122,697 | \$ 479,677 | \$ 302,642 | \$ 4,249,418 |
| Weighted average coupon (1) | 6.0 % | 6.4 % | 4.4 % | 4.5 % | 5.8 % |
| Weighted average term to maturity (months) | 279 | 335 | 270 | 313 | 282 |
| Weighted average LTV (2) | 62.8 % | 87.5 % | 56.6 % | 107.1 % | 65.9 % |
| Loans 90+ days delinquent (UPB) | \$ 301,226 | \$ 8,857 | \$ 71,913 | \$ 73,115 | \$ 455,111 |

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

(2) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated "after repaired" value of the collateral securing the related loan, where available. For certain Rehabilitation loans, totaling \$189.9 million, an after repaired valuation was not obtained and the loan was underwritten based on an "as is" valuation. The LTV of these loans based on the current unpaid principal balance and the valuation obtained during underwriting, is 68%. Excluded from the calculation of weighted average LTV are certain low value loans secured by vacant lots, for which the LTV ratio is not meaningful.

The following table presents the five largest geographic concentrations by state of our residential whole loan portfolio at December 31, 2020:

| Property Location | Percent of Interest-Bearing Unpaid Principal Balance |
|-------------------|--|
| California | 35.1 % |
| Florida | 13.4 % |
| New York | 7.9 % |
| New Jersey | 5.4 % |
| Texas | 3.1 % |

RPL/NPL MBS

These securities are backed by re-performing and non-performing loans, were purchased primarily at prices around par and represent the senior and mezzanine tranches of the related securitizations. The majority of these securities are structured with significant credit enhancement (typically approximately 50%) and the subordinate tranches absorb all credit losses (until those tranches are extinguished) and typically receive no cash flow (interest or principal) until the senior tranche is paid off. Prior to purchase, we analyze the deal structure in order to assess the associated credit risk. Subsequent to purchase, the ongoing credit risk associated with the deal is evaluated by analyzing the extent to which actual credit losses occur that result in a reduction in the amount of subordination enjoyed by our bond.

CRT Securities

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

MSR-Related Assets

Term Notes

We have invested in certain term notes that are issued by special purpose vehicles (or SPVs) that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. Payment of principal and interest on these term notes is considered by us to be largely dependent on the cash flows generated by the underlying MSRs as this impacts the cash flows available to the SPV that issued the term notes. Credit risk borne by the holders of the term notes is also mitigated by structural credit support in the form of over-collateralization. In addition, credit support is also provided by a corporate guarantee from the ultimate parent or sponsor of the SPV that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the underlying MSRs be insufficient.

Credit Spread Risk

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

LIQUIDITY RISK

The primary liquidity risk we face arises from financing long-maturity assets with shorter-term borrowings primarily in the form of repurchase agreement financings. This risk was particularly pronounced during the first quarter of 2020, as conditions created by the COVID-19 pandemic resulted in us receiving an unusually high number of margin calls, negatively impacting our overall liquidity and ultimately leading us to enter into the forbearance agreements. During the period that our lenders granted us forbearance, we renegotiated several of our repurchase financing facilities and entered into new financing agreements that either did not have mark-to-market collateral maintenance provisions or included collateral maintenance provisions that would only require to post additional collateral in the event of very large changes in the value of the underlying collateral. In addition, subsequent to our exit from forbearance, we have increased our use of non-recourse financing in the form of loan securitization. As a result, at December 31, 2020, only 30.9% of our financing agreements are shorter term repurchase agreements that contain mark-to-mark collateral provisions.

We pledge residential mortgage assets and cash to secure our financing agreements. Our financing agreements with mark-to-market collateral provisions require us to pledge additional collateral in the event the market value of the assets pledged decreases, in order maintain the lenders contractually specified collateral cushion, which is measured as the difference between the loan amount and the market value of the asset pledged as collateral. Should the value of our residential mortgage assets pledged as collateral suddenly decrease, margin calls under our repurchase agreements would likely increase, causing an adverse change in our liquidity position. Additionally, if one or more of our financing counterparties chose not to provide ongoing funding, our ability to finance our long-maturity assets would decline or be available on possibly less advantageous terms. Further, when liquidity tightens, our repurchase agreement counterparties may increase our collateral cushion (or margin) requirements on new financings, including repurchase agreement borrowings that we roll with the same counterparty, reducing our ability to use leverage.

At December 31, 2020, we had access to various sources of liquidity including \$814.4 million of cash and cash equivalents. Our sources of liquidity do not include restricted cash. In addition, at December 31, 2020 we had \$61.9 million of unencumbered residential whole loans. Further, we believe that we have unused capacity in certain borrowing lines, given that the amount currently borrowed is less than the maximum advance rate permitted by the facility. This unused capacity serves to act as a buffer against potential margin calls on certain pledged assets in the events that asset prices do not decline by more than a specified amount.

PREPAYMENT RISK

Premiums arise when we acquire an MBS or loan at a price in excess of the aggregate principal balance of the mortgages securing the MBS (i.e., par value) or when we acquire residential whole loans at a price in excess of their aggregate principal balance. Conversely, discounts arise when we acquire an MBS or loan at a price below the aggregate principal balance of the mortgages securing the MBS or when we acquire residential whole loans at a price below their aggregate principal balance. Premiums paid are amortized against interest income and accretable purchase discounts on these investments are accreted to interest income. Purchase premiums, which are primarily carried on our Non-QM loans and certain CRT securities, are amortized against interest income over the life of the investment using the effective yield method, adjusted for actual prepayment activity. An increase in the prepayment rate, as measured by the CPR, will typically accelerate the amortization of purchase premiums, thereby reducing the interest income earned on these assets. Generally, if prepayments on Non-Agency MBS and residential whole loans purchased at significant discounts and not accounted for at fair value are less than anticipated, we expect that the income recognized on these assets will be reduced and impairments and/or credit loss reserves may result.

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

Item 8. Financial Statements and Supplementary Data.

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All other financial statement schedules are omitted because the required information is not applicable or deemed not material, or the required information is included in the consolidated financial statements and/or notes thereto.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

MFA Financial, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of MFA Financial, Inc. and subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income/(loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes and Schedule IV – Mortgage Loans on Real Estate (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 23, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2020 due to the adoption of ASC Topic 326, *Financial Instruments – Credit Losses*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Assessment of the allowance for credit losses on residential whole loans held at carrying value

As discussed in Notes 2 and 3 to the consolidated financial statements, the Company adopted ASU No. 2016-13, Financial Instruments — Credit Losses (ASC Topic 326), as of January 1, 2020, and the Company's total allowance for credit losses on residential whole loans held at carrying value as of December 31, 2020 was \$86.8 million (the December 31, 2020 ACL). The Company estimated the December 31, 2020 ACL using a current expected credit losses methodology for each of its loan portfolio segments which is based on relevant information about historical experience, current conditions, and reasonable and

supportable forecasts that affect the collectability of the loan balances, specific to the Company's loan portfolio segments grouped by shared risk characteristics which include Non-Qualified Mortgages (non-QM loans), Rehabilitation loans, Single-Family Rental loans, Seasoned Performing loans, and Purchased Credit Deteriorated loans. These expected credit losses are generally calculated based on the estimated probability of default and loss severity of loans in the portfolio, which involves projecting each loan's expected cash flows based on their contractual terms, expected prepayments, and estimated default and loss severity rates. These results were not discounted. The default and loss severity rates were estimated based on the following steps: (i) obtaining historical experience through an entire economic cycle for each loan type or, to the extent the sufficient historical loss experience for a given loan type was not available, publicly available data derived from the historical loss experience of certain banks deemed generally representative of the portfolio, (ii) obtaining historical economic data (U.S. unemployment rates and home price appreciation) over the same period, and (iii) estimating default and loss severity rates during three distinct future periods based on historical default and loss severity rates during periods when economic conditions similar to those forecasted were experienced. The default and severity rates were applied to the estimated amount of loans outstanding during each future period, based on contractual terms and expected prepayments. Expected prepayments are estimated based on historical experience and current and expected future economic conditions, including market interest rates. The three future periods included: (i) a one-year forecast of economic conditions based on U.S. unemployment rates and home price appreciation, followed by (ii) a two-year reversion period during which economic conditions (U.S. unemployment rates and home price appreciation) are projected to revert to historical averages on a straight line basis, followed by (iii) the remaining life of each loan, during which period economic conditions (U.S. unemployment rates and home price appreciation) are projected to equal historical averages. The Company forecasts future economic conditions based on forecasts provided by an external preparer of economic forecasts, as well as its own knowledge of the market and its portfolio. The Company generally considers multiple scenarios and selects the one that it believes results in the most reasonable estimate of expected losses. The Company may apply qualitative adjustments to these expected loss estimates, which are determined based on a variety of factors, including differences between the Company's loan portfolio and the loan portfolios represented by available proxy data, and differences between current (and expected future) market conditions in comparison to market conditions that occurred in historical periods.

We identified the assessment of the December 31, 2020 ACL associated with the Company's non-QM loans, Rehabilitation loans, and Purchased Credit Deteriorated loans as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, and subjective and complex auditor judgment was involved in the assessment of the December 31, 2020 ACL for these loans due to significant measurement uncertainty. Specifically, the assessment encompassed the evaluation of the December 31, 2020 ACL methodology, including the methods and models used to estimate the expected prepayments and default and loss severity rates and their significant assumptions. Such significant assumptions included the economic forecast scenario and macroeconomic assumptions, the reasonable and supportable forecast periods, the composition of the publicly available data derived from the historical loss experience of certain banks, and the historical experience period. The assessment also included the evaluation of the qualitative factors and their significant assumptions. Such significant assumptions were sensitive to variation, such that minor changes in the assumption can cause significant changes in the estimates. The assessment also included an evaluation of the conceptual soundness and performance of the prepayment, default and loss severity models. In addition, auditor judgment was required to evaluate the sufficiency of audit evidence obtained.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of the December 31, 2020 ACL estimate, including controls over the:

- development of the ACL methodology
- development of the prepayment, default and loss severity models
- identification and determination of the significant assumptions used in the prepayment, default and loss severity models
- development of the qualitative factors, including the significant assumptions used in the measurement of the qualitative factors
- analysis of the ACL results, trends, and ratios.

We evaluated the Company's process to develop the December 31, 2020 ACL estimate by testing certain sources of data, factors, and assumptions that the Company used, and considered the relevance and reliability of such data, factors, and assumptions. In addition, we involved credit risk professionals with specialized skills and knowledge, who assisted in:

- evaluating the Company's ACL methodology for compliance with U.S. generally accepted accounting principles

- evaluating judgments made by the Company relative to the development and performance testing of the prepayment, default and loss severity models by comparing them to relevant Company-specific metrics and trends and the applicable industry and regulatory practices
- assessing the conceptual soundness and performance testing of the prepayment, default and loss severity models by inspecting the model documentation to determine whether the models are suitable for their intended use
- evaluating the methodology used to develop the economic forecast scenarios and underlying macroeconomic assumptions by comparing it to the Company's business environment and relevant industry practices
- evaluating the economic forecast scenario selected through comparison to publicly available forecasts
- evaluating the length of the historical experience period and reasonable and supportable forecast periods by comparing them to specific portfolio risk characteristics and trends
- assessing the composition of the publicly available data derived from the historical loss experience of certain banks by comparing to specific portfolio risk characteristics
- evaluating the methodology used to develop the qualitative factors and the effect of those factors on the ACL compared with relevant credit risk factors and consistency with credit trends and identified limitations of the underlying quantitative models.

We also assessed the sufficiency of the audit evidence obtained related to the December 31, 2020 ACL by evaluating the:

- cumulative results of the audit procedures
- qualitative aspects of the Company's accounting practices
- potential bias in the accounting estimates.

Assessment of the valuation of residential whole loans, at fair value

As discussed in Notes 2, 3 and 14 to the consolidated financial statements, the Company records certain residential whole loans at fair value on its consolidated balance sheet as a result of a fair value election made at the time of acquisition. As of December 31, 2020, the recorded balance of the Company's residential whole loans, at fair value was \$1.2 billion. The Company determines the fair value of its residential whole loans held at fair value after considering valuations obtained from a third-party that specializes in providing valuations on residential mortgage loans. The valuation approach depends on whether the loan is considered performing or non-performing at the valuation date. For performing loans, estimates of fair value are derived using a discounted cash flow approach, where estimates of cash flows are determined from the scheduled payments, adjusted using third party derived assumptions for forecasted prepayment, default and loss given default rates. For non-performing loans, asset liquidation cash flows are derived based on third party derived assumptions, including the property's appraised value, estimated time to liquidate the loan, expected liquidation costs, and home price index. Estimated cash flows for both performing and non-performing loans are discounted using yields to arrive at an exit price for the asset.

We identified the assessment of the valuation of residential whole loans, at fair value as a critical audit matter. A high degree of audit effort, including specialized skills and knowledge, was involved in determining the estimate assumptions, including the forecasted prepayment, default and loss given default rates, property appraised value, estimated time to liquidate the loan, expected liquidation costs, and home price index, which are not readily observable in the market and subject to significant measurement uncertainty. The evaluation of the assumptions to determine the valuation of residential whole loans, at fair value, required subjective and complex auditor judgement as the assumptions used were sensitive to variation, such that minor changes in home prices and/or credit quality of the borrower can cause significant changes in the estimate.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's measurement of residential whole loans, at fair value. We involved valuation professionals with specialized skills and knowledge who assisted in evaluating the Company's internal controls specific to the (1) assessment of whether the third-party aforementioned derived assumptions used to determine the fair value reflect those which a market participant would use to determine an exit price in the current market environment and (2) assessment of the third-party developed valuation techniques and models.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

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- evaluating the methodology and assumptions used to determine the property appraised value used by the Company for a sample of residential whole loans at fair value
- evaluating that the methodology used by the Company in determining the property appraised value is in accordance with U.S. GAAP
- developing a fair value estimate for a sample of residential whole loans at fair value using the evaluated property appraised value, estimated time to liquidate the loan, expected liquidation costs, and home price index assumptions used by the Company and publicly available external market data collectively with independently developed valuation models and/or inputs and comparing the results of our estimate of fair value to the Company's fair value estimate.

/s/ KPMG LLP

We have served as the Company's auditor since 2011.

New York, New York
February 23, 2021

MFA FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS

| (In Thousands, Except Per Share Amounts) | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Assets: | | |
| Residential whole loans: | | |
| Residential whole loans, at carrying value (\$2,704,646 and \$4,847,782 pledged as collateral, respectively) <i>(1)</i> | \$ 4,195,332 | \$ 6,069,370 |
| Residential whole loans, at fair value (\$827,001 and \$794,684 pledged as collateral, respectively) <i>(1)</i> | 1,216,902 | 1,381,583 |
| Allowance for credit losses on residential whole loans held at carrying value | (86,833) | (3,025) |
| Total residential whole loans, net | 5,325,401 | 7,447,928 |
| Residential mortgage securities, at fair value (\$161,000 and \$3,966,591 pledged as collateral, respectively) | 161,000 | 3,983,519 |
| Mortgage servicing rights ("MSR") related assets (\$238,999 and \$1,217,002 pledged as collateral, respectively) | 238,999 | 1,217,002 |
| Cash and cash equivalents | 814,354 | 70,629 |
| Restricted cash | 7,165 | 64,035 |
| Other assets | 385,381 | 785,057 |
| Total Assets | <u>\$ 6,932,300</u> | <u>\$ 13,568,170</u> |
| Liabilities: | | |
| Financing agreements (\$3,366,772 and \$0 held at fair value, respectively) | \$ 4,336,976 | \$ 10,031,606 |
| Other liabilities | 70,522 | 152,612 |
| Total Liabilities | <u>\$ 4,407,498</u> | <u>\$ 10,184,218</u> |
| Commitments and contingencies (See Note 10) | | |
| Stockholders' Equity: | | |
| Preferred stock, \$0.01 par value; 7.50% Series B cumulative redeemable; 8,050 shares authorized; 8,000 shares issued and outstanding (\$200,000 aggregate liquidation preference) | \$ 80 | \$ 80 |
| Preferred stock, \$0.01 par value; 6.50% Series C fixed-to-floating rate cumulative redeemable; 12,650 shares authorized; 11,000 shares issued and outstanding (\$275,000 aggregate liquidation preference) | 110 | — |
| Common stock, \$0.01 par value; 874,300 and 886,950 shares authorized; 451,714 and 452,369 shares issued and outstanding, respectively | 4,517 | 4,524 |
| Additional paid-in capital, in excess of par | 3,848,129 | 3,640,341 |
| Accumulated deficit | (1,405,327) | (631,040) |
| Accumulated other comprehensive income | 77,293 | 370,047 |
| Total Stockholders' Equity | <u>\$ 2,524,802</u> | <u>\$ 3,383,952</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 6,932,300</u> | <u>\$ 13,568,170</u> |

(1) Includes approximately \$1.4 billion and \$186.4 million of Residential whole loans, at carrying value and \$382.3 million and \$567.4 million of Residential whole loans, at fair value transferred to consolidated variable interest entities ("VIEs") at December 31, 2020 and 2019, respectively. Such assets can be used only to settle the obligations of each respective VIE.

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

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

| (In Thousands, Except Per Share Amounts) | For the Year Ended December 31, | | |
|---|---------------------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 |
| Interest Income: | | | |
| Residential whole loans held at carrying value | \$ 258,764 | \$ 243,980 | \$ 100,921 |
| Residential mortgage securities | 54,137 | 274,554 | 322,475 |
| MSR-related assets | 35,957 | 52,647 | 28,420 |
| Other interest-earning assets | 9,850 | 7,152 | 923 |
| Cash and cash equivalent investments | 676 | 3,393 | 2,936 |
| Interest Income | \$ 359,384 | \$ 581,726 | \$ 455,675 |
| Interest Expense: | | | |
| Asset-backed and other collateralized financing arrangements | \$ 242,039 | \$ 315,344 | \$ 224,143 |
| Other interest expense | 26,719 | 17,012 | 8,043 |
| Interest Expense | \$ 268,758 | \$ 332,356 | \$ 232,186 |
| Net Interest Income | \$ 90,626 | \$ 249,370 | \$ 223,489 |
| Provision for credit and valuation losses on residential whole loans and other financial instruments | \$ (22,381) | \$ (2,569) | \$ (773) |
| Net Interest Income after Provision for Credit and Valuation Losses | \$ 68,245 | \$ 246,801 | \$ 222,716 |
| Other Income, net: | | | |
| Impairment and other losses on securities available-for-sale and other assets | \$ (425,082) | \$ (180) | \$ (1,259) |
| Net realized (loss)/gain on sales of residential mortgage securities and residential whole loans | (188,847) | 62,002 | 61,307 |
| Net unrealized (loss)/gain on residential mortgage securities measured at fair value through earnings | (10,486) | 7,080 | (36,815) |
| Net gain on residential whole loans measured at fair value through earnings | 94,213 | 158,330 | 137,619 |
| Loss on terminated swaps previously designated as hedges for accounting purposes | (57,034) | — | — |
| Other, net | (18,885) | (1,375) | (2,877) |
| Other (Loss)/Income, net | \$ (606,121) | \$ 225,857 | \$ 157,975 |
| Operating and Other Expense: | | | |
| Compensation and benefits | \$ 31,042 | \$ 32,235 | \$ 28,423 |
| Other general and administrative expense | 25,666 | 20,413 | 17,653 |
| Loan servicing, financing and other related costs | 40,372 | 41,893 | 32,814 |
| Costs associated with restructuring/forbearance agreement | 44,434 | — | — |
| Operating and Other Expense | \$ 141,514 | \$ 94,541 | \$ 78,890 |
| Net Income/(Loss) | \$ (679,390) | \$ 378,117 | \$ 301,801 |
| Less Preferred Stock Dividend Requirement | \$ 29,796 | \$ 15,000 | \$ 15,000 |
| Net Income/(Loss) Available to Common Stock and Participating Securities | \$ (709,186) | \$ 363,117 | \$ 286,801 |
| Basic Earnings/(Loss) per Common Share | \$ (1.57) | \$ 0.80 | \$ 0.68 |
| Diluted Earnings/(Loss) per Common Share | \$ (1.57) | \$ 0.79 | \$ 0.68 |

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

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

| (In Thousands) | For the Year Ended December 31, | | |
|---|--|-------------|-------------|
| | 2020 | 2019 | 2018 |
| Net (loss)/income | \$ (679,390) | \$ 378,117 | \$ 301,801 |
| Other Comprehensive Income/(Loss): | | | |
| Unrealized gains on securities available-for-sale | 420,281 | 20,335 | (150,642) |
| Reclassification adjustment for MBS sales included in net income | (389,127) | (44,600) | (51,580) |
| Reclassification adjustment for impairments included in net income | (344,269) | (180) | (1,259) |
| Derivative hedging instrument fair value changes, net | (50,127) | (23,342) | 14,545 |
| Changes in fair value of financing agreements at fair value due to changes in instrument-specific credit risk | (2,314) | — | — |
| Reclassification adjustment for losses/(gains) related to hedging instruments included in net income | 72,802 | (2,454) | — |
| Other Comprehensive Loss | (292,754) | (50,241) | (188,936) |
| Comprehensive (loss)/ income before preferred stock dividends | \$ (972,144) | \$ 327,876 | \$ 112,865 |
| Dividends required on preferred stock | (29,796) | (15,000) | (15,000) |
| Comprehensive (Loss)/Income Available to Common Stock and Participating Securities | \$ (1,001,940) | \$ 312,876 | \$ 97,865 |

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

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

For the Year Ended December 31, 2020

| (In Thousands, Except Per Share Amounts) | Preferred Stock 6.5% Series C Fixed-to- Floating Cumulative Redeemable - Liquidation Preference \$25.00 per Share | | Preferred Stock 7.5% Series B Cumulative Redeemable - Liquidation Preference \$25.00 per Share | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income | Total |
|---|--|--------|--|--------|--------------|----------|----------------------------------|------------------------|---|--------------|
| | Shares | Amount | Shares | Amount | Shares | Amount | | | | |
| Balance at December 31, 2019 | — | \$ — | 8,000 | \$ 80 | 452,369 | \$ 4,524 | \$ 3,640,341 | \$ (631,040) | \$ 370,047 | \$ 3,383,952 |
| Cumulative effect adjustment on adoption of new accounting standard ASU 2016-13 | — | — | — | — | — | — | — | (8,326) | — | (8,326) |
| Net loss | — | — | — | — | — | — | — | (679,390) | — | (679,390) |
| Issuance of Series C Preferred Stock, net of expenses | 11,000 | 110 | — | — | — | — | 265,942 | — | — | 266,052 |
| Issuance of common stock, net of expenses | — | — | — | — | 13,792 | 138 | 7,315 | — | — | 7,453 |
| Repurchase of shares of common stock, net of expenses (1) | — | — | — | — | (14,447) | (145) | (53,432) | — | — | (53,577) |
| Equity based compensation expense | — | — | — | — | — | — | 6,715 | — | — | 6,715 |
| Change in accrued dividends attributable to stock-based awards | — | — | — | — | — | — | 856 | — | — | 856 |
| Dividends declared on common stock (\$0.125 per share) | — | — | — | — | — | — | — | (56,546) | — | (56,546) |
| Dividends declared on Series B Preferred stock (\$1.875 per share) | — | — | — | — | — | — | — | (15,000) | — | (15,000) |
| Dividends declared on Series C Preferred stock (\$1.345 per share) | — | — | — | — | — | — | — | (14,796) | — | (14,796) |
| Dividends attributable to dividend equivalents | — | — | — | — | — | — | — | (229) | — | (229) |
| Change in unrealized losses on MBS, net | — | — | — | — | — | — | — | — | (313,115) | (313,115) |
| Derivative hedging instrument fair value changes and amortization, net | — | — | — | — | — | — | — | — | 22,675 | 22,675 |
| Warrants issued and repurchased, net | — | — | — | — | — | — | (19,608) | — | — | (19,608) |
| Changes in fair value of financing agreements at fair value due to changes in instrument-specific credit risk | — | — | — | — | — | — | — | — | (2,314) | (2,314) |
| Balance at December 31, 2020 | 11,000 | \$ 110 | 8,000 | \$ 80 | 451,714 | \$ 4,517 | \$ 3,848,129 | \$ (1,405,327) | \$ 77,293 | \$ 2,524,802 |

For the Year Ended December 31, 2019

| (In Thousands, Except Per Share Amounts) | Preferred Stock 7.5% Series B Cumulative Redeemable - Liquidation Preference \$25.00 per Share | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income | Total |
|---|---|--------|--------------|----------|----------------------------------|------------------------|---|--------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance at December 31, 2018 | 8,000 | \$ 80 | 449,787 | \$ 4,498 | \$ 3,623,275 | \$ (632,040) | \$ 420,288 | \$ 3,416,101 |
| Net income | — | — | — | — | — | 378,117 | — | 378,117 |
| Issuance of common stock, net of expenses | — | — | 3,145 | 26 | 12,299 | — | — | 12,325 |
| Repurchase of shares of common stock (1) | — | — | (563) | — | (4,118) | — | — | (4,118) |
| Equity based compensation expense | — | — | — | — | 9,230 | — | — | 9,230 |
| Accrued dividends attributable to stock-based awards | — | — | — | — | (345) | — | — | (345) |
| Dividends declared on common stock (\$0.80 per share) | — | — | — | — | — | (361,033) | — | (361,033) |
| Dividends declared on preferred stock (\$1.875 per share) | — | — | — | — | — | (15,000) | — | (15,000) |
| Dividends attributable to dividend equivalents | — | — | — | — | — | (1,084) | — | (1,084) |
| Change in unrealized losses on MBS, net | — | — | — | — | — | — | (24,445) | (24,445) |
| Derivative hedging instruments fair value changes, net | — | — | — | — | — | — | (25,796) | (25,796) |
| Balance at December 31, 2019 | 8,000 | \$ 80 | 452,369 | \$ 4,524 | \$ 3,640,341 | \$ (631,040) | \$ 370,047 | \$ 3,383,952 |

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

For the Year Ended December 31, 2018

| (In Thousands, Except Per Share Amounts) | Preferred Stock 7.5% Series B Cumulative Redeemable - Liquidation Preference \$25.00 per Share | | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income | Total |
|---|---|--------|--------------|----------|----------------------------------|------------------------|---|--------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance at December 31, 2017 | 8,000 | \$ 80 | 397,831 | \$ 3,978 | \$ 3,227,304 | \$ (578,950) | \$ 609,224 | \$ 3,261,636 |
| Cumulative effect adjustment on adoption of new accounting standard for revenue recognition | — | — | — | — | — | 295 | — | 295 |
| Net income | — | — | — | — | — | 301,801 | — | 301,801 |
| Issuance of common stock, net of expenses | — | — | 52,420 | 520 | 391,625 | — | — | 392,145 |
| Repurchase of shares of common stock (1) | — | — | (464) | — | (3,392) | — | — | (3,392) |
| Equity based compensation expense | — | — | — | — | 7,999 | — | — | 7,999 |
| Accrued dividends attributable to stock-based awards | — | — | — | — | (261) | — | — | (261) |
| Dividends declared on common stock (\$0.80 per share) | — | — | — | — | — | (339,244) | — | (339,244) |
| Dividends declared on preferred stock (\$1.875 per share) | — | — | — | — | — | (15,000) | — | (15,000) |
| Dividends attributable to dividend equivalents | — | — | — | — | — | (942) | — | (942) |
| Change in unrealized losses on MBS, net | — | — | — | — | — | — | (203,481) | (203,481) |
| Derivative hedging instruments fair value changes, net | — | — | — | — | — | — | 14,545 | 14,545 |
| Balance at December 31, 2018 | 8,000 | \$ 80 | 449,787 | \$ 4,498 | \$ 3,623,275 | \$ (632,040) | \$ 420,288 | \$ 3,416,101 |

(1) For the year ended December 31, 2020, includes approximately \$2.7 million (360,534 shares) surrendered for tax purposes related to equity-based compensation awards. For the year ended December 31, 2019, includes approximately \$4.1 million (562,815 shares) surrendered for tax purposes related to equity-based compensation awards. For the year ended December 31, 2018, includes approximately \$3.4 million (464,429 shares) surrendered for tax purposes related to equity-based compensation awards.

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

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

| (In Thousands) | For the Year Ended December 31, | | |
|--|---------------------------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 |
| Cash Flows From Operating Activities: | | | |
| Net (loss)/income | \$ (679,390) | \$ 378,117 | \$ 301,801 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Losses/(gains) on residential whole loans and real estate owned, net | 243,933 | (79,948) | (70,579) |
| Gains on residential mortgage securities and MSR related assets, net | (74,515) | (69,082) | (24,492) |
| Impairment and other losses on securities available-for-sale and other assets | 425,082 | 180 | 1,259 |
| Loss on terminated swaps previously designed as hedges for accounting purposes | 57,034 | — | — |
| Accretion of purchase discounts on residential mortgage securities, residential whole loans and MSR-related assets | (35,103) | (70,383) | (82,904) |
| Amortization of purchase premiums on residential mortgage securities and residential whole loans, and amortization of terminated hedging instruments | 46,052 | 45,216 | 29,270 |
| Provision for credit and valuation losses on residential whole loans and other financial instruments | 22,121 | 2,569 | 773 |
| Net valuation and other non-cash losses included in net income | 44,055 | 24,815 | 19,208 |
| Decrease/(increase) in other assets | 39,930 | (34,262) | (26,487) |
| (Decrease)/increase in other liabilities | (50,803) | 18,553 | 32 |
| Net cash provided by operating activities | \$ 38,396 | \$ 215,775 | \$ 147,881 |
| Cash Flows From Investing Activities: | | | |
| Purchases of residential whole loans, loan related investments and capitalized advances | \$ (1,477,320) | \$ (4,591,422) | \$ (3,055,434) |
| Proceeds from sales of residential whole loans, and residential whole loan repurchases | 1,510,902 | (6,769) | (3,405) |
| Principal payments on residential whole loans and loan related investments | 1,825,606 | 1,378,529 | 531,909 |
| Purchases of residential mortgage securities and MSR-related assets | (163,748) | (1,008,215) | (2,604,234) |
| Proceeds from sales of residential mortgage securities, MSR-related assets, and other assets | 3,790,148 | 908,697 | 538,668 |
| Principal payments on residential mortgage securities and MSR-related assets | 633,194 | 2,098,416 | 2,327,817 |
| Purchases of real estate owned and capital improvements | (10,198) | (20,110) | (13,367) |
| Proceeds from sales of real estate owned | 279,786 | 108,012 | 121,304 |
| Additions to leasehold improvements, furniture and fixtures | (4,862) | (1,879) | (1,133) |
| Net cash provided by/(used in) investing activities | \$ 6,383,508 | \$ (1,134,741) | \$ (2,157,875) |
| Cash Flows From Financing Activities: | | | |
| Principal payments on financing agreements with mark-to-market collateral provisions | \$ (21,810,920) | \$ (67,463,756) | \$ (67,063,283) |
| Proceeds from borrowings under financing agreements with mark-to-market collateral provisions | 14,008,042 | 68,724,021 | 68,327,462 |
| Principal payments on other collateralized financing agreements | (1,733,345) | (114,386) | (97,969) |
| Proceeds from borrowings under other collateralized financing agreements | 3,803,150 | — | 419,970 |
| Payment made for other collateralized financing agreement related costs | (1,699) | — | (2,497) |
| Proceeds from issuance of convertible senior notes | — | 223,311 | — |
| Payments made for settlements and unwinds of Swaps | (60,022) | (40,029) | (61,502) |
| Proceeds from settlements on Swaps | — | — | 65,393 |
| Proceeds from issuance of series C preferred stock | 275,000 | — | — |
| Payments made for costs related to series C preferred stock issuance | (8,948) | — | — |
| Proceeds from issuances of common stock | 7,441 | 12,325 | 392,474 |
| Payments made for costs related to common stock issuances | — | — | (329) |
| Payments made for the repurchase of common stock through the share repurchase program | (50,835) | — | — |
| Proceeds from the issuance of warrants | 14,041 | — | — |
| Payments made for the repurchase of warrants | (33,650) | — | — |
| Dividends paid on preferred stock | (29,796) | (15,000) | (15,000) |
| Dividends paid on common stock and dividend equivalents | (113,508) | (361,565) | (329,759) |
| Net cash (used in)/provided by financing activities | \$ (5,735,049) | \$ 964,921 | \$ 1,634,960 |
| Net increase/(decrease) in cash, cash equivalents and restricted cash | \$ 686,855 | \$ 45,955 | \$ (375,034) |
| Cash, cash equivalents and restricted cash at beginning of period | \$ 134,664 | \$ 88,709 | \$ 463,743 |
| Cash, cash equivalents and restricted cash at end of period | \$ 821,519 | \$ 134,664 | \$ 88,709 |

Supplemental Disclosure of Cash Flow Information

| | | | |
|---------------|------------|------------|------------|
| Interest Paid | \$ 254,270 | \$ 330,398 | \$ 232,657 |
|---------------|------------|------------|------------|

Non-cash Investing and Financing Activities:

| | | | |
|--|--------|---------|-----------|
| Net decrease in securities obtained as collateral/obligation to return securities obtained as collateral | — | — | (505,850) |
| Transfer from residential whole loans to real estate owned | 96,766 | 257,701 | 215,038 |
| Dividends and dividend equivalents declared and unpaid | 34,016 | 90,749 | 90,198 |
| Payable for unsettled residential whole loan purchases | — | — | 211,129 |

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

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1. Organization

MFA Financial, Inc. (the “Company”) was incorporated in Maryland on July 24, 1997 and began operations on April 10, 1998. The Company has elected to be treated as a real estate investment trust (“REIT”) for U.S. federal income tax purposes. In order to maintain its qualification as a REIT, the Company must comply with a number of requirements under federal tax law, including that it must distribute at least 90% of its annual REIT taxable income to its stockholders. The Company has elected to treat certain of its subsidiaries as taxable REIT subsidiaries (“TRS”). In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate related business. (See Note 2(n))

2. Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements of the Company have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (“GAAP”). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although the Company’s estimates contemplate current conditions and how it expects them to change in the future, it is reasonably possible that actual conditions could differ from those estimates, which could materially impact the Company’s results of operations and its financial condition. Management has made significant estimates in several areas, impairment, valuation allowances and loss allowances on residential whole loans (see Note 3), mortgage-backed securities (“MBS”) (see Note 4) and Other assets (see Note 5), valuation of MBS, CRT securities and MSR-related assets (see Notes 4 and 14), income recognition and valuation of residential whole loans (see Notes 3 and 14), valuation of derivative instruments (see Notes 5(c) and 14) and income recognition on certain Non-Agency MBS (defined below) purchased at a discount (see Note 4). In addition, estimates are used in the determination of taxable income used in the assessment of REIT compliance and contingent liabilities for related taxes, penalties and interest (see Note 2(n)). Actual results could differ from those estimates.

The Company has one reportable segment since it manages its business and analyzes and reports its results of operations on the basis of one operating segment: investing, on a leveraged basis, in residential mortgage assets.

The consolidated financial statements of the Company include the accounts of all subsidiaries. All intercompany accounts and transactions have been eliminated. In addition, the Company consolidates entities established to facilitate transactions related to the acquisition and securitization of residential whole loans completed in prior years. Certain prior period amounts have been reclassified to conform to the current period presentation.

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

Residential whole loans included in the Company’s consolidated balance sheets are primarily comprised of pools of fixed- and adjustable-rate residential mortgage loans acquired through consolidated trusts in secondary market transactions. The accounting model utilized by the Company is determined at the time each loan package is initially acquired and is generally based on the delinquency status of the majority of the underlying borrowers in the package at acquisition. The accounting model described below for Purchased Credit Deteriorated Loans that are held at carrying value is typically utilized by the Company for Purchased Credit Deteriorated Loans where the underlying borrower has a delinquency status of less than 60 days at the acquisition date. The Company also acquires Purchased Performing Loans that are typically held at carrying value, but the accounting methods for income recognition and determination and measurement of any required credit loss reserves (as discussed below) differ from those used for Purchased Credit Deteriorated Loans held at carrying value. The accounting model described below for residential whole loans held at fair value is typically utilized by the Company for loans where the underlying borrower has a delinquency status of 60 days or more at the acquisition date. The accounting model initially applied is not subsequently changed.

The Company’s residential whole loans pledged as collateral against financing agreements are included in the consolidated balance sheets with amounts pledged disclosed parenthetically. Purchases and sales of residential whole loans that are subject to an extended period of due diligence that crosses a reporting date are recorded in our balance sheet at amounts

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reflecting management's current estimate of assets that will be acquired or disposed at the closing of the transaction. This estimate is subject to revision at the closing of the transaction, pending the outcome of due diligence performed prior to closing. Residential whole loans purchased under flow arrangements with loan origination partners are generally recorded at the transaction settlement date. Recorded amounts of residential whole loans for which the closing of the purchase transaction is yet to occur are not eligible to be pledged as collateral against any financing agreement until the closing of the purchase transaction. Interest income, credit related losses and changes in the fair value of loans held at fair value are recorded post settlement for acquired loans and until transaction settlement for sold loans (see Notes 3, 6, 7, 14 and 15).

Residential Whole Loans at Carrying Value

Purchased Performing Loans

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

An allowance for credit losses is recorded at acquisition, and maintained on an ongoing basis, for all losses expected over the life of the respective loan. Any required credit loss allowance would reduce the net carrying value of the loan with a corresponding charge to earnings, and may increase or decrease over time. Significant judgments are required in determining any allowance for credit loss, including assumptions regarding the loan cash flows expected to be collected, the value of the underlying collateral and the ability of the Company to collect on any other forms of security, such as a personal guaranty provided either by the borrower or an affiliate of the borrower. Income recognition is suspended, and interest accruals are reversed against income, for loans at the earlier of the date at which payments become 90 days past due or when, in the opinion of management, a full recovery of income and principal becomes doubtful (i.e., such loans are placed on nonaccrual status). For nonaccrual loans other than Fix and Flip loans, all payments are applied to principal under the cost recovery method. For nonaccrual Fix and Flip loans, interest income is recorded under the cash basis method as interest payments are received. Interest accruals are resumed when the loan becomes contractually current and performance is demonstrated to be resumed. A loan is written off when it is no longer realizable and/or it is legally discharged. Modified loans are considered "troubled debt restructurings" if the Company grants a concession to a borrower who is experiencing financial difficulty (including the interpretation of this definition set forth in OCC Bulletin 2020-35).

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

The aggregate allowance for credit losses is equal to the sum of the losses expected over the life of each respective loan. Expected losses are generally calculated based on the estimated probability of default and loss severity of loans in the portfolio, which involves projecting each loan's expected cash flows based on their contractual terms, expected prepayments, and estimated default and loss severity rates. The results were not discounted. The default and severity rates were estimated based on the following steps: (i) obtained the Company's historical experience through an entire economic cycle for each loan type or, to the extent the Company did not have sufficient historical loss experience for a given loan type, publicly available data derived from the historical loss experience of certain banks, which data the Company believes is generally representative of its portfolio, (ii) obtained historical economic data (U.S. unemployment rates and home price appreciation) over the same period, and (iii) estimated default and severity rates during three distinct future periods based on historical default and severity rates during periods when economic conditions similar to those forecasted were experienced. The default and severity rates were

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

Purchased Credit Deteriorated Loans

The Company has elected to account for these loans as credit deteriorated as they have experienced a more-than-insignificant deterioration in credit quality since origination and were acquired at discounted prices that reflect, in part, the impaired credit history of the borrower. Substantially all of these loans have previously experienced payment delinquencies and the amount owed may exceed the value of the property pledged as collateral. Consequently, these loans generally have a higher likelihood of default than newly originated mortgage loans with loan-to-value ratios (“LTVs”) of 80% or less to creditworthy borrowers. The Company believes that amounts paid to acquire these loans represent fair market value at the date of acquisition. Loans considered credit deteriorated are initially recorded at the purchase price on a net basis, after establishing an initial allowance for credit losses (their initial cost basis is equal to their purchase price plus the initial allowance for credit losses). Subsequent to acquisition, the gross recorded amount for these loans reflects the initial cost basis, plus accretion of interest income, less principal and interest cash flows received. These loans are presented on the Company’s consolidated balance sheets at carrying value, which reflects the recorded cost basis reduced by any allowance for credit losses. Interest income on such loans purchased is recorded each period based on the contractual coupon net of amortization of the difference between their cost basis and unpaid principal balance (“UPB”), subject to the Company’s nonaccrual policy.

Residential Whole Loans at Fair Value

Certain of the Company’s residential whole loans are presented at fair value on its consolidated balance sheets as a result of a fair value election made at the time of acquisition. For the majority of these loans, there is significant uncertainty associated with estimating the timing of and amount of cash flows that will be collected. Further, the cash flows ultimately collected may be dependent on the value of the property securing the loan. Consequently, the Company considers that accounting for these loans at fair value should result in a better reflection over time of the economic returns for the majority of these loans. The Company determines the fair value of its residential whole loans held at fair value after considering portfolio valuations obtained from a third-party that specializes in providing valuations of residential mortgage loans and trading activity observed in the market place. Subsequent changes in fair value are reported in current period earnings and presented in Net (loss)/gain on residential whole loans measured at fair value through earnings on the Company’s consolidated statements of operations.

Cash received (or accrued) representing coupon interest payments on residential whole loans held at fair value is not included in Interest Income, but rather is included in Net (loss)/gain on residential whole loans measured at fair value through earnings on the Company’s consolidated statements of operations. Cash outflows associated with loan-related advances made by the Company on behalf of the borrower are included in the basis of the loan and are reflected in unrealized gains or losses reported each period.

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(c) Residential Mortgage Securities

Prior to the quarter ended June 30, 2020, the Company had invested in residential MBS that are issued or guaranteed as to principal and/or interest by a federally chartered corporation, such as the Federal National Mortgage Association (“Fannie Mae”) or the Federal Home Loan Mortgage Corporation (“Freddie Mac”), or an agency of the U.S. Government, such as the Government National Mortgage Association (“Ginnie Mae”) (collectively, “Agency MBS”), and residential MBS that are not guaranteed by any agency of the U.S. Government or any federally chartered corporation (“Non-Agency MBS”). The Company disposed of its investments in Agency MBS during 2020 and has substantially reduced its investments in Non-Agency MBS. In addition, the Company has investments in CRT securities that are issued by or sponsored by Fannie Mae and Freddie Mac. The coupon payments on CRT securities are paid by the issuer and the principal payments received are dependent on the performance of loans in either a reference pool or an actual pool of loans. As the loans in the underlying pool are paid, the principal balance of the CRT securities is paid. As an investor in a CRT security, the Company may incur a principal loss if the performance of the actual or reference pool loans results in either an actual or calculated loss that exceeds the credit enhancement of the security owned by the Company.

Designation

MBS that the Company generally intends to hold until maturity, but that it may sell from time to time as part of the overall management of its business, are designated as “available-for-sale” (“AFS”). Such MBS are carried at their fair value with unrealized gains and losses excluded from earnings (except when an allowance for loan losses is recognized, as discussed below) and reported in Accumulated other comprehensive income/(loss) (“AOCI”), a component of Stockholders’ Equity.

Upon the sale of an AFS security, any unrealized gain or loss is reclassified out of AOCI to earnings as a realized gain or loss using the specific identification method.

The Company had elected the fair value option for certain of its previously held Agency MBS that it did not intend to hold to maturity. These securities were carried at their fair value with changes in fair value included in earnings for the period and reported in Other Income, net on the Company’s consolidated statements of operations.

The Company has elected the fair value option for certain of its CRT securities as it considers this method of accounting to more appropriately reflect the risk-sharing structure of these securities. Such securities are carried at their fair value with changes in fair value included in earnings for the period and reported in Other Income, net on the Company’s consolidated statements of operations.

Revenue Recognition, Premium Amortization and Discount Accretion

Interest income on securities is accrued based on their outstanding principal balance and their contractual terms. Premiums and discounts associated with Agency MBS and Non-Agency MBS assessed as high credit quality at the time of purchase are amortized into interest income over the life of such securities using the effective yield method. Adjustments to premium amortization are made for actual prepayment activity.

Determination of Fair Value for Residential Mortgage Securities

In determining the fair value of the Company’s residential mortgage securities, management considers a number of observable market data points, including prices obtained from pricing services, brokers and repurchase agreement counterparties, dialogue with market participants, as well as management’s observations of market activity (see Note 14).

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Allowance for credit losses

When the fair value of an AFS security is less than its amortized cost at the balance sheet date, the security is considered impaired. The Company assesses its impaired securities, as well as securities for which a credit loss allowance had been previously recorded, on at least a quarterly basis and determines whether any changes to the allowance for credit losses are required. If the Company intends to sell an impaired security, or it is more likely than not that it will be required to sell the impaired security before its anticipated recovery, then the Company must recognize a write-down through charges to earnings equal to the entire difference between the investment's amortized cost and its fair value at the balance sheet date. If the Company does not expect to sell an impaired security, only the portion of the impairment related to credit losses is recognized through a loss allowance charged to earnings with the remainder recognized through AOCI on the Company's consolidated balance sheets. Impairments recognized through other comprehensive income/(loss) ("OCI") do not impact earnings. Credit loss allowances are subject to reversal through earnings resulting from improvements in expected cash flows. The determination as to whether to record (or reverse) a credit loss allowance is subjective, as such determinations are based on factual information available at the time of assessment as well as the Company's estimates of future performance and cash flow projections. As a result, the timing and amount of losses constitute material estimates that are susceptible to significant change (see Note 4).

Balance Sheet Presentation

The Company's residential mortgage securities pledged as collateral against financing agreements and interest rate swap agreements ("Swaps") are included on the consolidated balance sheets with the fair value of the securities pledged disclosed parenthetically. Purchases and sales of securities are recorded on the trade date.

(d) MSR-Related Assets

The Company has investments in financial instruments whose cash flows are considered to be largely dependent on underlying MSRs that either directly or indirectly act as collateral for the investment. These financial instruments, which are referred to as MSR-related assets, are discussed in more detail below. The Company's MSR-related assets pledged as collateral against repurchase agreements are included in the consolidated balance sheets with the amounts pledged disclosed parenthetically. Purchases and sales of MSR-related assets are recorded on the trade date (see Notes 4, 6, 7 and 14).

Term Notes Backed by MSR-Related Collateral

The Company has invested in term notes that are issued by special purpose vehicles ("SPV") that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. The Company considers payment of principal and interest on these term notes to be largely dependent on the cash flows generated by the underlying MSRs as this impacts the cash flows available to the SPV that issued the term notes. Credit risk borne by the holders of the term notes is also mitigated by structural credit support in the form of over-collateralization. Credit support is also provided by a corporate guarantee from the ultimate parent or sponsor of the SPV that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the underlying MSRs be insufficient.

The Company's term notes backed by MSR-related collateral are treated as AFS securities and reported at fair value on the Company's consolidated balance sheets with unrealized gains and losses excluded from earnings and reported in AOCI, subject to impairment and loss allowances. Interest income is recognized on an accrual basis on the Company's consolidated statements of operations. The Company's valuation process for such notes is similar to that used for residential mortgage securities and considers a number of observable market data points, including prices obtained from pricing services, brokers and repurchase agreement counterparties, dialogue with market participants, as well as management's observations of market activity. Other factors taken into consideration include estimated changes in fair value of the related underlying MSR collateral, as applicable, and the financial performance of the ultimate parent or sponsoring entity of the issuer, which has provided a guarantee that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the related underlying MSR collateral be insufficient.

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Corporate Loans

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

Corporate loans are recorded on the Company's consolidated balance sheets at the drawn amount, on which interest income is recognized on an accrual basis on the Company's consolidated statements of operations, subject to loss allowances. Commitment fees received on the undrawn amount are deferred and recognized as interest income over the remaining loan term at the time of draw. At the end of the commitment period, any remaining deferred commitment fees are recorded as Other Income on the Company's consolidated statements of operations. The Company evaluates the recoverability of its corporate loans on a quarterly basis considering various factors, including the current status of the loan, changes in the fair value of the MSRs that secure the loan and the recent financial performance of the borrower.

(e) Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit with financial institutions and investments in money market funds, all of which have original maturities of three months or less. Cash and cash equivalents may also include cash pledged as collateral to the Company by its financing counterparties as a result of reverse margin calls (i.e., margin calls made by the Company). The Company did not hold any cash pledged by its counterparties at December 31, 2020 and 2019. At December 31, 2020 and 2019, the Company had cash and cash equivalents of \$814.4 million and \$70.6 million, respectively. At December 31, 2020, the Company had \$752.4 million of investments in overnight money market funds, which are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation ("FDIC") or any other government agency. As of December 31, 2019, the Company had \$39.6 million worth of investments in overnight money market funds. In addition, deposits in FDIC insured accounts generally exceed insured limits (see Notes 7 and 14).

(f) Restricted Cash

Restricted cash represents the Company's cash held by its counterparties in connection with certain of the Company's Swaps and/or financing agreements that is not available to the Company for general corporate purposes. Restricted cash may be applied against amounts due to financing agreement and/or Swap counterparties, or may be returned to the Company when the related collateral requirements are exceeded or at the maturity of the Swap and/or financing agreements. The Company had aggregate restricted cash held as collateral or otherwise in connection with its financing agreements and/or Swaps of \$7.2 million and \$64.0 million at December 31, 2020 and 2019, respectively (see Notes 5(c), 6, 7 and 14).

(g) Real Estate Owned ("REO")

REO represents real estate acquired by the Company, including through foreclosure, deed in lieu of foreclosure, or purchased in connection with the acquisition of residential whole loans. REO acquired through foreclosure or deed in lieu of foreclosure is initially recorded at fair value less estimated selling costs. REO acquired in connection with the acquisition of residential whole loans is initially recorded at its purchase price. Subsequent to acquisition, REO is reported, at each reporting date, at the lower of the current carrying amount or fair value less estimated selling costs and for presentation purposes is included in Other assets on the Company's consolidated balance sheets. Changes in fair value that result in an adjustment to the reported amount of an REO property that has a fair value at or below its carrying amount are reported in Other Income, net on the Company's consolidated statements of operations. The Company has acquired certain properties that it holds for investment purposes, including rentals to third parties. These properties are held at their historical basis less depreciation, and are subject to impairment. Related rental income and expenses are recorded in Other Income, net (see Note 5).

(h) Depreciation

Leasehold Improvements, Real estate and Other Depreciable Assets

Depreciation is computed on the straight-line method over the estimated useful life of the related assets or, in the case of leasehold improvements, over the shorter of the useful life or the lease term. Furniture, fixtures, computers and related hardware have estimated useful lives ranging from five to eight years at the time of purchase. The building component of real estate held-for-investment is depreciated over 27.5 years.

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(i) Loan Securitization and Other Debt Issuance Costs

Loan securitization related costs are costs associated with the issuance of beneficial interests by consolidated VIEs and incurred by the Company in connection with various financing transactions completed by the Company. These costs may include underwriting, rating agency, legal, accounting and other fees. Such costs, which reflect deferred charges (unless the debt is recorded at fair value, as discussed below), are included on the Company's consolidated balance sheets as a direct deduction from the corresponding debt liability. These deferred charges are amortized as an adjustment to interest expense using the effective interest method. For certain financing agreements, such costs are amortized over the shorter of the period to the expected or stated legal maturity of the debt instruments. The Company periodically reviews the recoverability of these deferred costs and, in the event an impairment charge is required, such amount will be included in Operating and Other Expense on the Company's consolidated statements of operations.

(j) Financing Agreements

The Company finances the majority of its residential mortgage assets with financing agreements that include repurchase agreements and other forms of collateralized financing. Under repurchase agreements, the Company sells assets to a lender and agrees to repurchase the same assets in the future for a price that is higher than the original sale price. The difference between the sale price that the Company receives and the repurchase price that the Company pays represents interest paid to the lender. Although legally structured as sale and repurchase transactions, the Company accounts for repurchase agreements as secured borrowings. Under its repurchase agreements and other forms of collateralized financing, the Company pledges its assets as collateral to secure the borrowing, in an amount which is equal to a specified percentage of the fair value of the pledged collateral, while the Company retains beneficial ownership of the pledged collateral. At the maturity of a repurchase financing, unless the repurchase financing is renewed with the same counterparty, the Company is required to repay the loan including any accrued interest and concurrently receives back its pledged collateral from the lender. With the consent of the lender, the Company may renew a repurchase financing at the then prevailing financing terms. Margin calls, whereby a lender requires that the Company pledge additional assets or cash as collateral to secure borrowings under its repurchase financing with such lender, are routinely experienced by the Company when the value of the assets pledged as collateral declines as a result of principal amortization and prepayments or due to changes in market interest rates, spreads or other market conditions. The Company also may make margin calls on counterparties when collateral values increase.

The Company's repurchase financings collateralized by residential mortgage securities and MSR-related assets typically have terms ranging from one month to six months at inception, while the majority of our financing arrangements collateralized by residential whole loans have terms of twelve months or longer. Should a counterparty decide not to renew a financing arrangement at maturity, the Company must either refinance elsewhere or be in a position to satisfy the obligation. If, during the term of a financing, a lender should default on its obligation, the Company might experience difficulty recovering its pledged assets which could result in an unsecured claim against the lender for the difference between the amount loaned to the Company plus interest due to the counterparty and the fair value of the collateral pledged by the Company to such lender, including accrued interest receivable on such collateral (see Notes 6, 7 and 14).

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

(k) Equity-Based Compensation

Compensation expense for equity-based awards that are subject to vesting conditions, is recognized ratably over the vesting period of such awards, based upon the fair value of such awards at the grant date.

The Company has made annual grants of restricted stock units ("RSUs") certain of which cliff vest after a three-year period, subject only to continued employment, and others of which cliff vest after a three-year period, subject to both continued employment and the achievement of certain performance criteria based on a formula tied to the Company's achievement of average total shareholder return during that three-year period, as well as the total shareholder return ("TSR") of the Company relative to the TSR of a group of peer companies (over the three-year period) selected by the Compensation Committee of the

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Company's Board of Directors (the "Compensation Committee") at the date of grant. The features in these awards related to the attainment of total shareholder return over a specified period constitute a "market condition", which impacts the amount of compensation expense recognized for these awards. Specifically, the uncertainty regarding the achievement of the market condition was reflected in the grant date fair valuation of the RSUs, which is recognized as compensation expense over the relevant vesting period. The amount of compensation expense recognized is not dependent on whether the market condition was or will be achieved.

The Company makes dividend equivalent payments in connection with certain of its equity-based awards. A dividend equivalent is a right to receive a distribution equal to the dividend distributions that would be paid on a share of the Company's common stock. Dividend equivalents may be granted as a separate instrument or may be a right associated with the grant of another award (e.g., an RSU) under the Company's Equity Compensation Plan (the "Equity Plan"), and they are paid in cash or other consideration at such times and in accordance with such rules, terms and conditions, as the Compensation Committee may determine in its discretion. Payments pursuant to dividend equivalents are generally charged to Stockholders' Equity to the extent that the attached equity awards are expected to vest. Compensation expense is recognized for payments made for dividend equivalents to the extent that the attached equity awards (i) do not or are not expected to vest and (ii) grantees are not required to return payments of dividends or dividend equivalents to the Company (see Notes 2(l) and 13).

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

Basic EPS is computed using the two-class method, which includes the weighted-average number of shares of common stock outstanding during the period and an estimate of other securities that participate in dividends, such as the Company's dividend equivalents attached to/associated with RSUs, to arrive at total common equivalent shares. In applying the two-class method, earnings are allocated to both shares of common stock and estimated securities that participate in dividends based on their respective weighted-average shares outstanding for the period. For the diluted EPS calculation, common equivalent shares are further adjusted for the effect of RSUs outstanding that are unvested and have dividends that are subject to forfeiture, and for the effect of outstanding warrants, using the treasury stock method. Under the treasury stock method, common equivalent shares are calculated assuming that all dilutive common stock equivalents are exercised and the proceeds, along with future compensation expenses associated with such instruments (if any), are used to repurchase shares of the Company's outstanding common stock at the average market price during the reported period. In addition, the Company's Convertible Senior Notes are included in the calculation of diluted EPS if the assumed conversion into common shares is dilutive, using the "if-converted" method. This involves adding back the periodic interest expense associated with the Convertible Senior Notes to the numerator and by adding the shares that would be issued in an assumed conversion (regardless of whether the conversion option is in or out of the money) to the denominator for the purposes of calculating diluted EPS (see Note 12).

(m) Comprehensive Income/(Loss)

The Company's comprehensive income/(loss) available to common stock and participating securities includes net income, the change in net unrealized gains/(losses) on its AFS securities and derivative hedging instruments (to the extent that such changes are not recorded in earnings), adjusted by realized net gains/(losses) reclassified out of AOCI for sold AFS securities and terminated hedging relationships, as well as the portion of unrealized gains/(losses) on its financing agreements held at fair value related to instrument-specific credit risk, and is reduced by dividends declared on the Company's preferred stock and issuance costs of redeemed preferred stock.

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(n) U.S. Federal Income Taxes

The Company has elected to be taxed as a REIT under the provisions of the Internal Revenue Code of 1986, as amended, (the “Code”), and the corresponding provisions of state law. The Company expects to operate in a manner that will enable it to satisfy the various requirements to maintain its status as a REIT for federal income tax purposes. In order to maintain its status as a REIT, the Company must, among other things, distribute at least 90% of its REIT taxable income (excluding net long-term capital gains) to stockholders in the timeframe permitted by the Code. As long as the Company maintains its status as a REIT, the Company will not be subject to regular federal income tax to the extent that it distributes 100% of its REIT taxable income (including net long-term capital gains) to its stockholders within the permitted timeframe. Should this not occur, the Company would be subject to federal taxes at prevailing corporate tax rates on the difference between its REIT taxable income and the amounts deemed to be distributed for that tax year. As the Company’s objective is to distribute 100% of its REIT taxable income to its stockholders within the permitted timeframe, no provision for current or deferred income taxes has been made in the accompanying consolidated financial statements. Should the Company incur a liability for corporate income tax, such amounts would be recorded as REIT income tax expense on the Company’s consolidated statements of operations. Furthermore, if the Company fails to distribute during each calendar year, or by the end of January following the calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of (i) 85% of its REIT ordinary income for such year, (ii) 95% of its REIT capital gain income for such year, and (iii) any undistributed taxable income from prior periods, the Company would be subject to a 4% nondeductible excise tax on the excess of the required distribution over the amounts actually distributed. To the extent that the Company incurs interest, penalties or related excise taxes in connection with its tax obligations, including as a result of its assessment of uncertain tax positions, such amounts will be included in Operating and Other Expense on the Company’s consolidated statements of operations.

In addition, the Company has elected to treat certain of its subsidiaries as TRS. In general, a TRS may hold assets and engage in activities that the Company cannot hold or engage in directly and generally may engage in any real estate or non-real estate-related business. Generally, a domestic TRS is subject to U.S. federal, state and local corporate income taxes. Since a portion of the Company’s business is conducted through one or more TRS, the net taxable income earned by its domestic TRS, if any, is subject to corporate income taxation. To maintain the Company’s REIT election, no more than 20% of the value of the Company’s assets at the end of each calendar quarter may consist of stock or securities in TRS. For purposes of the determination of U. S. federal and state income taxes, the Company’s subsidiaries that elected to be treated as TRS record current or deferred income taxes based on differences (both permanent and timing) between the determination of their taxable income and net income under GAAP. No net deferred tax benefit was recorded by the Company in 2020 or 2019, related to the net taxable losses in the TRS, since a valuation allowance for the full amount of the associated deferred tax asset of approximately \$74.1 million was recognized as its recovery is not considered more likely than not. The related net operating loss carryforwards generated prior to 2018 will begin to expire in 2034; those generated in 2020, 2019, and 2018 can be carried back to each of the five taxable years preceding the taxable year of such loss and thereafter can be carried forward and do not expire.

Based on its analysis of any potentially uncertain tax positions, the Company concluded that it does not have any material uncertain tax positions that meet the relevant recognition or measurement criteria as of December 31, 2020, 2019 or 2018. As of the date of this filing, the Company’s tax returns for tax years 2017 through 2019 are open to examination.

(o) Derivative Financial Instruments

The Company may use a variety of derivative instruments to economically hedge a portion of its exposure to market risks, including interest rate risk and prepayment risk. The objective of the Company’s risk management strategy is to reduce fluctuations in net book value over a range of interest rate scenarios. In particular, the Company attempts to mitigate the risk of the cost of its variable rate liabilities increasing during a period of rising interest rates. The Company’s derivative instruments have generally been comprised of Swaps, the majority of which were designated as cash flow hedges against the interest rate risk associated with its borrowings.

Swaps

The Company documents its risk-management policies, including objectives and strategies, as they relate to its hedging activities and the relationship between the hedging instrument and the hedged liability for all Swaps designated as hedging transactions. The Company assesses, both at the inception of a hedge and on a quarterly basis thereafter, whether or not the hedge is “highly effective.”

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

The Company discontinues hedge accounting on a prospective basis and recognizes changes in fair value through earnings when: (i) it is determined that the derivative is no longer effective in offsetting cash flows of a hedged item (including forecasted transactions); (ii) it is no longer probable that the forecasted transaction will occur; or (iii) it is determined that designating the derivative as a hedge is no longer appropriate (see Notes 5(c), 7 and 14).

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

(p) Fair Value Measurements and the Fair Value Option for Financial Assets and Financial Liabilities

The Company's presentation of fair value for its financial assets and liabilities is determined within a framework that stipulates that the fair value of a financial asset or liability is an exchange price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. This definition of fair value focuses on exit price and prioritizes the use of market-based inputs over entity-specific inputs when determining fair value. In addition, the framework for measuring fair value establishes a three-level hierarchy for fair value measurements based upon the observability of inputs to the valuation of an asset or liability as of the measurement date.

In addition to the financial instruments that it is required to report at fair value, the Company has elected the fair value option for certain of its financial assets and liabilities at the time of acquisition or issuance. Subsequent changes in the fair value of these financial instruments are generally reported in Other income, net, in the Company's consolidated statements of operations. A decision to elect the fair value option for an eligible financial instrument, which may be made on an instrument by instrument basis, is irrevocable (see Notes 2(b), 2(c), 3, 4, and 14).

(q) Variable Interest Entities

An entity is referred to as a VIE if it meets at least one of the following criteria: (i) the entity has equity that is insufficient to permit the entity to finance its activities without the additional subordinated financial support of other parties; or (ii) as a group, the holders of the equity investment at risk lack (a) the power to direct the activities of an entity that most significantly impact the entity's economic performance; (b) the obligation to absorb the expected losses; or (c) the right to receive the expected residual returns; or (iii) the holders of the equity investment at risk have disproportional voting rights and the entity's activities are conducted on behalf of the investor that has disproportionately few voting rights.

The Company consolidates a VIE when it has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE.

The Company has entered into several financing transactions which resulted in the Company forming entities to facilitate these transactions. In determining the accounting treatment to be applied to these transactions, the Company concluded that the entities used to facilitate these transactions are VIEs and that they should be consolidated. If the Company had determined that consolidation was not required, it would have then assessed whether the transfers of the underlying assets would qualify as sales or should be accounted for as secured financings under GAAP (see Note 15).

The Company also includes on its consolidated balance sheets certain financial assets and liabilities that are acquired/issued by trusts and/or other special purpose entities that have been evaluated as being required to be consolidated by the Company under the applicable accounting guidance.

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

Offering costs related to the issuance of preferred stock are recorded as a reduction in Additional paid-in capital, a component of Stockholders' Equity, at the time such preferred stock is issued. On redemption of preferred stock, any excess of the fair value of the consideration transferred to the holders of the preferred stock over the carrying amount of the preferred stock in the Company's consolidated balance sheets is included in the determination of Net Income Available to Common Stock and Participating Securities in the calculation of EPS.

(s) New Accounting Standards and Interpretations

Accounting Standards Adopted in 2020

Financial Instruments - Credit Losses - Measurement of Credit Losses on Financial Instruments

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which has subsequently been amended by ASUs 2019-11, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, 2019-05, Financial Instruments - Credit Losses (Topic 326): Targeted Transition Relief, 2019-04, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, 2018-19, Codification Improvements to Topic 326, Financial Instruments - Credit Losses, 2020-02 Financial Instruments-Credit Losses (Topic 326)-Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date (SEC Update), and 2020-03 Codification Improvements to Financial Instruments. The amendments in ASU 2016-13 require entities to measure all expected credit losses (rather than incurred losses) for financial assets held at the reporting date, based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 also requires enhanced financial statement disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. The amendments in this ASU were required to be applied by recording a cumulative-effect adjustment to equity as of the beginning of the first reporting period in which the guidance is effective. A prospective transition approach is required for debt securities for which an other than temporary impairment had been recognized before the effective date. The Company adopted the new ASU on January 1, 2020. The impact of adoption was that the allowance for credit losses on Purchased Performing Loans increased by approximately \$8.3 million. This transition adjustment was recorded as an increase in the Company's allowance for credit losses and an adjustment to decrease retained earnings as of the adoption date. In addition, for Purchased Credit Deteriorated Loans, the carrying value of the portfolio was adjusted on transition by \$62.6 million to include an estimate of the allowance for credit losses as required by the new standard. For financial statement reporting purposes, this adjusted carrying value is presented net of the estimated allowance for credit losses. Consequently, the adjustments recorded on transition for Purchased Credit Deteriorated Loans do not result in any adjustment to retained earnings as of the adoption date. The Company does not consider these transition adjustments to be material to its financial position or previously reported GAAP or economic book value.

Under ASU 2016-13, credit losses for available-for-sale debt securities are measured in a manner similar to prior GAAP. However, the amendments in this ASU require that credit losses be recorded through an allowance for credit losses, which will allow subsequent reversals in credit loss estimates to be recognized in current income. In addition, the allowance on available-for-sale debt securities will be limited to the extent that the fair value is less than the amortized cost. Under prior GAAP, credit impairment losses were generally required to be recorded as "other than temporary" impairment, which directly reduced the carrying amount of impaired securities, and was recorded in earnings and was not reversed if expected cash flows subsequently recovered. Under the new guidance, credit impairments on such securities (other than those related to expected sales) are recorded as an allowance for credit losses that is also recorded in earnings, but the allowance can be reversed through earnings in a subsequent period if expected cash flows subsequently recover. Transition to the new available-for-sale debt securities guidance did not result in a change to our retained earnings.

Reference Rate Reform - Facilitation of the Effects of Reference Rate Reform on Financial Reporting

In March 2020, the FASB issued ASU 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04"), which has subsequently been amended by ASU 2021-01, Reference Rate Reform (Topic 848): Scope. The amendments in this ASU provide temporary optional expedients to ease the financial reporting burden of the expected transition from the London Interbank Offered Rate ("LIBOR") to an alternative reference rate such as the Secured

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Overnight Financing Rate (“SOFR”). The amendments in the ASU are elective and apply to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in ASU 2020-04 were effective for all entities as of March 12, 2020 and will generally no longer be available to apply after December 31, 2022. The Company adopted this ASU as of the effective date and will utilize the optional expedients to the extent that they apply to the Company.

3. Residential Whole Loans

Included on the Company’s consolidated balance sheets as of December 31, 2020 and 2019 are approximately \$5.3 billion and \$7.4 billion, respectively, of residential whole loans arising from the Company’s interests in certain trusts established to acquire the loans and certain entities established in connection with its loan securitization transactions. The Company has assessed that these entities are required to be consolidated for financial reporting purposes.

Residential Whole Loans, at Carrying Value

The following table presents the components of the Company’s Residential whole loans, at carrying value at December 31, 2020 and 2019:

| (Dollars In Thousands) | December 31, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| Purchased Performing Loans: | | |
| Non-QM loans | \$ 2,357,185 | \$ 3,707,245 |
| Rehabilitation loans | 581,801 | 1,026,097 |
| Single-family rental loans | 446,374 | 460,742 |
| Seasoned performing loans | 136,264 | 176,569 |
| Total Purchased Performing Loans | 3,521,624 | 5,370,653 |
| Purchased Credit Deteriorated Loans (1) | 673,708 | 698,717 |
| Total Residential whole loans, at carrying value | \$ 4,195,332 | \$ 6,069,370 |
| Allowance for credit losses on residential whole loans held at carrying value | (86,833) | (3,025) |
| Total Residential whole loans at carrying value, net | \$ 4,108,499 | \$ 6,066,345 |
| Number of loans | 13,112 | 17,082 |

(1) The amortized cost basis of Purchased Credit Deteriorated Loans was increased by \$62.6 million on January 1, 2020 in connection with the adoption of ASU 2016-13.

The following table presents the components of interest income on the Company’s Residential whole loans, at carrying value for the years ended December 31, 2020, 2019 and 2018:

| (In Thousands) | For the Year Ended December 31, | | |
|--|---------------------------------|------------|------------|
| | 2020 | 2019 | 2018 |
| Purchased Performing Loans: | | | |
| Non-QM loans | \$ 136,527 | \$ 116,282 | \$ 31,036 |
| Rehabilitation loans | 49,484 | 54,419 | 15,975 |
| Single-family rental loans | 27,722 | 17,742 | 3,315 |
| Seasoned performing loans | 8,793 | 12,191 | 5,818 |
| Total Purchased Performing Loans | 222,526 | 200,634 | 56,144 |
| Purchased Credit Deteriorated Loans | 36,238 | 43,346 | 44,777 |
| Total Residential whole loans, at carrying value | \$ 258,764 | \$ 243,980 | \$ 100,921 |

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The following table presents additional information regarding the Company’s Residential whole loans, at carrying value at December 31, 2020:

December 31, 2020

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

December 31, 2019

| (Dollars In Thousands) | Carrying Value | Amortized Cost Basis | Unpaid Principal Balance (“UPB”) | Weighted Average Coupon (1) | Weighted Average Term to Maturity (Months) | Weighted Average LTV Ratio (2) | Weighted Average Original FICO (3) | Aging by UPB | | | |
|--|---------------------|----------------------|----------------------------------|-----------------------------|--|--------------------------------|------------------------------------|--------------|---------------|-----------|-----------|
| | | | | | | | | Current | Past Due Days | | |
| | | | | | | | | | 30-59 | 60-89 | 90+ |
| Purchased Performing Loans: | | | | | | | | | | | |
| Non-QM loans (4) | \$ 3,706,857 | \$ 3,707,245 | \$ 3,592,701 | 5.96 % | 368 | 67 % | 716 | \$ 3,492,533 | \$ 59,963 | \$ 19,605 | \$ 20,600 |
| Rehabilitation loans (4) | 1,023,766 | 1,026,097 | 1,026,097 | 7.30 | 8 | 64 | 717 | 868,281 | 67,747 | 27,437 | 62,632 |
| Single-family rental loans (4) | 460,679 | 460,741 | 457,146 | 6.29 | 324 | 70 | 734 | 432,936 | 15,948 | 2,047 | 6,215 |
| Seasoned performing loans | 176,569 | 176,569 | 192,151 | 4.24 | 181 | 46 | 723 | 187,683 | 2,164 | 430 | 1,874 |
| Purchased Credit Impaired Loans (5) | 698,474 | 698,718 | 873,326 | 4.46 | 294 | 81 | N/A | N/M | N/M | N/M | 108,998 |
| Residential whole loans, at carrying value, total or weighted average | \$ 6,066,345 | \$ 6,069,370 | \$ 6,141,421 | 5.96 % | 288 | | | | | | |

- (1) Weighted average is calculated based on the interest bearing principal balance of each loan within the related category. For loans acquired with servicing rights released by the seller, interest rates included in the calculation do not reflect loan servicing fees. For loans acquired with servicing rights retained by the seller, interest rates included in the calculation are net of servicing fees.
- (2) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated “after repaired” value of the collateral securing the related loan, where available. For certain Rehabilitation loans, totaling \$189.9 million and \$269.2 million at December 31, 2020 and December 31, 2019, respectively, an after repaired valuation was not obtained and the loan was underwritten based on an “as is” valuation. The weighted average LTV of these loans based on the current unpaid principal balance and the valuation obtained during underwriting, is 68% and 69% at December 31, 2020 and December 31, 2019, respectively. Excluded from the calculation of weighted average LTV are certain low value loans secured by vacant lots, for which the LTV ratio is not meaningful.
- (3) Excludes loans for which no Fair Isaac Corporation (“FICO”) score is available.
- (4) At December 31, 2020 and December 31, 2019 the difference between the Carrying Value and Amortized Cost Basis represents the related allowance for credit losses.
- (5) Purchased Credit Deteriorated Loans tend to be characterized by varying performance of the underlying borrowers over time, including loans where multiple months of payments are received in a period to bring the loan to current status, followed by months where no payments are received. Accordingly, delinquency information is presented for loans that are more than 90 days past due that are considered to be seriously delinquent.

During the year-ended December 31, 2020, \$1.8 billion of Non-QM loans were sold, realizing losses of \$273.0 million.

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Allowance for Credit Losses

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

| (Dollars In Thousands) | For the Year Ended December 31, 2020 | | | | | |
|---|--------------------------------------|--------------------------------|-------------------------------|------------------------------|---|------------|
| | Non-QM Loans | Rehabilitation Loans (1)(2) | Single-family Rental Loans | Seasoned Performing Loans | Purchased Credit Deteriorated Loans (3) | Totals |
| Allowance for credit losses at December 31, 2019 | \$ 388 | \$ 2,331 | \$ 62 | \$ — | \$ 244 | \$ 3,025 |
| Transition adjustment on adoption of ASU 2016-13 (4) | 6,904 | 517 | 754 | 19 | 62,361 | 70,555 |
| Current provision | 26,358 | 33,213 | 6,615 | 230 | 8,481 | 74,897 |
| Write-offs | — | (428) | — | — | (219) | (647) |
| Valuation adjustment on loans held for sale | 70,181 | — | — | — | — | 70,181 |
| Allowance for credit and valuation losses at March 31, 2020 | \$ 103,831 | \$ 35,633 | \$ 7,431 | \$ 249 | \$ 70,867 | \$ 218,011 |
| Current provision/(reversal) | (2,297) | (5,213) | (500) | (25) | (2,579) | (10,614) |
| Write-offs | — | (420) | — | — | (207) | (627) |
| Valuation adjustment on loans held for sale | (70,181) | — | — | — | — | (70,181) |
| Allowance for credit losses at June 30, 2020 | \$ 31,353 | \$ 30,000 | \$ 6,931 | \$ 224 | \$ 68,081 | \$ 136,589 |
| Current provision/(reversal) | (4,568) | (7,140) | (1,906) | (74) | (16,374) | (30,062) |
| Write-offs | (32) | (227) | — | — | (22) | (281) |
| Allowance for credit losses at September 30, 2020 | \$ 26,753 | \$ 22,633 | \$ 5,025 | \$ 150 | \$ 51,685 | \$ 106,246 |
| Current provision/(reversal) | (5,599) | (3,837) | (1,107) | (43) | (7,997) | (18,583) |
| Write-offs | (86) | (425) | — | — | (319) | (830) |
| Allowance for credit losses at December 31, 2020 | \$ 21,068 | \$ 18,371 | \$ 3,918 | \$ 107 | \$ 43,369 | \$ 86,833 |

| (Dollars In Thousands) | For the Year Ended December 31, 2019 | | | | | |
|---|--------------------------------------|-------------------------|-------------------------------|------------------------------|---|----------|
| | Non-QM Loans | Rehabilitation Loans | Single-family Rental Loans | Seasoned Performing Loans | Purchased Credit Deteriorated Loans | Totals |
| Allowance for credit losses at December 31, 2018 | \$ — | \$ — | \$ — | \$ — | \$ 968 | \$ 968 |
| Current provision | — | 500 | — | — | 183 | 683 |
| Write-offs | — | — | — | — | — | — |
| Allowance for credit losses at March 31, 2019 | \$ — | \$ 500 | \$ — | \$ — | \$ 1,151 | \$ 1,651 |
| Current provision | — | — | — | — | 385 | 385 |
| Write-offs | — | (50) | — | — | — | (50) |
| Allowance for credit losses at June 30, 2019 | \$ — | \$ 450 | \$ — | \$ — | \$ 1,536 | \$ 1,986 |
| Current provision | — | — | — | — | 347 | 347 |
| Write-offs | — | (62) | — | — | — | (62) |
| Allowance for credit losses at September 30, 2019 | \$ — | \$ 388 | \$ — | \$ — | \$ 1,883 | \$ 2,271 |
| Current provision/(reversal) | 388 | 2,220 | 62 | — | (1,639) | 1,031 |
| Write-offs | — | (277) | — | — | — | (277) |
| Allowance for credit losses at December 31, 2019 | \$ 388 | \$ 2,331 | \$ 62 | \$ — | \$ 244 | \$ 3,025 |

(1) In connection with purchased Rehabilitation loans, the Company had unfunded commitments of \$60.6 million, with an allowance for credit losses of \$1.2 million at December 31, 2020. Such allowance is included in "Other liabilities" in the Company's consolidated balance sheets (see Note 9).

(2) Includes \$161.8 million of loans that were assessed for credit losses based on a collateral dependent methodology.

(3) Includes \$70.3 million of loans that were assessed for credit losses based on a collateral dependent methodology.

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

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

The amortized cost basis of Purchased Performing Loans on nonaccrual status as of December 31, 2020 and December 31, 2019 was \$373.3 million and \$99.9 million, respectively. The amortized cost basis of Purchased Credit Deteriorated Loans on nonaccrual status as of December 31, 2020 was \$151.4 million. Because Purchase Credit Deteriorated Loans were previously accounted for in pools, there were no such loans on nonaccrual status as of December 31, 2019. No interest income was recognized from loans on nonaccrual status during the year ended December 31, 2020. At December 31, 2020, there were approximately \$130.7 million of loans on nonaccrual status that did not have an associated allowance for credit losses, because they were determined to be collateral dependent and the estimated fair value of the related collateral exceeded the carrying value of each loan.

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

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The following tables present certain additional credit-related information regarding our residential whole loans:

| (Dollars In Thousands) | Amortized Cost Basis by Origination Year and LTV Bands | | | | | | Total |
|---|--|--------------|------------|-----------|-----------|------------|--------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 | Prior | |
| Non-QM loans | | | | | | | |
| LTV < 80% (1) | \$ 429,241 | \$ 1,111,534 | \$ 621,201 | \$ 67,547 | \$ 5,597 | \$ — | \$ 2,235,120 |
| LTV ≥ 80% (1) | 59,931 | 29,185 | 24,163 | 8,634 | 152 | — | 122,065 |
| Total Non-QM loans | \$ 489,172 | \$ 1,140,719 | \$ 645,364 | \$ 76,181 | \$ 5,749 | \$ — | \$ 2,357,185 |
| Year Ended December 31, 2020 Gross write-offs | \$ — | — | \$ 117 | — | \$ — | \$ — | \$ 117 |
| Year Ended December 31, 2020 Recoveries | — | — | — | — | — | — | — |
| Year Ended December 31, 2020 Net write-offs | \$ — | \$ — | \$ 117 | \$ — | \$ — | \$ — | \$ 117 |
| Rehabilitation loans | | | | | | | |
| LTV < 80% (1) | \$ 44,153 | \$ 448,646 | \$ 70,046 | \$ 4,203 | \$ — | \$ — | \$ 567,048 |
| LTV ≥ 80% (1) | 774 | 11,731 | 548 | 1,700 | — | — | 14,753 |
| Total Rehabilitation loans | \$ 44,927 | \$ 460,377 | \$ 70,594 | \$ 5,903 | \$ — | \$ — | \$ 581,801 |
| Year Ended December 31, 2020 Gross write-offs | \$ — | \$ 21 | \$ 1,447 | \$ 32 | \$ — | \$ — | \$ 1,500 |
| Year Ended December 31, 2020 Recoveries | — | — | — | — | — | — | — |
| Year Ended December 31, 2020 Net write-offs | \$ — | \$ 21 | \$ 1,447 | \$ 32 | \$ — | \$ — | \$ 1,500 |
| Single family rental loans | | | | | | | |
| LTV < 80% (1) | \$ 34,342 | \$ 267,165 | \$ 117,523 | \$ 13,119 | \$ — | \$ — | \$ 432,149 |
| LTV ≥ 80% (1) | 1,394 | 12,619 | 212 | — | — | — | 14,225 |
| Total Single family rental loans | \$ 35,736 | \$ 279,784 | \$ 117,735 | \$ 13,119 | \$ — | \$ — | \$ 446,374 |
| Year Ended December 31, 2020 Gross write-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Year Ended December 31, 2020 Recoveries | — | — | — | — | — | — | — |
| Year Ended December 31, 2020 Net write-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Seasoned performing loans | | | | | | | |
| LTV < 80% (1) | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 130,316 | \$ 130,316 |
| LTV ≥ 80% (1) | — | — | — | — | 79 | 5,869 | 5,948 |
| Total Seasoned performing loans | \$ — | \$ — | \$ — | \$ — | \$ 79 | \$ 136,185 | \$ 136,264 |
| Year Ended December 31, 2020 Gross write-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Year Ended December 31, 2020 Recoveries | — | — | — | — | — | — | — |
| Year Ended December 31, 2020 Net write-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Purchased credit deteriorated loans | | | | | | | |
| LTV < 80% (1) | \$ — | \$ — | \$ — | \$ 630 | \$ 4,872 | \$ 427,193 | \$ 432,695 |
| LTV ≥ 80% (1) | — | — | — | — | 1,260 | 239,753 | 241,013 |
| Total Purchased credit deteriorated loans | \$ — | \$ — | \$ — | \$ 630 | \$ 6,132 | \$ 666,946 | \$ 673,708 |
| Year Ended December 31, 2020 Gross write-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 768 | \$ 768 |
| Year Ended December 31, 2020 Recoveries | — | — | — | — | — | — | — |
| Year Ended December 31, 2020 Net write-offs | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 768 | \$ 768 |
| Total LTV < 80% (1) | \$ 507,736 | \$ 1,827,345 | \$ 808,770 | \$ 85,499 | \$ 10,469 | \$ 557,509 | \$ 3,797,328 |
| Total LTV ≥ 80% (1) | 62,099 | 53,535 | 24,923 | 10,334 | 1,491 | 245,622 | 398,004 |
| Total residential whole loans, at carrying value | \$ 569,835 | \$ 1,880,880 | \$ 833,693 | \$ 95,833 | \$ 11,960 | \$ 803,131 | \$ 4,195,332 |
| Total Gross write-offs | \$ — | \$ 21 | \$ 1,564 | \$ 32 | \$ — | \$ 768 | \$ 2,385 |
| Total Recoveries | — | — | — | — | — | — | — |
| Total Net write-offs | \$ — | \$ 21 | \$ 1,564 | \$ 32 | \$ — | \$ 768 | \$ 2,385 |

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(1) LTV represents the ratio of the total unpaid principal balance of the loan to the estimated value of the collateral securing the related loan as of the most recent date available, which may be the origination date. For Rehabilitation loans, the LTV presented is the ratio of the maximum unpaid principal balance of the loan, including unfunded commitments, to the estimated "after repaired" value of the collateral securing the related loan, where available. For certain Rehabilitation loans, totaling \$189.9 million at December 31, 2020, an after repaired valuation was not obtained and the loan was underwritten based on an "as is" valuation. The weighted average LTV of these loans based on the current unpaid principal balance and the valuation obtained during underwriting, is 68% at December 31, 2020. Certain low value loans secured by vacant lots are categorized as LTV >= 80%.

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

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

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

Residential Whole Loans at Fair Value

Certain of the Company's residential whole loans are presented at fair value on its consolidated balance sheets as a result of a fair value election made at the time of acquisition. Subsequent changes in fair value are reported in current period earnings and presented in Net gain on residential whole loans measured at fair value through earnings on the Company's consolidated statements of operations.

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The following table presents information regarding the Company's residential whole loans held at fair value at December 31, 2020 and 2019:

| (Dollars in Thousands) | December 31, 2020 | | December 31, 2019 | |
|--|-------------------|-----------|-------------------|-----------|
| Less than 60 Days Past Due: | | | | |
| Outstanding principal balance | \$ | 602,292 | \$ | 666,026 |
| Aggregate fair value | \$ | 595,521 | \$ | 641,616 |
| Weighted Average LTV Ratio (1) | | 72.57 % | | 76.69 % |
| Number of loans | | 3,033 | | 3,159 |
| 60 Days to 89 Days Past Due: | | | | |
| Outstanding principal balance | \$ | 54,180 | \$ | 58,160 |
| Aggregate fair value | \$ | 49,652 | \$ | 53,485 |
| Weighted Average LTV Ratio (1) | | 82.11 % | | 79.48 % |
| Number of loans | | 263 | | 313 |
| 90 Days or More Past Due: | | | | |
| Outstanding principal balance | \$ | 625,621 | \$ | 767,320 |
| Aggregate fair value | \$ | 571,729 | \$ | 686,482 |
| Weighted Average LTV Ratio (1) | | 86.78 % | | 89.69 % |
| Number of loans | | 2,326 | | 2,983 |
| Total Residential whole loans, at fair value | \$ | 1,216,902 | \$ | 1,381,583 |

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

The following table presents the components of Net gain on residential whole loans measured at fair value through earnings for the years ended December 31, 2020, 2019 and 2018:

| (In Thousands) | For the Year Ended December 31, | | |
|--|---------------------------------|------------|------------|
| | 2020 | 2019 | 2018 |
| Coupon payments, realized gains, and other income received (1) | \$ 72,700 | \$ 91,438 | \$ 81,602 |
| Net unrealized gains | 17,204 | 47,849 | 36,725 |
| Net gain on transfers to REO | 4,309 | 19,043 | 19,292 |
| Total | \$ 94,213 | \$ 158,330 | \$ 137,619 |

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

During the year ended December 31, 2020, loans at fair value with an aggregate unpaid principal balance of \$24.1 million were sold, realizing net losses of \$0.8 million.

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4. Residential Mortgage Securities and MSR-Related Assets

Agency and Non-Agency MBS

MBS investments held during the year ended December 31, 2020 or in prior periods included Agency MBS and Non-Agency MBS which include MBS issued prior to 2008 (“Legacy Non-Agency MBS”). These MBS are secured by: (i) hybrid mortgages (“Hybrids”), which have interest rates that are fixed for a specified period of time and, thereafter, generally adjust annually to an increment over a specified interest rate index; (ii) adjustable-rate mortgages (“ARMs”), which have interest rates that reset annually or more frequently (collectively, “ARM-MBS”); and (iii) 15 and 30 year fixed-rate mortgages for Agency MBS and, for Non-Agency MBS, 30-year and longer-term fixed-rate mortgages. In addition, the Company’s MBS are also comprised of MBS backed by securitized re-performing/non-performing loans (“RPL/NPL MBS”), where the cash flows of the bond may not reflect the contractual cash flows of the underlying collateral. The Company’s RPL/NPL MBS are generally structured with a contractual coupon step-up feature where the coupon increases from 300 - 400 basis points at 36 - 48 months from issuance or sooner. The Company pledges a significant portion of its MBS as collateral against its borrowings under repurchase agreements (see Note 7).

Agency MBS: Agency MBS are guaranteed as to principal and/or interest by a federally chartered corporation, such as Fannie Mae or Freddie Mac, or an agency of the U.S. Government, such as Ginnie Mae. The payment of principal and/or interest on Ginnie Mae MBS is explicitly backed by the full faith and credit of the U.S. Government. Since the third quarter of 2008, Fannie Mae and Freddie Mac have been under the conservatorship of the Federal Housing Finance Agency, which significantly strengthened the backing for these government-sponsored entities. The Company sold its remaining holdings of Agency MBS during the quarter ended June 30, 2020.

Non-Agency MBS: The Company’s Non-Agency MBS are primarily secured by pools of residential mortgages, which are not guaranteed by an agency of the U.S. Government or any federally chartered corporation. Credit risk associated with Non-Agency MBS is regularly assessed as new information regarding the underlying collateral becomes available and based on updated estimates of cash flows generated by the underlying collateral. During the quarter ended June 30, 2020, the Company had sold substantially all of its holdings of Legacy Non-Agency MBS and substantially reduced its holdings of other Non-Agency MBS. The Company sold its remaining Legacy Non-Agency MBS during the quarter ended September 30, 2020.

CRT Securities

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

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The following tables present certain information about the Company's residential mortgage securities at December 31, 2020 and 2019:

December 31, 2020

| (In Thousands) | Principal/ Current Face | Purchase Premiums | Accretable Purchase Discounts | Discount Designated as Credit Reserve (1) | Gross Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Net Unrealized Gain/(Loss) | Fair Value |
|---------------------------------------|-------------------------------|----------------------|-------------------------------------|--|----------------------------|------------------------------|-------------------------------|----------------------------------|------------|
| Non-Agency MBS (2)(3)(4) | \$ 57,847 | \$ — | \$ (8,136) | \$ (669) | \$ 49,042 | \$ 8,585 | \$ (861) | \$ 7,724 | \$ 56,766 |
| CRT securities (5) | 104,031 | 3,022 | (70) | (20,768) | 86,215 | 18,341 | (322) | 18,019 | 104,234 |
| Total residential mortgage securities | \$ 161,878 | \$ 3,022 | \$ (8,206) | \$ (21,437) | \$ 135,257 | \$ 26,926 | \$ (1,183) | \$ 25,743 | \$ 161,000 |

December 31, 2019

| (In Thousands) | Principal/ Current Face | Purchase Premiums | Accretable Purchase Discounts | Discount Designated as Credit Reserve (1) | Gross Amortized Cost (6) | Gross Unrealized Gains | Gross Unrealized Losses | Net Unrealized Gain/(Loss) | Fair Value |
|---------------------------------------|-------------------------------|----------------------|-------------------------------------|--|-----------------------------|------------------------------|-------------------------------|----------------------------------|--------------|
| Agency MBS: (7) | | | | | | | | | |
| Fannie Mae | \$ 1,119,708 | \$ 43,249 | \$ (22) | \$ — | \$ 1,162,935 | \$ 9,799 | \$ (14,741) | \$ (4,942) | \$ 1,157,993 |
| Freddie Mac | 480,879 | 19,468 | — | — | 500,961 | 5,475 | (3,968) | 1,507 | 502,468 |
| Ginnie Mae | 3,996 | 73 | — | — | 4,069 | 52 | — | 52 | 4,121 |
| Total Agency MBS | 1,604,583 | 62,790 | (22) | — | 1,667,965 | 15,326 | (18,709) | (3,383) | 1,664,582 |
| Non-Agency MBS: | | | | | | | | | |
| Expected to Recover Par (2)(3) | 722,477 | — | (16,661) | — | 705,816 | 19,861 | (9) | 19,852 | 725,668 |
| Expected to Recover Less than Par (2) | 1,472,826 | — | (73,956) | (436,598) | 962,272 | 375,598 | (9) | 375,589 | 1,337,861 |
| Total Non-Agency MBS (4) | 2,195,303 | — | (90,617) | (436,598) | 1,668,088 | 395,459 | (18) | 395,441 | 2,063,529 |
| Total MBS | 3,799,886 | 62,790 | (90,639) | (436,598) | 3,336,053 | 410,785 | (18,727) | 392,058 | 3,728,111 |
| CRT securities (5) | 244,932 | 4,318 | (55) | — | 249,195 | 6,304 | (91) | 6,213 | 255,408 |
| Total residential mortgage securities | \$ 4,044,818 | \$ 67,108 | \$ (90,694) | \$ (436,598) | \$ 3,585,248 | \$ 417,089 | \$ (18,818) | \$ 398,271 | \$ 3,983,519 |

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

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

(3) Includes RPL/NPL MBS, which at December 31, 2020 had a \$55.0 million Principal/Current face, \$46.9 million amortized cost and \$53.9 million fair value. At December 31, 2019, RPL/NPL MBS had a \$632.3 million Principal/Current face, \$631.8 million amortized cost and \$635.0 million fair value.

(4) At December 31, 2020 and 2019, the Company expected to recover approximately 99% and 80% of the then-current face amount of Non-Agency MBS, respectively.

(5) Amounts disclosed at December 31, 2020 includes CRT securities with a fair value of \$66.2 million for which the fair value option has been elected. Such securities had \$551,000 gross unrealized gains and gross unrealized losses of approximately \$322,000 at December 31, 2020. Amounts disclosed at December 31, 2019 includes CRT securities with a fair value of \$255.4 million for which the fair value option had been elected. Such securities had gross unrealized gains of approximately \$6.3 million and gross unrealized losses of approximately \$91,000 at December 31, 2019.

(6) Includes principal payments receivable of \$614,000 at December 31, 2019, which is not included in the Principal/Current Face.

(7) Amounts disclosed at December 31, 2019 include Agency MBS with a fair value of \$280.3 million, for which the fair value option has been elected. Such securities had \$4.5 million unrealized gains and no gross unrealized losses at December 31, 2019, respectively.

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Sales of Residential Mortgage Securities

The following table presents information about the Company's sales of its residential mortgage securities for the years ended December 31, 2020, 2019 and 2018. The Company has no continuing involvement with any of the sold securities.

| (In Thousands) | For the Year Ended December 31, | | | | | |
|----------------|---------------------------------|------------------|-------------------|------------------|-------------------|------------------|
| | 2020 | | 2019 | | 2018 | |
| | Sales Proceeds | Gains/(Losses) | Sales Proceeds | Gains/(Losses) | Sales Proceeds | Gains/(Losses) |
| Agency MBS | \$ 1,500,875 | \$ (19,291) | \$ 360,634 | \$ 499 | \$ 122,027 | \$ (6,810) |
| Non-Agency MBS | 1,318,958 | 107,999 | 291,391 | 50,360 | 117,060 | 36,744 |
| CRT Securities | 243,025 | (27,011) | 256,671 | 11,143 | 299,878 | 31,373 |
| Total | \$ 3,062,858 | \$ 61,697 | \$ 908,696 | \$ 62,002 | \$ 538,965 | \$ 61,307 |

Unrealized Losses on Residential Mortgage Securities

The following table presents information about the Company's residential mortgage securities that were in an unrealized loss position at December 31, 2020, with respect to which no allowance for credit losses has been recorded:

| (Dollars in Thousands) | Unrealized Loss Position For: | | | | | | Total | |
|--|-------------------------------|-------------------|----------------------|-------------------|-------------------|----------------------|-------------------|-------------------|
| | Less than 12 Months | | | 12 Months or more | | | Fair Value | Unrealized Losses |
| | Fair Value | Unrealized Losses | Number of Securities | Fair Value | Unrealized Losses | Number of Securities | | |
| Non-Agency MBS (1) | \$ 41,139 | \$ 861 | 4 | \$ — | \$ — | — | \$ 41,139 | \$ 861 |
| CRT securities (2) | 62,252 | 322 | 8 | — | — | — | 62,252 | 322 |
| Total residential mortgage securities | \$ 103,391 | \$ 1,183 | 12 | \$ — | \$ — | — | \$ 103,391 | \$ 1,183 |

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

(2) Amounts disclosed at December 31, 2020 include CRT securities with a fair value of \$62.2 million for which the fair value option has been elected. Such securities had unrealized losses of \$322,000 at December 31, 2020.

Gross unrealized losses on the Company's Non-Agency MBS were \$861,000 at December 31, 2020. Based upon the most recent evaluation, the Company does not consider these unrealized losses to require an allowance for credit losses and does not believe that these unrealized losses are credit related, but are rather a reflection of current market yields and/or marketplace bid-ask spreads. The Company has reviewed its Non-Agency MBS that are in an unrealized loss position to identify those securities that require an allowance for credit losses based on an assessment of changes in expected cash flows for such securities, which considers recent bond performance and, where possible, expected future performance of the underlying collateral.

The Company did not recognize an allowance for credit losses (or other than temporary impairment in prior year periods) through earnings related to its MBS for the years ended December 31, 2020 and 2019. However, during the three months ended March 31, 2020, the Company recognized an aggregate impairment loss related to its MBS of \$63.5 million based on its intent to sell, or the likelihood it will be required to sell, certain securities at such time.

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MSR-Related Assets*(a) Term Notes Backed by MSR-Related Collateral*

At December 31, 2020 and 2019, the Company had \$239.0 million and \$1.2 billion, respectively, of term notes issued by SPVs that have acquired rights to receive cash flows representing the servicing fees and/or excess servicing spread associated with certain MSRs. Payment of principal and interest on these term notes is considered to be largely dependent on cash flows generated by the underlying MSRs, as this impacts the cash flows available to the SPV that issued the term notes.

At December 31, 2020, these term notes had an amortized cost of \$184.9 million, gross unrealized gains of approximately \$54.0 million, a weighted average yield of 12.3% and a weighted average term to maturity of 9.2 years. During the year ended December 31, 2020, the Company sold certain term notes for \$711.7 million, realizing gains of \$28.7 million, respectively. During the three months ended March 31, 2020, the Company recognized an impairment loss related to its term notes of \$280.8 million based on its intent to sell, or the likelihood it will be required to sell, such notes. At December 31, 2019, these term notes had an amortized cost of \$1.2 billion, gross unrealized gains of \$5.2 million, a weighted average yield of 4.75% and a weighted average term to maturity of 5.3 years.

(b) Corporate Loans

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

The Company has participated in a loan where it committed to lend \$32.6 million of which no amount was drawn at December 31, 2020. The facility expires in August 2021. During the remaining commitment period, the Company receives a commitment fee between 0.25% and 1.0% based on the undrawn amount of the loan.

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

| (Dollars In Thousands) | For the Year Ended December 31, | |
|--|--|-------------|
| | 2020 | 2019 |
| Allowance for credit losses at beginning of period | \$ — | \$ — |
| Current provision: | — | — |
| Securities with no prior loss allowance | 344,269 | — |
| Securities with a prior loss allowance | — | — |
| Write-offs, including allowance related to securities the Company intended to sell | (344,269) | — |
| Allowance for credit losses at end of period | <u>\$ —</u> | <u>\$ —</u> |

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Impact of AFS Securities on AOCI

The following table presents the impact of the Company's AFS securities on its AOCI for the years ended December 31, 2020, 2019, and 2018:

| (In Thousands) | For the Year Ended December 31, | | |
|---|--|-------------------|-------------------|
| | 2020 | 2019 | 2018 |
| AOCI from AFS securities: | | | |
| Unrealized gain on AFS securities at beginning of period | \$ 392,722 | \$ 417,167 | \$ 620,648 |
| Unrealized (loss)/gain on Agency MBS, net | (161) | 21,844 | (17,891) |
| Unrealized gain/(loss) on Non-Agency MBS, net | 367,469 | (6,682) | (131,939) |
| Unrealized gain/(loss) on MSR term notes, net | 52,973 | 5,173 | (812) |
| Reclassification adjustment for MBS sales included in net income | (389,127) | (44,600) | (51,580) |
| Reclassification adjustment for impairment included in net income | (344,269) | (180) | (1,259) |
| Change in AOCI from AFS securities | (313,115) | (24,445) | (203,481) |
| Balance at end of period | <u>\$ 79,607</u> | <u>\$ 392,722</u> | <u>\$ 417,167</u> |

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Interest Income on Residential Mortgage Securities and MSR-Related Assets

The following table presents the components of interest income on the Company's residential mortgage securities and MSR-related assets for the years ended December 31, 2020, 2019 and 2018:

| (In Thousands) | For the Year Ended December 31, | | |
|-----------------------------------|---------------------------------|------------|------------|
| | 2020 | 2019 | 2018 |
| Agency MBS | | | |
| Coupon interest | \$ 14,038 | \$ 82,446 | \$ 88,233 |
| Effective yield adjustment (1) | (5,186) | (26,545) | (25,930) |
| Interest income | \$ 8,852 | \$ 55,901 | \$ 62,303 |
| Legacy Non-Agency MBS | | | |
| Coupon interest | \$ 18,263 | \$ 87,024 | \$ 109,714 |
| Effective yield adjustment (2)(3) | 10,565 | 59,622 | 69,309 |
| Interest income | \$ 28,828 | \$ 146,646 | \$ 179,023 |
| RPL/NPL MBS | | | |
| Coupon interest | \$ 8,376 | \$ 53,086 | \$ 46,339 |
| Effective yield adjustment (1)(4) | 560 | 338 | 1,434 |
| Interest income | \$ 8,936 | \$ 53,424 | \$ 47,773 |
| CRT securities | | | |
| Coupon interest | \$ 7,010 | \$ 20,532 | \$ 30,628 |
| Effective yield adjustment (2) | 511 | (1,949) | 2,748 |
| Interest income | \$ 7,521 | \$ 18,583 | \$ 33,376 |
| MSR-related assets | | | |
| Coupon interest | \$ 25,970 | \$ 52,644 | \$ 27,174 |
| Effective yield adjustment (1)(2) | 9,987 | 3 | 1,246 |
| Interest income | \$ 35,957 | \$ 52,647 | \$ 28,420 |

(1) Includes amortization of premium paid net of accretion of purchase discount. For Agency MBS, RPL/NPL MBS and the corporate loan secured by MSRs, interest income is recorded at an effective yield, which reflects net premium amortization/accretion based on actual prepayment activity.

(2) The effective yield adjustment is the difference between the net income calculated using the net yield less the current coupon yield. The net yield may be based on management's estimates of the amount and timing of future cash flows or in the instrument's contractual cash flows, depending on the relevant accounting standards.

(3) Includes accretion income recognized due to the impact of redemptions of certain securities that had been previously been purchased at a discount of \$14.5 million and \$2.7 million during the years ended December 31, 2019 and 2018, respectively.

(4) Includes accretion income recognized due to the impact of redemptions of certain securities that had been previously been purchased at a discount of \$329,000 and \$1.4 million during the years ended December 31, 2019 and 2018, respectively.

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5. Other Assets

The following table presents the components of the Company's Other assets at December 31, 2020 and 2019:

| (In Thousands) | December 31, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| REO (1) | \$ 249,699 | \$ 411,659 |
| Capital contributions made to loan origination partners | 47,148 | 147,992 |
| Other interest-earning assets | — | 70,468 |
| Interest receivable | 38,850 | 70,986 |
| Other MBS and loan related receivables | 16,682 | 44,648 |
| Other | 33,002 | 39,304 |
| Total Other Assets | \$ 385,381 | \$ 785,057 |

(1) Includes \$61.8 million and \$27.3 million of REO that is held-for-investment at December 31, 2020 and 2019.

(a) Real Estate Owned

At December 31, 2020, the Company had 946 REO properties with an aggregate carrying value of \$249.7 million. At December 31, 2019, the Company had 1,652 REO properties with an aggregate carrying value of \$411.7 million.

At December 31, 2020, \$247.2 million of residential real estate property was held by the Company that was acquired either through a completed foreclosure proceeding or from completion of a deed-in-lieu of foreclosure or similar legal agreement. In addition, formal foreclosure proceedings were in process with respect to \$116.3 million of residential whole loans held at carrying value and \$448.5 million of residential whole loans held at fair value at December 31, 2020.

The following table presents the activity in the Company's REO for the years ended December 31, 2020 and 2019:

| (Dollars In Thousands) | For the Year Ended December 31, | |
|--|---------------------------------|------------|
| | 2020 | 2019 |
| Balance at beginning of period | \$ 411,659 | \$ 249,413 |
| Adjustments to record at lower of cost or fair value | (12,570) | (14,884) |
| Transfer from residential whole loans (1) | 96,766 | 257,701 |
| Purchases and capital improvements, net | 10,198 | 20,746 |
| Disposals (2) | (256,354) | (101,317) |
| Balance at end of period | \$ 249,699 | \$ 411,659 |
| Number of properties | 946 | 1,652 |

(1) Includes net gain recorded on transfer of approximately \$5.1 million and \$19.8 million, respectively, for the years ended December 31, 2020 and 2019.

(2) During the year ended December 31, 2020, the company sold 1,086 REO properties for consideration of \$271.4 million, realizing net gains of approximately \$15.1 million. During the year ended December 31, 2019, the Company sold 571 REO properties for consideration of \$109.2 million, realizing net gains of approximately \$7.4 million. These amounts are included in Other Income, net on the Company's consolidated statements of operations.

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(b) Capital Contributions Made to Loan Origination Partners

The Company has made investments in several loan originators as part of its strategy to be a reliable source of capital to select partners from whom it sources residential mortgage loans through both flow arrangements and bulk purchases. To date, such contributions of capital include the following investments (based on their carrying value prior to any impairments): \$30.4 million of common equity and \$82.1 million of preferred equity. In addition, for certain partners, options or warrants may have also been acquired that provide the Company the ability to increase the level of its investment if certain conditions are met. At the end of each reporting period, or earlier if circumstances warrant, the Company evaluates whether the nature of its interests and other involvement with the investee entity requires the Company to apply equity method accounting or consolidate the results of the investee entity with the Company's financial results. To date, the nature of the Company's interests and/or involvement with investee companies has not resulted in consolidation. Further, to the extent that the nature of the Company's interests has resulted in the need for the Company to apply equity method accounting, the impact of such accounting on the Company's results for periods subsequent to that in which the Company was determined to have significant influence over the investee company was not material for any period. As the interests acquired to date by the Company generally do not have a readily determinable fair value, the Company accounts for its non-equity method interests (including any acquired options and warrants) in loan originators initially at cost. The carrying value of these investments will be adjusted if it is determined that an impairment has occurred or if there has been a subsequent observable transaction in either the investee company's equity securities or a similar security that provides evidence to support an adjustment to the carrying value. Following an evaluation of the anticipated impact of the COVID-19 pandemic on economic conditions for the short to medium term, the Company recorded impairment charges of \$65.3 million on investments in certain loan origination partners during the year ended December 31, 2020, which was included in "Impairment and other losses on securities available-for-sale and other assets" on the consolidated statements of operations. At December 31, 2020, approximately \$738.4 million of the Company's Residential whole loans, at carrying value were serviced by entities in which the Company has an investment.

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(c) Derivative Instruments

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

In response to the turmoil in the financial markets resulting from the COVID-19 pandemic experienced during the three months ended March 31, 2020, the Company unwound all of its approximately \$4.1 billion of Swap hedging transactions late in the first quarter in order to recover previously posted margin. Gains or losses associated with these Swap hedging transactions are required to be transferred from AOCI to earnings over the original term of the Swap, if the underlying hedged item or transactions are assessed as probable of occurring. After the closing of several new financing transactions late in the quarter ended June 30, 2020, the Company evaluated its anticipated future financing requirements. The Company concluded that it was no longer probable that certain previously used financing strategies, including those that primarily utilized repurchase agreements with funding costs that reset on a monthly basis, would be used by the Company on an ongoing basis, as this financing strategy had been essentially replaced by the new financing transactions. Consequently, during the year ended December 31, 2020, the Company concluded that it was appropriate to transfer from AOCI to earnings approximately \$57.0 million of losses on Swaps that had previously been designated as hedges for accounting purposes, because the hedged transactions were no longer considered probable to occur. This amount is included in Other income, net on the Company's consolidated statements of operations. At December 31, 2020, there are no remaining losses included in AOCI on Swaps previously designated as hedges for accounting purposes.

The following table presents the fair value of the Company's derivative instruments at December 31, 2020 and 2019:

| Derivative Instrument (1) | Designation | December 31, | | | |
|---------------------------|-------------|-----------------|------------|-----------------|------------|
| | | 2020 | | 2019 | |
| | | Notional Amount | Fair Value | Notional Amount | Fair Value |
| (In Thousands) | | | | | |
| Swaps | Hedging | \$ — | \$ — | \$ 2,942,000 | \$ — |
| Swaps | Non-Hedging | \$ — | \$ — | \$ 230,000 | \$ — |

(1) Represents Swaps executed bilaterally with a counterparty in the over-the-counter market but then novated to a central clearing house, whereby the central clearing house becomes the counterparty to both of the original counterparties.

Swaps

The following table presents the assets pledged as collateral against the Company's Swap contracts at December 31, 2020 and 2019:

| (In Thousands) | December 31, | |
|------------------------------------|--------------|-----------|
| | 2020 | 2019 |
| Agency MBS, at fair value | \$ — | \$ 2,241 |
| Restricted cash | — | 16,777 |
| Total assets pledged against Swaps | \$ — | \$ 19,018 |

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The following table presents information about the Company's Swaps at December 31, 2020 and 2019:

| Maturity (1) | December 31, 2020 | | | December 31, 2019 | | |
|-------------------------------|-------------------|--|---|-------------------|--|---|
| | Notional Amount | Weighted Average Fixed-Pay Interest Rate | Weighted Average Variable Interest Rate (2) | Notional Amount | Weighted Average Fixed-Pay Interest Rate | Weighted Average Variable Interest Rate (2) |
| (Dollars in Thousands) | | | | | | |
| Over 3 months to 6 months | — | — | — | 200,000 | 2.05 | 1.70 |
| Over 6 months to 12 months | — | — | — | 1,430,000 | 2.30 | 1.77 |
| Over 12 months to 24 months | — | — | — | 1,300,000 | 2.11 | 1.86 |
| Over 24 months to 36 months | — | — | — | 20,000 | 1.38 | 1.90 |
| Over 36 months to 48 months | — | — | — | 222,000 | 2.88 | 1.84 |
| Total Swaps | \$ — | — % | — % | \$ 3,172,000 | 2.24 % | 1.81 % |

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

(2) Reflects the benchmark variable rate due from the counterparty at the date presented, which rate adjusts monthly or quarterly based on one-month or three-month LIBOR, respectively.

The following table presents the net impact of the Company's derivative hedging instruments on its net interest expense and the weighted average interest rate paid and received for such Swaps for the years ended December 31, 2020, 2019 and 2018:

| (Dollars in Thousands) | For the Year Ended December 31, | | |
|--|---------------------------------|--------|----------|
| | 2020 | 2019 | 2018 |
| Interest expense attributable to Swaps | \$ (3,359) | \$ 927 | \$ 3,780 |
| Weighted average Swap rate paid | 2.06 % | 2.28 % | 2.12 % |
| Weighted average Swap rate received | 1.63 % | 2.24 % | 1.96 % |

During the year ended December 31, 2020, the Company recorded net losses on Swaps not designated in hedging relationships of approximately \$4.3 million, which included \$9.4 million of losses realized on the unwind of certain Swaps. During the year ended December 31, 2019, the Company recorded net losses on Swaps not designated in hedging relationships of \$16.5 million, which included \$17.7 million of losses realized on the unwind of certain Swaps. During the year ended December 31, 2018, the Company recorded net losses on Swaps not designated in hedging relationships of \$9.6 million. These amounts are included in Other income, net on the Company's consolidated statements of operations.

Impact of Derivative Hedging Instruments on AOCI

The following table presents the impact of the Company's derivative hedging instruments on its AOCI for the years ended December 31, 2020, 2019 and 2018:

| (In Thousands) | For the Year Ended December 31, | | |
|--|---------------------------------|-------------|-------------|
| | 2020 | 2019 | 2018 |
| AOCI from derivative hedging instruments: | | | |
| Balance at beginning of period | \$ (22,675) | \$ 3,121 | \$ (11,424) |
| Net (loss)/gain on Swaps | (50,127) | (23,342) | 14,545 |
| Reclassification adjustment for losses/gains related to hedging instruments included in net income | 72,802 | (2,454) | — |
| Balance at end of period | \$ — | \$ (22,675) | \$ 3,121 |

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6. Financing Agreements

The following tables present the components of the Company's Financing agreements at December 31, 2020 and December 31, 2019:

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

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

Set out below is information about the Company's Financing agreements that existed as of December 31, 2019. During the second quarter of 2020, outstanding repurchase agreement transactions at that time were renegotiated as part of a reinstatement agreement that was entered into by the Company. The Company elected to account for these reinstated transactions under the fair value option from the time these repurchase agreements were reinstated. Accordingly, as of December 31, 2020, such liabilities are reported as Financing agreements at fair value.

| (In Thousands) | December 31, 2019 | |
|---|---------------------------------|-----------------------|
| | Unpaid Principal Balance | Carrying Value |
| Repurchase agreements | \$ 9,140,944 | \$ 9,139,821 |
| Securitized debt | 573,900 | 570,952 |
| Convertible senior notes | 230,000 | 223,971 |
| Senior notes | 100,000 | 96,862 |
| Total Financing agreements at carrying value | \$ 10,044,844 | \$ 10,031,606 |

(a) Financing Agreements, at Fair Value

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

The Company considers that the most relevant feature that distinguishes between the various asset backed financing arrangements is how the financing arrangement is collateralized, including the ability of the lender to make margin calls on the

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Company based on changes in value of the underlying collateral securing the financing. Accordingly, further details are provided below regarding assets that are financed with agreements that have non-mark-to-market collateral provisions and assets that are financed with agreements that have mark-to-market collateral provisions.

Agreements with non-mark-to-market collateral provisions

The Company and certain of its subsidiaries entered into a non-mark-to-market term loan facility with certain lenders with an initial borrowing capacity of \$1.65 billion. The Company's borrowing subsidiaries have pledged, as collateral security for the facility, certain of their residential whole loans (excluding Rehabilitation loans), as well as the equity in subsidiaries that own the loans. The facility has an initial term of two years, which may be extended for up to an additional three years, subject to certain conditions, including the payment of an extension fee and provided that no events of default have occurred. For the initial two year term, the financing cost for the facility will be calculated at a spread over the lender's financing cost, which, depending on the lender, is expected to be based either on three-month LIBOR, or an index that it expected over time to be closely correlated to changes in three-month LIBOR. At December 31, 2020, the amount financed under this facility was approximately \$886.1 million.

In addition, the Company also entered into non-mark-to-market financing facilities on Rehabilitation loans. Under these facilities, Rehabilitation loans, as well as the equity in subsidiaries that own the loans, are pledged as collateral. The facilities have a two year term and the financing cost is calculated at a spread over three-month LIBOR. At December 31, 2020, the amount financed under these facilities was approximately \$273.1 million.

The following table presents information with respect to the Company's financing agreements with non-mark-to-market collateral provisions and associated assets pledged as collateral at December 31, 2020 and December 31, 2019:

| (Dollars in Thousands) | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Non-mark-to-market financing secured by residential whole loans at carrying value | \$ 906,466 | \$ — |
| Fair value of residential whole loans at carrying value pledged as collateral under financing agreements | \$ 1,500,100 | \$ — |
| Weighted average haircut on residential whole loans at carrying value | 38.62 % | — % |
| Non-mark-to-market financing secured by residential whole loans at fair value | \$ 252,747 | \$ — |
| Fair value of residential whole loans at fair value pledged as collateral under financing agreements | \$ 430,183 | \$ — |
| Weighted average haircut on residential whole loans at fair value | 42.26 % | — % |

Agreements with mark-to-market collateral provisions

In addition to entering into the financing arrangements discussed above, the Company also entered into a reinstatement agreement with certain lending counterparties that facilitated its exit from the forbearance arrangements that the Company had previously entered into. In connection with the reinstatement agreement, terms of its prior financing arrangements on certain residential whole loans, residential mortgage securities, and MSR-related assets were renegotiated and those arrangements were reinstated on a go-forward basis. These financing arrangements continue to contain mark-to-market provisions that permit the lending counterparties to make margin calls on the Company should the value of the pledged collateral decline. The Company is also permitted to recover previously posted margin payments, should values of the pledged collateral subsequently increase. These facilities generally have a maturity ranging from one to three months and can be renewed at the discretion of the lending counterparty at financing costs reflecting prevailing market pricing. At December 31, 2020, the amount financed under these agreements was approximately \$1.3 billion.

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The following table presents information with respect to the Company's financing agreements with mark-to-market collateral provisions and associated assets pledged as collateral at December 31, 2020 and December 31, 2019:

| (Dollars in Thousands) | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Mark-to-market financing agreements secured by residential whole loans (1) | \$ 1,124,162 | \$ 4,743,094 |
| Fair value of residential whole loans pledged as collateral under financing agreements (2) | \$ 1,798,813 | \$ 5,986,267 |
| Weighted average haircut on residential whole loans (3) | 33.53 % | 20.07 % |
| Mark-to-market financing agreement borrowings secured by Agency MBS | \$ — | \$ 1,557,675 |
| Fair value of Agency MBS pledged as collateral under financing agreements | \$ — | \$ 1,656,373 |
| Weighted average haircut on Agency MBS (3) | — % | 4.46 % |
| Mark-to-market financing agreement borrowings secured by Legacy Non-Agency MBS | \$ 1,282 | \$ 1,121,802 |
| Fair value of Legacy Non-Agency MBS pledged as collateral under financing agreements | \$ 2,821 | \$ 1,420,797 |
| Weighted average haircut on Legacy Non-Agency MBS (3) | 50.00 % | 20.27 % |
| Mark-to-market financing agreement borrowings secured by RPL/NPL MBS | \$ 32,950 | \$ 495,091 |
| Fair value of RPL/NPL MBS pledged as collateral under financing agreements | \$ 53,946 | \$ 635,005 |
| Weighted average haircut on RPL/NPL MBS (3) | 38.75 % | 21.52 % |
| Mark-to-market financing agreements secured by CRT securities | \$ 54,883 | \$ 203,569 |
| Fair value of CRT securities pledged as collateral under financing agreements | \$ 104,234 | \$ 252,175 |
| Weighted average haircut on CRT securities (3) | 42.47 % | 18.84 % |
| Mark-to-market financing agreements secured by MSR-related assets | \$ 124,800 | \$ 962,515 |
| Fair value of MSR-related assets pledged as collateral under financing agreements | \$ 238,999 | \$ 1,217,002 |
| Weighted average haircut on MSR-related assets (3) | 41.12 % | 21.18 % |
| Mark-to-market financing agreements secured by other interest-earning assets | \$ — | \$ 57,198 |
| Fair value of other interest-earning assets pledged as collateral under financing agreements | \$ — | \$ 61,708 |
| Weighted average haircut on other interest-earning assets (3) | — % | 22.01 % |

(1) Excludes \$0 and \$1.1 million of unamortized debt issuance costs at December 31, 2020 and December 31, 2019, respectively.

(2) At December 31, 2020 and December 31, 2019, includes RPL/NPL MBS with an aggregate fair value of \$141.9 million and \$238.8 million, respectively, obtained in connection with the Company's loan securitization transactions that are eliminated in consolidation.

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

In addition, the Company had cash pledged as collateral in connection with its financing agreements of \$7.2 million and \$25.2 million at December 31, 2020 and December 31, 2019, respectively.

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The following table presents repricing information (excluding the impact of associated derivative hedging instruments, if any) about the Company's financing agreements that have non-mark-to-market collateral provisions as well as those that have mark-to-market collateral provisions, at December 31, 2020 and December 31, 2019:

| Time Until Interest Rate Reset (Dollars in Thousands) | December 31, 2020 | | December 31, 2019 | |
|--|----------------------|--------------------------------|----------------------|--------------------------------|
| | Amortized Cost Basis | Weighted Average Interest Rate | Amortized Cost Basis | Weighted Average Interest Rate |
| Within 30 days | \$ 2,494,976 | 3.16 % | \$ 4,472,120 | 2.55 % |
| Over 30 days to 3 months | — | — | 2,746,384 | 3.43 |
| Over 3 months to 12 months | — | — | 1,014,441 | 3.36 |
| Over 12 months | — | — | 907,999 | 3.44 |
| Total financing agreements | \$ 2,494,976 | 3.16 % | \$ 9,140,944 | 2.99 % |
| Less debt issuance costs | — | — | 1,123 | — |
| Total financing agreements less debt issuance costs | \$ 2,494,976 | — | \$ 9,139,821 | — |

The Company had financing agreements, including repurchase agreements and other forms of secured financing with 7 and 28 counterparties at December 31, 2020 and December 31, 2019, respectively. The following table presents information with respect to each counterparty under financing agreements for which the Company had greater than 5% of stockholders' equity at risk in the aggregate at December 31, 2020:

| Counterparty (Dollars in Thousands) | December 31, 2020 | | | |
|--|-------------------------|--------------------|--|---------------------------------|
| | Counterparty Rating (1) | Amount at Risk (2) | Weighted Average Months to Repricing for Repurchase Agreements | Percent of Stockholders' Equity |
| Barclays Bank | BBB/Aa3/A | \$ 505,580 | 1 | 20.0 % |
| Credit Suisse | BBB+/Baa1/A- | 438,336 | 1 | 17.4 |
| Wells Fargo | A+/Aa2/AA- | 337,769 | 1 | 13.4 |
| Goldman Sachs (3) | BBB+/A2/A | 187,122 | 0 | 7.4 |
| Athene (4) | BBB+/N/A/BBB+ | 133,286 | 1 | 5.3 |

(1) As rated at December 31, 2020 by S&P, Moody's and Fitch, Inc., respectively. The counterparty rating presented is the lowest published for these entities.

(2) The amount at risk reflects the difference between (a) the amount loaned to the Company through financing agreements, including interest payable, and (b) the cash and the fair value of the securities pledged by the Company as collateral, including accrued interest receivable on such securities.

(3) Includes \$25.4 million at risk with Goldman Sachs and \$161.7 million at risk with Goldman Sachs Bank USA.

(4) Includes amounts at risk with various Athene affiliates that collectively exceed 5% of stockholders' equity.

Senior Secured Term Loan Facility

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

(b) Other Financing Agreements

These arrangements were either entered into prior to the Company experiencing financial difficulties related to the COVID-19 pandemic, or, in the case of the Company's recent securitizations, after the Company's exit from forbearance, and

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were not subject to the forbearance arrangements that were entered into by the Company or any negotiations related to the Company's exit from those arrangements.

Additional information regarding the Company's Other financing arrangements as of December 31, 2020, is included below:

Securitized Debt

Securitized debt represents third-party liabilities of consolidated VIEs and excludes liabilities of the VIEs acquired by the Company that are eliminated in consolidation. The third-party beneficial interest holders in the VIEs have no recourse to the general credit of the Company. The weighted average fixed rate on the securitized debt was 2.11% at December 31, 2020 (see Notes 10 and 15 for further discussion).

Convertible Senior Notes

On June 3, 2019, the Company issued \$230.0 million in aggregate principal amount of its Convertible Senior Notes in an underwritten public offering, including an additional \$30.0 million issued pursuant to the exercise of the underwriters' option to purchase additional Convertible Senior Notes. The total net proceeds the Company received from the offering were approximately \$223.3 million, after deducting offering expenses and the underwriting discount. The Convertible Senior Notes bear interest at a fixed rate of 6.25% per year, paid semiannually on June 15 and December 15 of each year commencing December 15, 2019 and will mature on June 15, 2024, unless earlier converted, redeemed or repurchased in accordance with their terms. The Convertible Senior Notes are convertible at the option of the holders at any time until the close of business on the business day immediately preceding the maturity date into shares of the Company's common stock based on an initial conversion rate of 125.7387 shares of the Company's common stock for each \$1,000 principal amount of the Convertible Senior Notes, which is equivalent to an initial conversion price of approximately \$7.95 per share of common stock. The Convertible Senior Notes have an effective interest rate, including the impact of amortization to interest expense of debt issuance costs, of 6.94%. The Company does not have the right to redeem the Convertible Senior Notes prior to maturity, except to the extent necessary to preserve its status as a REIT, in which case the Company may redeem the Convertible Senior Notes, in whole or in part, at a redemption price equal to the principal amount redeemed plus accrued and unpaid interest.

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

Senior Notes

On April 11, 2012, the Company issued \$100.0 million in aggregate principal amount of its Senior Notes in an underwritten public offering. The Senior Notes bear interest at a fixed rate of 8.00% per year. The Senior Notes have an effective interest rate, including the impact of amortization to interest expense of debt issuance costs, of 8.31%. On January 6, 2021, the Company redeemed all of its outstanding Senior Notes (see Note 17).

7. Collateral Positions

The Company pledges securities or cash as collateral to its counterparties in relation to certain of its financing arrangements. In addition, the Company receives securities or cash as collateral pursuant to financing provided under reverse repurchase agreements. The Company exchanges collateral with its counterparties based on changes in the fair value, notional amount and term of the associated financing arrangements and Swap contracts, as applicable. In connection with these margining practices, either the Company or its counterparty may be required to pledge cash or securities as collateral. When the Company's pledged collateral exceeds the required margin, the Company may initiate a reverse margin call, at which time the counterparty may either return the excess collateral or provide collateral to the Company in the form of cash or equivalent securities.

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The Company's assets pledged as collateral are described in Notes 2(f) - Restricted Cash, 5(c) - Derivative Instruments and 6 - Financing Agreements. The total fair value of assets pledged as collateral with respect to the Company's borrowings under its financing arrangements and/or derivative hedging instruments was \$4.1 billion and \$11.3 billion at December 31, 2020 and December 31, 2019, respectively. An aggregate of \$24.6 million and \$57.2 million of accrued interest on those assets had also been pledged as of December 31, 2020 and December 31, 2019, respectively.

8. Offsetting Assets and Liabilities

Certain of the Company's financing arrangements and derivative transactions are governed by underlying agreements that generally provide for a right of setoff in the event of default or in the event of a bankruptcy of either party to the transaction. In the Company's consolidated balance sheets, all balances associated with repurchase agreements are presented on a gross basis.

The fair value of financial instruments pledged against the Company's financing arrangements was \$4.1 billion and \$11.2 billion at December 31, 2020 and December 31, 2019, respectively. The fair value of financial instruments pledged against the Company's Swaps was \$0 and \$2.2 million at December 31, 2020 and December 31, 2019, respectively. In addition, cash that has been pledged as collateral against financing arrangements and Swaps is reported as Restricted cash on the Company's consolidated balance sheets (see Notes 2(f), 5(c) and 6).

9. Other Liabilities

The following table presents the components of the Company's Other liabilities at December 31, 2020 and 2019:

| <u>(In Thousands)</u> | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|--------------------------|--------------------------|
| Dividends and dividend equivalents payable | \$ 34,016 | \$ 90,749 |
| Accrued interest payable | 11,116 | 18,238 |
| Accrued expenses and other | 25,390 | 43,625 |
| Total Other Liabilities | <u>\$ 70,522</u> | <u>\$ 152,612</u> |

10. Commitments and Contingencies

(a) Lease Commitments

The Company pays monthly rent pursuant to three office leases. In November 2018, the Company amended the lease for its corporate headquarters in New York, New York, under the same terms and conditions, to extend the expiration date for the lease by up to one year, through June 30, 2021, with a mutual option to terminate on or after February 15, 2021. For the year ended December 31, 2020, the Company recorded an expense of approximately \$2.9 million in connection with the lease for its current corporate headquarters.

In addition, in November 2018, the Company executed a lease agreement on new office space in New York, New York. The Company plans to relocate its corporate headquarters to this new office space upon the substantial completion of the building. The lease term specified in the agreement is fifteen years with an option to renew for an additional five years. The Company's current estimate of annual lease rental expense under the new lease, excluding escalation charges which at this point are unknown, is approximately \$4.6 million. The Company currently expects to relocate to the space in the first fiscal quarter of 2021, but this timing, as well as when it is required to begin making payments and recognize rental and other expenses under the new lease, is dependent on when the space is actually available for use.

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The Company recognized lease expense of \$3.0 million, \$2.7 million and \$2.7 million for the years ended December 31, 2020, 2019 and 2018, respectively, which is included in Other general and administrative expense within the consolidated statements of operations. At December 31, 2020, the contractual minimum rental payments (exclusive of possible rent escalation charges and normal recurring charges for maintenance, insurance and taxes) were as follows:

| Year Ended December 31, (In Thousands) | Minimum Rental Payments (1) |
|---|-----------------------------|
| 2021 | \$ 434 |
| 2022 | 85 |
| 2023 | 86 |
| 2024 | 65 |
| 2025 | — |
| Thereafter | — |
| Total | <u>\$ 670</u> |

(1) Table excludes amounts related to the lease agreement for new office space discussed above as the Company is not contractually obligated to make rental payments until fourteen months after a temporary certificate of occupancy is delivered to the landlord, which is currently expected to occur on or before March 2021.

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

In connection with the loan securitization transactions entered into by the Company, the Company has the obligation under certain circumstances to repurchase assets previously transferred to securitization vehicles upon breach of certain representations and warranties. As of December 31, 2020, the Company had no reserve established for repurchases of loans and was not aware of any material unsettled repurchase claims that would require the establishment of such a reserve (see Note 15).

(c) Corporate Loans

The Company has participated in loans to provide financing to entities that originate loans and own MSR, as well as certain other unencumbered assets owned by the borrower. At December 31, 2020, the Company's commitment to lend is \$32.6 million of which no amount was drawn at December 31, 2020 (see Note 4).

(d) Rehabilitation Loan Commitments

At December 31, 2020, the Company had unfunded commitments of \$60.6 million in connection with its purchased Rehabilitation loans (see Note 3).

11. Stockholders' Equity

(a) Preferred Stock

7.50% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock")

On April 15, 2013, the Company completed the issuance of 8.0 million shares of its Series B Preferred Stock with a par value of \$0.01 per share, and a liquidation preference of \$25.00 per share plus accrued and unpaid dividends, in an underwritten public offering. The Company's Series B Preferred Stock is entitled to receive a dividend at a rate of 7.50% per year on the \$25.00 liquidation preference before the Company's common stock is paid any dividends and is senior to the Company's common stock with respect to distributions upon liquidation, dissolution or winding up. Dividends on the Series B Preferred Stock are payable quarterly in arrears on or about March 31, June 30, September 30 and December 31 of each year. The Series B Preferred Stock is redeemable at \$25.00 per share plus accrued and unpaid dividends (whether or not authorized or declared) exclusively at the Company's option.

The Series B Preferred Stock generally does not have any voting rights, subject to an exception in the event the Company

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fails to pay dividends on such stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, the Series B Preferred Stock will be entitled to vote to elect two additional directors to the Company's Board of Directors (the "Board"), until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series B Preferred Stock cannot be made without the affirmative vote of holders of at least 66 2/3% of the outstanding shares of Series B Preferred Stock.

As a result of the turmoil in the financial markets resulting from the global COVID-19 pandemic, and in order to preserve liquidity, on March 25, 2020, the Company revoked the previously announced first quarter 2020 quarterly cash dividends on each of the Company's common stock and Series B Preferred Stock. On July 1, 2020, the Company announced that it had reinstated the payment of dividends on its Series B Preferred Stock and declared a preferred stock dividend of \$0.9375 per share, payable on July 31, 2020 to Series B Preferred stockholders of record as of July 15, 2020.

The following table presents cash dividends declared by the Company on its Series B Preferred Stock from January 1, 2018 through December 31, 2020:

| Year | Declaration Date | Record Date | Payment Date | Dividend Per Share |
|-------------|-------------------------|--------------------|---------------------|---------------------------|
| 2020 | November 18, 2020 | December 4, 2020 | December 31, 2020 | \$0.46875 |
| | August 12, 2020 | September 8, 2020 | September 30, 2020 | 0.46875 |
| | July 1, 2020 | July 15, 2020 | July 31, 2020 | 0.93750 |
| 2019 | November 15, 2019 | December 2, 2019 | December 31, 2019 | \$0.46875 |
| | August 9, 2019 | August 30, 2019 | September 30, 2019 | 0.46875 |
| | May 20, 2019 | June 3, 2019 | June 28, 2019 | 0.46875 |
| | February 15, 2019 | March 4, 2019 | March 29, 2019 | 0.46875 |
| 2018 | November 26, 2018 | December 7, 2018 | December 28, 2018 | \$0.46875 |
| | August 20, 2018 | September 7, 2018 | September 28, 2018 | 0.46875 |
| | May 17, 2018 | June 4, 2018 | June 29, 2018 | 0.46875 |
| | February 20, 2018 | March 2, 2018 | March 30, 2018 | 0.46875 |

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

On February 28, 2020, the Company amended its charter through the filing of articles supplementary to reclassify 12,650,000 shares of the Company's authorized but unissued common stock as shares of the Company's Series C Preferred Stock. On March 2, 2020, the Company completed the issuance of 11.0 million shares of its Series C Preferred Stock with a par value of \$0.01 per share, and a liquidation preference of \$25.00 per share plus accrued and unpaid dividends, in an underwritten public offering. The total net proceeds the Company received from the offering were approximately \$266.0 million, after deducting offering expenses and the underwriting discount.

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

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The Series C Preferred Stock generally does not have any voting rights, subject to an exception in the event the Company fails to pay dividends on such stock for six or more quarterly periods (whether or not consecutive). Under such circumstances, the Series C Preferred Stock will be entitled to vote to elect two additional directors to the Company's Board, until all unpaid dividends have been paid or declared and set apart for payment. In addition, certain material and adverse changes to the terms of the Series C Preferred Stock cannot be made without the affirmative vote of holders of at least 66 2/3% of the outstanding shares of Series C Preferred Stock.

Pursuant to the now-terminated forbearance agreements that the Company had previously entered into, the Company was prohibited from paying dividends on its Series C Preferred Stock during the forbearance period. On July 1, 2020, the Company announced that it had reinstated the payment of dividends on its Series C Preferred Stock and declared a preferred stock dividend of \$0.53264 per share, payable on July 31, 2020 to the Series C Preferred stockholders of record as of July 15, 2020. Upon payment of this dividend, the Company paid in full all accumulated but previously unpaid dividends on its Series C Preferred Stock.

The following table presents cash dividends declared by the Company on its Series C Preferred Stock from January 1, 2020 through December 31, 2020:

| Year | Declaration Date | Record Date | Payment Date | Dividend Per Share |
|-------------|-------------------------|--------------------|---------------------|---------------------------|
| 2020 | November 18, 2020 | December 4, 2020 | December 31, 2020 | \$0.40625 |
| | August 12, 2020 | September 8, 2020 | September 30, 2020 | 0.40625 |
| | July 1, 2020 | July 15, 2020 | July 31, 2020 | 0.53264 |

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(b) Dividends on Common Stock

As discussed above, on March 25, 2020, the Company revoked its previously announced first quarter 2020 quarterly cash dividends on each of the Company's common stock and Series B Preferred Stock. The quarterly cash dividend of \$0.20 per share on the Company's common stock had been declared on March 11, 2020, and was to be paid on April 30, 2020, to all stockholders of record as of the close of business March 31, 2020.

On August 6, 2020, the Company declared a regular cash dividend of \$0.05 per share of common stock. This dividend was paid on October 30, 2020, to stockholders of record on September 30, 2020.

On December 17, 2020, the Company declared a regular cash dividend of \$0.075 per share of common stock. This dividend was paid on January 29, 2021, to stockholders of record on December 30, 2020. At December 31, 2020, the Company had accrued dividends and dividend equivalents payable of \$34.0 million related to the common stock dividend declared on December 17, 2020.

The following table presents cash dividends declared by the Company on its common stock from January 1, 2018 through December 31, 2020:

| Year | Declaration Date | Record Date | Payment Date | Dividend Per Share |
|-------------|--------------------|--------------------|------------------|--------------------|
| 2020 | December 17, 2020 | December 30, 2020 | January 29, 2021 | \$0.075 (1) |
| | August 6, 2020 | September 30, 2020 | October 30, 2020 | 0.05 |
| 2019 | December 12, 2019 | December 30, 2019 | January 31, 2020 | \$0.20 |
| | September 12, 2019 | September 30, 2019 | October 31, 2019 | 0.20 |
| | June 12, 2019 | July 1, 2019 | July 31, 2019 | 0.20 |
| | March 6, 2019 | March 29, 2019 | April 30, 2019 | 0.20 |
| 2018 | December 12, 2018 | December 28, 2018 | January 31, 2019 | \$0.20 |
| | September 13, 2018 | October 1, 2018 | October 31, 2018 | 0.20 |
| | June 7, 2018 | June 29, 2018 | July 31, 2018 | 0.20 |
| | March 7, 2018 | March 29, 2018 | April 30, 2018 | 0.20 |

1) At December 31, 2020, we had accrued dividends and dividend equivalents payable of \$34.0 million related to the common stock dividend declared on December 17, 2020. This dividend will be considered taxable income to the recipient in 2021. For more information see the Company's 2020 Dividend Tax Information on its website.

In general, the Company's common stock dividends have been characterized as ordinary income to its stockholders for income tax purposes. However, a portion of the Company's common stock dividends may, from time to time, be characterized as capital gains or return of capital. For the year ended December 31, 2020, the portion of the Company's common stock dividends that was deemed to be a return of capital was \$0.05 per share of common stock. For the years ended December 31, 2019 and 2018, the portions of the Company's common stock dividends that were deemed to be capital gains were \$0.1672 and \$0.1290 per share of common stock, respectively.

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(c) Public Offering of Common Stock

The Company did not issue any common stock through public offerings during the years ended December 31, 2020 and 2019. The table below presents information with respect to shares of the Company's common stock issued through public offerings during the year ended December 31, 2018.

| Share Issue Date (In Thousands, Except Per Share Amounts) | Shares Issued | Gross Proceeds Per Share | Gross Proceeds |
|--|---------------|--------------------------|----------------|
| August 7, 2018 | 50,875 (1) | \$ 7.78 | \$ 395,807 (1) |

(1) Includes approximately 875,000 shares issued on September 5, 2018 pursuant to the exercise of the underwriters' option to purchase additional shares. The Company incurred approximately \$6.4 million of underwriting discounts and related expenses in connection with this equity offering.

(d) Discount Waiver, Direct Stock Purchase and Dividend Reinvestment Plan ("DRSPP")

On October 15, 2019, the Company filed a shelf registration statement on Form S-3 with the SEC under the Securities Act of 1933, as amended (the "1933 Act"), for the purpose of registering additional common stock for sale through its DRSPP. Pursuant to Rule 462(e) under the 1933 Act, this shelf registration statement became effective automatically upon filing with the SEC and, when combined with the unused portion of the Company's previous DRSPP shelf registration statements, registered an aggregate of 9.0 million shares of common stock. The Company's DRSPP is designed to provide existing stockholders and new investors with a convenient and economical way to purchase shares of common stock through the automatic reinvestment of dividends and/or optional cash investments. At December 31, 2020, approximately 8.7 million shares of common stock remained available for issuance pursuant to the DRSPP shelf registration statement.

During the years ended December 31, 2020, 2019 and 2018, the Company issued 235,635, 322,888 and 379,903 shares of common stock through the DRSPP, raising net proceeds of approximately \$1.0 million, \$2.4 million and \$2.8 million, respectively. From the inception of the DRSPP in September 2003 through December 31, 2020, the Company issued 34,614,403 shares pursuant to the DRSPP, raising net proceeds of \$287.6 million.

(e) At-the-Market Offering Program

On August 16, 2019 the Company entered into a distribution agreement under the terms of which the Company may offer and sell shares of its common stock having an aggregate gross sales price of up to \$400.0 million (the "ATM Shares"), from time to time, through various sales agents, pursuant to an at-the-market equity offering program (the "ATM Program"). Sales of the ATM Shares, if any, may be made in negotiated transactions or by transactions that are deemed to be "at-the-market" offerings, as defined in Rule 415 under the 1933 Act, including sales made directly on the New York Stock Exchange ("NYSE") or sales made to or through a market maker other than an exchange. The sales agents are entitled to compensation of up to two percent of the gross sales price per share for any shares of common stock sold under the distribution agreement.

During the year ended December 31, 2020, the Company did not sell any shares of common stock through the ATM Program. At December 31, 2020, approximately \$390.0 million remained outstanding for future offerings under this program. During the year ended December 31, 2019, the Company sold 1,357,526 shares of common stock through the ATM Program at a weighted average price of \$7.40, raising proceeds of approximately \$9.9 million, net of fees and commissions paid to sales agents of approximately \$100,000.

(f) Stock Repurchase Program

On November 2, 2020, the Company's Board of Directors authorized a share repurchase program under which the Company may repurchase up to \$250 million of its common stock through the end of 2022. The Board's authorization replaces the authorization under the Company's existing stock repurchase program that was adopted in December 2013, which authorized the Company to repurchase up to 10 million shares of common stock and under which approximately 6.6 million shares remained available for repurchase.

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The stock repurchase program does not require the purchase of any minimum number of shares. The timing and extent to which the Company repurchases its shares will depend upon, among other things, market conditions, share price, liquidity, regulatory requirements and other factors, and repurchases may be commenced or suspended at any time without prior notice. Acquisitions under the share repurchase program may be made in the open market, through privately negotiated transactions or block trades or other means, in accordance with applicable securities laws.

During the year ended December 31, 2020, the Company repurchased 14,085,678 shares of its common stock through the stock repurchase program at an average cost of \$3.61 per share and a total cost of approximately \$50.8 million, net of fees and commissions paid to the sales agent of approximately \$141,000. In addition, as discussed further below, during the year ended December 31, 2020 the Company repurchased 17,593,576 warrants for \$33.7 million that were included in the stock repurchase program. At December 31, 2020, approximately \$165.7 million remained outstanding for future repurchases under the repurchase program. The Company did not repurchase any shares of its common stock during the years ended December 31, 2019 and 2018.

(g) Warrants

On June 15, 2020, the Company entered into an Investment Agreement with Apollo and Athene (together the “Purchasers”), under which the Company agreed to issue to the Purchasers warrants (the “Warrants”) to purchase, in the aggregate, 37,039,106 shares (subject to adjustment in accordance with their terms) of the Company’s common stock. One half of the Warrants had an exercise price of \$1.66 per share and the other half had an exercise price of \$2.08 per share. The Investment Agreement and the Term Loan Facility (see Note 6) were entered into simultaneously, and the \$495.0 million of proceeds received were allocated between the debt (\$481.0 million) and the warrants (\$14.0 million). The amount allocated to the warrants was recorded in Additional paid-in capital on the Company’s consolidated balance sheets.

During the fourth quarter, the Company repurchased, for \$33.7 million, approximately 48% of the Warrants that were issued to the Purchasers. The remaining Warrants were exercised by the Purchasers later in the fourth quarter, resulting in the Company issuing approximately 12.3 million shares of common stock and receiving \$6.5 million in cash.

(h) Accumulated Other Comprehensive Income/(Loss)

The following table presents changes in the balances of each component of the Company’s AOCI for the years ended December 31, 2020, 2019 and 2018:

| | For the Year Ended December 31, | | | | | | | | | |
|------------------------------------|--|--------------------------|--|------------|--|--------------------------|------------|--|--------------------------|------------|
| | 2020 | | | 2019 | | | 2018 | | | |
| (In Thousands) | Net Unrealized Gain/(Loss) on AFS Securities | Net Gain/(Loss) on Swaps | Net Unrealized Gain/(Loss) on Financing Agreements (3) | Total AOCI | Net Unrealized Gain/(Loss) on AFS Securities | Net Gain/(Loss) on Swaps | Total AOCI | Net Unrealized Gain/(Loss) on AFS Securities | Net Gain/(Loss) on Swaps | Total AOCI |
| Balance at beginning of period | \$ 392,722 | \$ (22,675) | \$ — | \$ 370,047 | \$ 417,167 | \$ 3,121 | \$ 420,288 | \$ 620,648 | \$ (11,424) | \$ 609,224 |
| OCI before reclassifications | 420,281 | (50,127) | (2,314) | 367,840 | 20,335 | (23,342) | (3,007) | (150,642) | 14,545 | (136,097) |
| Amounts reclassified from AOCI (1) | (733,396) | 72,802 | — | (660,594) | (44,780) | (2,454) | (47,234) | (52,839) | — | (52,839) |
| Net OCI during period (2) | (313,115) | 22,675 | (2,314) | (292,754) | (24,445) | (25,796) | (50,241) | (203,481) | 14,545 | (188,936) |
| Balance at end of period | \$ 79,607 | \$ — | \$ (2,314) | \$ 77,293 | \$ 392,722 | \$ (22,675) | \$ 370,047 | \$ 417,167 | \$ 3,121 | \$ 420,288 |

(1) See separate table below for details about these reclassifications.

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

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

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The following table presents information about the significant amounts reclassified out of the Company's AOCI for the years ended December 31, 2020, 2019, and 2018:

| Details about AOCI Components (In Thousands) | For the Year Ended December 31, | | | Affected Line Item in the Statement Where Net Income is Presented |
|--|---------------------------------|--------------------|--------------------|--|
| | 2020 | 2019 | 2018 | |
| Amounts Reclassified from AOCI | | | | |
| AFS Securities: | | | | |
| Realized gain on sale of securities | \$ (389,127) | \$ (44,600) | \$ (51,580) | Net realized (loss)/gain on sales of residential mortgage securities and residential whole loans |
| Impairment recognized in earnings | (344,269) | (180) | (1,259) | Other, net |
| Total AFS Securities | \$ (733,396) | \$ (44,780) | \$ (52,839) | |
| Swaps designated as cash flow hedges: | | | | |
| Reclassification adjustment for losses related to hedging instruments included in net income | 72,802 | (2,454) | — | Other, net |
| Total Swaps designated as cash flow hedges | \$ 72,802 | \$ (2,454) | \$ — | |
| Total reclassifications for period | \$ (660,594) | \$ (47,234) | \$ (52,839) | |

12. EPS Calculation

The following table presents a reconciliation of the (loss)/earnings and shares used in calculating basic and diluted (loss)/EPS for the years ended December 31, 2020, 2019 and 2018:

| (In Thousands, Except Per Share Amounts) | For the Year Ended December 31, | | |
|--|---------------------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 |
| Basic (Loss)/Earnings per Share: | | | |
| Net (loss)/income to common stockholders | \$ (679,390) | \$ 378,117 | \$ 301,801 |
| Dividends declared on preferred stock | (29,796) | (15,000) | (15,000) |
| Dividends, dividend equivalents and undistributed earnings allocated to participating securities | (229) | (1,087) | (943) |
| Net (loss)/income to common stockholders - basic | \$ (709,415) | \$ 362,030 | \$ 285,858 |
| Basic weighted average common shares outstanding | 452,033 | 450,972 | 418,934 |
| Basic (Loss)/Earnings per Share | \$ (1.57) | \$ 0.80 | \$ 0.68 |
| Diluted (Loss)/Earnings per Share: | | | |
| Net (loss)/income to common stockholders - basic | \$ (709,415) | \$ 362,030 | \$ 285,858 |
| Interest expense on Convertible Senior Notes | — | 8,965 | — |
| Net (loss)/income to common stockholders - diluted | \$ (709,415) | \$ 370,995 | \$ 285,858 |
| Basic weighted average common shares outstanding | 452,033 | 450,972 | 418,934 |
| Effect of assumed conversion of Convertible Senior Notes to common shares | — | 16,797 | — |
| Diluted weighted average common shares outstanding (1) | 452,033 | 467,769 | 418,934 |
| Diluted (Loss)/Earnings per Share | \$ (1.57) | \$ 0.79 | \$ 0.68 |

(1) At December 31, 2020, the Company had approximately 2.3 million equity instruments outstanding that were not included in the calculation of diluted EPS for the year ended December 31, 2020, as their inclusion would have been anti-dilutive. These equity instruments reflect RSUs (based on current estimate of expected share settlement amount) with a weighted average grant date fair value of \$6.56 and may have a dilutive impact on future EPS.

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During the year ended December 31, 2020, the Convertible Senior Notes were determined to be anti-dilutive and were not included in the calculation of diluted EPS under the “if-converted” method. Under this method, the periodic interest expense for dilutive notes is added back to the numerator and the weighted average number of shares that the notes are entitled to (if converted, regardless of whether the conversion option is in or out of the money) is included in the denominator for the purpose of calculating diluted EPS. The Convertible Senior Notes may have a dilutive impact on future EPS.

13. Equity Compensation and Other Benefit Plans

(a) Equity Compensation Plan

In accordance with the terms of the Company’s Equity Plan, which was adopted by the Company’s stockholders on June 10, 2020 (and which amended and restated the Company’s 2010 Equity Compensation Plan), directors, officers and employees of the Company and any of its subsidiaries and other persons expected to provide significant services for the Company and any of its subsidiaries are eligible to receive grants of stock options (“Options”), restricted stock, RSUs, dividend equivalent rights and other stock-based awards under the Equity Plan.

Subject to certain exceptions, stock-based awards relating to a maximum of 18.0 million shares of common stock may be granted under the Equity Plan; forfeitures and/or awards that expire unexercised do not count toward this limit. At December 31, 2020, approximately 14.3 million shares of common stock remained available for grant in connection with stock-based awards under the Equity Plan. A participant may generally not receive stock-based awards in excess of 2.0 million shares of common stock in any one year and no award may be granted to any person who, assuming exercise of all Options and payment of all awards held by such person, would own or be deemed to own more than 9.8% of the outstanding shares of the Company’s common stock. Unless previously terminated by the Board, awards may be granted under the Equity Plan until June 10, 2030.

Restricted Stock Units

Under the terms of the Equity Plan, RSUs are instruments that provide the holder with the right to receive, subject to the satisfaction of conditions set by the Compensation Committee at the time of grant, a payment of a specified value, which may be a share of the Company’s common stock, the fair market value of a share of the Company’s common stock, or such fair market value to the extent in excess of an established base value, on the applicable settlement date. Although the Equity Plan permits the Company to issue RSUs that can settle in cash, all of the Company’s outstanding RSUs as of December 31, 2020 are designated to be settled in shares of the Company’s common stock. All RSUs outstanding at December 31, 2020 may be entitled to receive dividend equivalent payments depending on the terms and conditions of the award either in cash at the time dividends are paid by the Company, or for certain performance-based RSU awards, as a grant of stock at the time such awards are settled. At December 31, 2020 and 2019, the Company had unrecognized compensation expense of \$6.8 million and \$5.5 million, respectively, related to RSUs. The unrecognized compensation expense at December 31, 2020 is expected to be recognized over a weighted average period of 1.7 years.

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The following table presents information with respect to the Company's RSUs during the years ended December 31, 2020, 2019 and 2018:

| For the Year Ended December 31, 2020 | | | | | | |
|--|-----------------------------------|---|--|---|------------------|--|
| | RSUs With Service Condition | Weighted Average Grant Date Fair Value | RSUs With Market and Service Conditions | Weighted Average Grant Date Fair Value | Total RSUs | Total Weighted Average Grant Date Fair Value |
| Outstanding at beginning of year: | 1,379,681 | \$ 7.62 | 1,301,250 | \$ 6.78 | 2,680,931 | \$ 7.21 |
| Granted (1) | 939,046 | 4.88 | 763,174 | 5.50 | 1,702,220 | 5.16 |
| Settled | (379,272) | 7.75 | (441,250) | 6.48 | (820,522) | 7.07 |
| Cancelled/forfeited | (110,000) | 7.59 | — | — | (110,000) | 7.59 |
| Outstanding at end of year | <u>1,829,455</u> | <u>\$ 6.19</u> | <u>1,623,174</u> | <u>\$ 6.26</u> | <u>3,452,629</u> | <u>\$ 6.22</u> |
| RSUs vested but not settled at end of year | <u>1,160,416</u> | <u>\$ 5.37</u> | <u>409,000</u> | <u>\$ 6.91</u> | <u>1,569,416</u> | <u>\$ 5.77</u> |
| RSUs unvested at end of year | <u>669,039</u> | <u>\$ 7.61</u> | <u>1,214,174</u> | <u>\$ 6.04</u> | <u>1,883,213</u> | <u>\$ 6.60</u> |

| For the Year Ended December 31, 2019 | | | | | | |
|--|-----------------------------------|---|--|---|------------------|--|
| | RSUs With Service Condition | Weighted Average Grant Date Fair Value | RSUs With Market and Service Conditions | Weighted Average Grant Date Fair Value | Total RSUs | Total Weighted Average Grant Date Fair Value |
| Outstanding at beginning of year: | 1,206,446 | \$ 7.57 | 1,151,250 | \$ 6.21 | 2,357,696 | \$ 6.90 |
| Granted (2) | 461,525 | 7.35 | 451,000 | 6.97 | 912,525 | 7.16 |
| Settled | (269,290) | 6.93 | (290,000) | 4.81 | (559,290) | 5.83 |
| Cancelled/forfeited | (19,000) | 7.72 | (11,000) | 6.71 | (30,000) | 7.35 |
| Outstanding at end of year | <u>1,379,681</u> | <u>\$ 7.62</u> | <u>1,301,250</u> | <u>\$ 6.78</u> | <u>2,680,931</u> | <u>\$ 7.21</u> |
| RSUs vested but not settled at end of year | <u>809,681</u> | <u>\$ 7.70</u> | <u>441,250</u> | <u>\$ 6.48</u> | <u>1,250,931</u> | <u>\$ 7.27</u> |
| RSUs unvested at end of year | <u>570,000</u> | <u>\$ 7.50</u> | <u>860,000</u> | <u>\$ 6.94</u> | <u>1,430,000</u> | <u>\$ 7.16</u> |

| For the Year Ended December 31, 2018 | | | | | | |
|--|-----------------------------------|---|--|---|------------------|--|
| | RSUs With Service Condition | Weighted Average Grant Date Fair Value | RSUs With Market and Service Conditions | Weighted Average Grant Date Fair Value | Total RSUs | Total Weighted Average Grant Date Fair Value |
| Outstanding at beginning of year: | 1,025,028 | \$ 7.67 | 1,021,250 | \$ 5.80 | 2,046,278 | \$ 6.73 |
| Granted (3) | 428,802 | 7.65 | 415,000 | 6.91 | 843,802 | 7.29 |
| Settled | (237,384) | 8.17 | (275,000) | 5.73 | (512,384) | 6.86 |
| Cancelled/forfeited | (10,000) | 7.23 | (10,000) | 5.64 | (20,000) | 6.44 |
| Outstanding at end of year | <u>1,206,446</u> | <u>\$ 7.57</u> | <u>1,151,250</u> | <u>\$ 6.21</u> | <u>2,357,696</u> | <u>\$ 6.90</u> |
| RSUs vested but not settled at end of year | <u>708,946</u> | <u>\$ 7.47</u> | <u>290,000</u> | <u>\$ 4.81</u> | <u>998,946</u> | <u>\$ 6.70</u> |
| RSUs unvested at end of year | <u>497,500</u> | <u>\$ 7.71</u> | <u>861,250</u> | <u>\$ 6.69</u> | <u>1,358,750</u> | <u>\$ 7.06</u> |

(1) The weighted average grant date fair value of these awards require the Company to estimate certain valuation inputs. In determining the fair value for 1,204,713 of these awards granted in 2020, the Company applied: (i) a weighted average volatility estimate of approximately 14%, which was determined considering historic volatility in the price of the Company's and its peer group companies' common stock over the three-year period prior to the grant date and the implied volatility of certain exchange-traded options on the Company's and peer group companies' common stock at the grant date; and (ii) a weighted average risk-free rate of 1.36% based on the continuously compounded constant maturity treasury rate corresponding to a maturity commensurate with the expected vesting term of the awards. The weighted average grant date fair value for the remaining 452,585 and 44,922 awards with a service condition only was estimated based on the closing price of the Company's common stock at the grant date of \$2.32 and \$2.56, respectively. There are no post vesting conditions on these awards.

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- (2) The weighted average grant date fair value of these awards require the Company to estimate certain valuation inputs. In determining the fair value for 752,500 of these awards granted in 2019, the Company applied: (i) a weighted average volatility estimate of approximately 15%, which was determined considering historic volatility in the price of the Company's and its peer group companies' common stock over the three-year period prior to the grant date and the implied volatility of certain exchange-traded options on the Company's and peer group companies' common stock at the grant date; and (ii) a weighted average risk-free rate of 2.47% based on the continuously compounded constant maturity treasury rate corresponding to a maturity commensurate with the expected vesting term of the awards. The weighted average grant date fair value for the remaining 160,025 awards with a service condition only was estimated based on the closing price of the Company's common stock at the grant date of \$7.28. There are no post vesting conditions on these awards.
- (3) The weighted average grant date fair value of these awards require the Company to estimate certain valuation inputs. In determining the fair value for 692,500 of these awards granted in 2018, the Company applied: (i) a weighted average volatility estimate of approximately 17%, which was determined considering historic volatility in the price of the Company's and its peer group companies' common stock over the three-year period prior to the grant date and the implied volatility of certain exchange-traded options on the Company's and peer group companies' common stock at the grant date; and (ii) a weighted average risk-free rate of 2.36% based on the continuously compounded constant maturity treasury rate corresponding to a maturity commensurate with the expected vesting term of the awards. The weighted average grant date fair value for the remaining 151,302 awards with a service condition only was estimated based on the closing price of the Company's common stock at the grant date of \$7.70. There are no post vesting conditions on these awards.

Restricted Stock

At December 31, 2020 and 2019, the Company did not have any unvested shares of restricted common stock outstanding. The total fair value of restricted shares vested during the years ended December 31, 2020, 2019 and 2018 was approximately \$131,000, \$3.2 million and \$3.0 million, respectively.

The following table presents information with respect to the Company's restricted stock for the years ended December 31, 2020, 2019 and 2018:

| | For the Year Ended December 31, | | | | | |
|-----------------------------------|----------------------------------|---|----------------------------------|---|----------------------------------|---|
| | 2020 | | 2019 | | 2018 | |
| | Shares of Restricted Stock | Weighted Average Grant Date Fair Value (1) | Shares of Restricted Stock | Weighted Average Grant Date Fair Value (1) | Shares of Restricted Stock | Weighted Average Grant Date Fair Value (1) |
| Outstanding at beginning of year: | — | \$ — | — | \$ — | — | \$ — |
| Granted | 79,545 | 1.65 | 412,185 | 7.83 | 450,193 | 6.74 |
| Vested (2) | (79,545) | 1.65 | (412,185) | 7.83 | (450,193) | 6.74 |
| Cancelled/forfeited | — | — | — | — | — | — |
| Outstanding at end of year | — | \$ — | — | \$ — | — | \$ — |

- (1) The grant date fair value of restricted stock awards is based on the closing market price of the Company's common stock at the grant date.
(2) All restrictions associated with restricted stock are removed on vesting.

Dividend Equivalents

A dividend equivalent is a right to receive a distribution equal to the dividend distributions that would be paid on a share of the Company's common stock. Dividend equivalents may be granted as a separate instrument or may be a right associated with the grant of another award (e.g., an RSU) under the Equity Plan, and they are paid in cash or other consideration at such times and in accordance with such rules, as the Compensation Committee of the Board shall determine in its discretion. Payments made on the Company's outstanding dividend equivalent rights are generally charged to Stockholders' Equity when common stock dividends are declared to the extent that such equivalents are expected to vest. The Company made dividend equivalent payments associated with RSU awards of approximately \$367,000, \$1,049,000, and \$907,000 during the years ended December 31, 2020, 2019 and 2018, respectively. In addition, no dividend equivalents rights awarded as separate instruments were granted during the years ended December 31, 2020, 2019 and 2018.

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Expense Recognized for Equity-Based Compensation Instruments

The following table presents the Company's expenses related to its equity-based compensation instruments for the years ended December 31, 2020, 2019 and 2018:

| (In Thousands) | For the Year Ended December 31, | | |
|-----------------------------------|---------------------------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 |
| RSUs | \$ 6,592 | \$ 6,012 | \$ 4,974 |
| Restricted shares of common stock | 131 | 3,227 | 3,033 |
| Total | <u>\$ 6,723</u> | <u>\$ 9,239</u> | <u>\$ 8,007</u> |

(b) Deferred Compensation Plans

The Company administers deferred compensation plans for its senior officers and non-employee directors (collectively, the "Deferred Plans"), pursuant to which participants may elect to defer up to 100% of certain cash compensation. The Deferred Plans are designed to align participants' interests with those of the Company's stockholders.

Amounts deferred under the Deferred Plans are considered to be converted into "stock units" of the Company. Stock units do not represent stock of the Company, but rather are a liability of the Company that changes in value as would equivalent shares of the Company's common stock. Deferred compensation liabilities are settled in cash at the termination of the deferral period, based on the value of the stock units at that time. The Deferred Plans are non-qualified plans under the Employee Retirement Income Security Act of 1974 and, as such, are not funded. Prior to the time that the deferred accounts are settled, participants are unsecured creditors of the Company.

The Company's liability for stock units in the Deferred Plans is based on the market price of the Company's common stock at the measurement date. The following table presents the Company's expenses related to its Deferred Plans for the years ended December 31, 2020, 2019 and 2018:

| (In Thousands) | For the Year Ended December 31, | | |
|------------------------|---------------------------------|---------------|-----------------|
| | 2020 | 2019 | 2018 |
| Non-employee directors | \$ (911) | \$ 663 | \$ (165) |
| Total | <u>\$ (911)</u> | <u>\$ 663</u> | <u>\$ (165)</u> |

The Company distributed cash of \$769,400, \$568,900, and \$123,700 to the participants of the Deferred Plans during the years ended December 31, 2020 and 2019, respectively. The following table presents the aggregate amount of income deferred by participants of the Deferred Plans through December 31, 2020 and 2019 that had not been distributed and the Company's associated liability for such deferrals at December 31, 2020 and 2019:

| (In Thousands) | December 31, 2020 | | December 31, 2019 | |
|------------------------|---|-----------------------------------|---|-----------------------------------|
| | Undistributed Income Deferred (1) | Liability Under Deferred Plans | Undistributed Income Deferred (1) | Liability Under Deferred Plans |
| Non-employee directors | \$ 2,197 | \$ 1,809 | \$ 2,349 | \$ 3,071 |
| Total | <u>\$ 2,197</u> | <u>\$ 1,809</u> | <u>\$ 2,349</u> | <u>\$ 3,071</u> |

(1) Represents the cumulative amounts that were deferred by participants through December 31, 2020 and 2019, which had not been distributed through such respective date.

(c) Savings Plan

The Company sponsors a tax-qualified employee savings plan (the "Savings Plan") in accordance with Section 401(k) of the Code. Subject to certain restrictions, all of the Company's employees are eligible to make tax-deferred contributions to the

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Savings Plan subject to limitations under applicable law. Participant's accounts are self-directed and the Company bears the costs of administering the Savings Plan. The Company matches 100% of the first 3% of eligible compensation deferred by employees and 50% of the next 2%, subject to a maximum as provided by the Code. The Company has elected to operate the Savings Plan under the applicable safe harbor provisions of the Code, whereby among other things, the Company must make contributions for all participating employees and all matches contributed by the Company immediately vest 100%. For the years ended December 31, 2020, 2019 and 2018, the Company recognized expenses for matching contributions of \$480,000, \$503,500 and \$371,000, respectively.

14. Fair Value of Financial Instruments

GAAP requires the categorization of fair value measurements into three broad levels that form a hierarchy. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1 — Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 — Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 — Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following describes the valuation methodologies used for the Company's financial instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Residential Whole Loans, at Fair Value

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

Residential Mortgage Securities

The Company determined the fair value of its Agency MBS based upon prices obtained from third-party pricing services, which are indicative of market activity, and repurchase agreement counterparties.

For Agency MBS, the valuation methodology of the Company's third-party pricing services incorporate commonly used market pricing methods, trading activity observed in the marketplace and other data inputs. The methodology also considers the underlying characteristics of each security, which are also observable inputs, including: collateral vintage, coupon, maturity date, loan age, reset date, collateral type, periodic and life cap, geography, and prepayment speeds. Management analyzes pricing data received from third-party pricing services and compares it to other indications of fair value including data received from repurchase agreement counterparties and its own observations of trading activity observed in the marketplace. The Company's Agency MBS were classified as Level 2 in the fair value hierarchy. During the quarter ended June 30, 2020, the Company sold its remaining holdings of Agency MBS.

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In determining the fair value of the Company's Non-Agency MBS and CRT securities, management considers a number of observable market data points, including prices obtained from pricing services and brokers as well as dialogue with market participants. In valuing Non-Agency MBS, the Company understands that pricing services use observable inputs that include, in addition to trading activity observed in the marketplace, loan delinquency data, credit enhancement levels and vintage, which are taken into account to assign pricing factors such as spread and prepayment assumptions. For tranches of Legacy Non-Agency MBS that are cross-collateralized, performance of all collateral groups involved in the tranche are considered. The Company collects and considers current market intelligence on all major markets, including benchmark security evaluations and bid-lists from various sources, when available.

The Company's Legacy Non-Agency MBS, RPL/NPL MBS and CRT securities are valued using various market data points as described above, which management considers directly or indirectly observable parameters. Accordingly, these securities are classified as Level 2 in the fair value hierarchy. As of December 31, 2020, the Company has sold substantially all of its holdings of Legacy Non-Agency MBS and substantially reduced its holdings of other Non-Agency MBS and CRT securities.

Term Notes Backed by MSR-Related Collateral

The Company's valuation process for term notes backed by MSR-related collateral is similar to that used for residential mortgage securities and considers a number of observable market data points, including prices obtained from pricing services, brokers and repurchase agreement counterparties, dialogue with market participants, as well as management's observations of market activity. Other factors taken into consideration include estimated changes in fair value of the related underlying MSR collateral and, as applicable, the financial performance of the ultimate parent or sponsoring entity of the issuer, which has provided a guarantee that is intended to provide for payment of interest and principal to the holders of the term notes should cash flows generated by the related underlying MSR collateral be insufficient. Based on its evaluation of the observability of the data used in its fair value estimation process, these assets are classified as Level 2 in the fair value hierarchy.

Swaps

As previously disclosed, in response to the turmoil in the financial markets resulting from the COVID-19 pandemic experienced during the three months ended March 31, 2020, the Company unwound all of its Swap hedging transactions late in the first quarter in order to recover previously posted margin. Prior to their termination, valuations provided by the central clearing house were used for purposes of determining the fair value of the Company's Swaps. Such valuations obtained were tested with internally developed models that applied readily observable market parameters. Swaps were classified as Level 2 in the fair value hierarchy.

Financing Agreements, at Fair Value

Agreements with mark-to-market collateral provisions

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

Agreements with non-mark-to-market collateral provisions

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

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Securitized Debt

In determining the fair value of securitized debt, management considers a number of observable market data points, including prices obtained from pricing services and brokers as well as dialogue with market participants. Accordingly, the Company's securitized debt is classified as Level 2 in the fair value hierarchy.

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

The following tables present the Company's financial instruments carried at fair value on a recurring basis as of December 31, 2020 and 2019, on the consolidated balance sheets by the valuation hierarchy, as previously described:

Fair Value at December 31, 2020

| (In Thousands) | Level 1 | Level 2 | Level 3 | Total |
|--|-------------|---------------------|---------------------|---------------------|
| Assets: | | | | |
| Residential whole loans, at fair value | \$ — | \$ — | \$ 1,216,902 | \$ 1,216,902 |
| Non-Agency MBS | — | 56,766 | — | 56,766 |
| CRT securities | — | 104,234 | — | 104,234 |
| Term notes backed by MSR-related collateral | — | 238,999 | — | 238,999 |
| Total assets carried at fair value | <u>\$ —</u> | <u>\$ 399,999</u> | <u>\$ 1,216,902</u> | <u>\$ 1,616,901</u> |
| Liabilities: | | | | |
| Agreements with non-mark-to-market collateral provisions | \$ — | \$ — | \$ 1,159,213 | \$ 1,159,213 |
| Agreements with mark-to-market collateral provisions | — | 213,915 | 1,124,162 | 1,338,077 |
| Securitized debt | — | 869,482 | — | 869,482 |
| Total liabilities carried at fair value | <u>\$ —</u> | <u>\$ 1,083,397</u> | <u>\$ 2,283,375</u> | <u>\$ 3,366,772</u> |

Fair Value at December 31, 2019

| (In Thousands) | Level 1 | Level 2 | Level 3 | Total |
|---|-------------|---------------------|---------------------|---------------------|
| Assets: | | | | |
| Residential whole loans, at fair value | \$ — | \$ — | \$ 1,381,583 | \$ 1,381,583 |
| Non-Agency MBS | — | 2,063,529 | — | 2,063,529 |
| Agency MBS | — | 1,664,582 | — | 1,664,582 |
| CRT securities | — | 255,408 | — | 255,408 |
| Term notes backed by MSR-related collateral | — | 1,157,463 | — | 1,157,463 |
| Total assets carried at fair value | <u>\$ —</u> | <u>\$ 5,140,982</u> | <u>\$ 1,381,583</u> | <u>\$ 6,522,565</u> |

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

The following table presents additional information for the years ended December 31, 2020 and 2019 about the Company's Residential whole loans, at fair value, which are classified as Level 3 and measured at fair value on a recurring basis:

| (In Thousands) | Residential Whole Loans, at Fair Value | |
|---|---|---------------------|
| | For the Year Ended December 31, | |
| | 2020 | 2019 |
| Balance at beginning of period | \$ 1,381,583 | \$ 1,471,263 |
| Purchases (1) | — | 210,031 |
| Changes in fair value recorded in Net gain on residential whole loans measured at fair value through earnings | 17,204 | 47,849 |
| Repayments | (92,733) | (127,063) |
| Sales and repurchases | (18,530) | (1,338) |
| Transfer to REO | (70,622) | (219,159) |
| Balance at end of period | <u>\$ 1,216,902</u> | <u>\$ 1,381,583</u> |

(1) Included in the activity presented for the year ended December 31, 2019 is an adjustment of \$70.6 million for loans the Company committed to purchase during the year ended December 31, 2018, but for which the closing of the purchase transaction occurred during the three months ended March 31, 2019. The adjustment was required following the finalization of due diligence performed prior to the closing of the purchase transaction and resulted in a downward revision to the prior estimate of the loan purchase amount.

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The following table presents additional information for the years ended December 31, 2020 and 2019 about the Company's investments in term notes backed by MSR-related collateral, which were classified as Level 3 prior to September 30, 2019 and measured at fair value on a recurring basis:

| (In Thousands) | Term Notes Backed by MSR-Related Collateral | |
|--------------------------------|--|-------------|
| | Year Ended December 31, | |
| | 2020 | 2019 |
| Balance at beginning of period | \$ — | \$ 538,499 |
| Purchases | — | 573,137 |
| Collection of principal | — | (12,897) |
| Changes in unrealized gains | — | 5,391 |
| Transfer to Level 2 | — | (1,104,130) |
| Balance at end of period | <u>\$ —</u> | <u>\$ —</u> |

The following table presents additional information for the year ended December 31, 2020 about the Company's financing agreements with non-mark-to-market collateral provisions, which are classified as Level 3 and measured at fair value on a recurring basis:

| (In Thousands) | Agreements with Non-mark-to-market Collateral Provisions | |
|--------------------------------|---|------------------|
| | Year Ended December 31, | |
| | 2020 | |
| Balance at beginning of period | \$ — | |
| Transfer from Level 2 | | 2,036,597 |
| Issuances | | — |
| Payment of principal | | (879,698) |
| Changes in unrealized losses | | 2,314 |
| Balance at end of period | <u>\$ —</u> | <u>1,159,213</u> |

The following table presents additional information for the year ended December 31, 2020 about the Company's financing agreements with mark-to-market collateral provisions, which are classified as Level 3 and measured at fair value on a recurring basis:

| (In Thousands) | Agreements with Mark-to-market Collateral Provisions | |
|--------------------------------|---|------------------|
| | Year Ended December 31, | |
| | 2020 | |
| Balance at beginning of period | \$ — | |
| Transfer from Level 2 | | 1,386,592 |
| Issuances | | 258,322 |
| Payment of principal | | (520,752) |
| Changes in unrealized losses | | — |
| Balance at end of period | <u>\$ —</u> | <u>1,124,162</u> |

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

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Fair Value Methodology for Level 3 Financial Instruments

Residential Whole Loans, at Fair Value

The following tables present a summary of quantitative information about the significant unobservable inputs used in the fair value measurement of the Company's residential whole loans held at fair value for which it has utilized Level 3 inputs to determine fair value as of December 31, 2020 and 2019:

| December 31, 2020 | | | | | |
|--|---------------------|----------------------|--|----------------------|--------------|
| (Dollars in Thousands) | Fair Value (1) | Valuation Technique | Unobservable Input | Weighted Average (2) | Range |
| Residential whole loans, at fair value | \$ 789,576 | Discounted cash flow | Discount rate | 3.9 % | 3.3-8.0% |
| | | | Prepayment rate | 4.8 % | 0.0-9.9% |
| | | | Default rate | 3.8 % | 0.0-18.9% |
| | | | Loss severity | 12.7 % | 0.0-100.0% |
| | \$ 427,061 | Liquidation model | Discount rate | 8.1 % | 6.7-50.0% |
| | | | Annual change in home prices | 3.6 % | 0.0-6.5% |
| | | | Liquidation timeline (in years) | 1.8 | 0.8-4.8 |
| | | | Current value of underlying properties (3) | \$ 729 | \$12-\$4,500 |
| Total | \$ 1,216,637 | | | | |
| December 31, 2019 | | | | | |
| (Dollars in Thousands) | Fair Value (1) | Valuation Technique | Unobservable Input | Weighted Average (2) | Range |
| Residential whole loans, at fair value | \$ 829,842 | Discounted cash flow | Discount rate | 4.2 % | 3.8-8.0% |
| | | | Prepayment rate | 4.5 % | 0.7-18.0% |
| | | | Default rate | 4 % | 0.0-23.0% |
| | | | Loss severity | 12.9 % | 0.0-100.0% |
| | \$ 551,271 | Liquidation model | Discount rate | 8.0 % | 6.2-50.0% |
| | | | Annual change in home prices | 3.7 % | 2.4-8.0% |
| | | | Liquidation timeline (in years) | 1.8 | 0.1-4.5 |
| | | | Current value of underlying properties (3) | \$ 684 | \$10-\$4,500 |
| Total | \$ 1,381,113 | | | | |

(1) Excludes approximately \$265,000 and \$470,000 of loans for which management considers the purchase price continues to reflect the fair value of such loans at December 31, 2020 and 2019, respectively.

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

(3) The simple average value of the properties underlying residential whole loans held at fair value valued via a liquidation model was approximately \$380,000 and \$365,000 as of December 31, 2020 and 2019, respectively.

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

The following table presents the carrying values and estimated fair values of the Company's financial instruments at December 31, 2020 and 2019:

| (In Thousands) | December 31, 2020 | | December 31, 2020 | | December 31, 2019 | |
|--|-------------------------------|----------------|----------------------|----------------|----------------------|--|
| | Level in Fair Value Hierarchy | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value | |
| Financial Assets: | | | | | | |
| Residential whole loans, at carrying value | 3 | \$ 4,108,499 | \$ 4,282,401 | \$ 6,069,370 | \$ 6,248,745 | |
| Residential whole loans, at fair value | 3 | 1,216,902 | 1,216,902 | 1,381,583 | 1,381,583 | |
| Non-Agency MBS | 2 | 56,766 | 56,766 | 2,063,529 | 2,063,529 | |
| Agency MBS | 2 | — | — | 1,664,582 | 1,664,582 | |
| CRT securities | 2 | 104,234 | 104,234 | 255,408 | 255,408 | |
| MSR-related assets (1) | 2 and 3 | 238,999 | 238,999 | 1,217,002 | 1,217,002 | |
| Cash and cash equivalents | 1 | 814,354 | 814,354 | 70,629 | 70,629 | |
| Restricted cash | 1 | 7,165 | 7,165 | 64,035 | 64,035 | |
| Financial Liabilities (2): | | | | | | |
| Financing agreements with non-mark-to-market collateral provisions | 3 | 1,159,213 | 1,159,213 | — | — | |
| Financing agreements with mark-to-market collateral provisions | 3 | 1,124,162 | 1,124,162 | 4,741,971 | 4,753,070 | |
| Financing agreements with mark-to-market collateral provisions | 2 | 213,915 | 213,915 | 4,397,850 | 4,403,139 | |
| Securitized debt (3) | 2 | 1,514,509 | 1,519,567 | 570,952 | 575,353 | |
| Convertible senior notes | 2 | 225,177 | 228,287 | 223,971 | 244,088 | |
| Senior notes (4) | 1 | 100,000 | 100,031 | 96,862 | 103,231 | |

(1) Includes \$59.5 million of MSR-related assets that are measured at fair value on a non-recurring basis that were classified as Level 3 in the fair value hierarchy at December 31, 2019.

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

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

(4) On January 6, 2021, the Company redeemed all of its outstanding Senior Notes (see Note 17).

Other Assets Measured at Fair Value on a Nonrecurring Basis

The Company holds REO at the lower of the current carrying amount or fair value less estimated selling costs. During the years ended December 31, 2020 and 2019, the Company recorded REO with an aggregate estimated fair value, less estimated cost to sell, of \$96.8 million and \$257.7 million, respectively, at the time of foreclosure. The Company classifies fair value measurements of REO as Level 3 in the fair value hierarchy.

MFA FINANCIAL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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15. Use of Special Purpose Entities and Variable Interest Entities

A Special Purpose Entity (“SPE”) is an entity designed to fulfill a specific limited need of the company that organized it. SPEs are often used to facilitate transactions that involve securitizing financial assets or resecuritizing previously securitized financial assets. The objective of such transactions may include obtaining non-recourse financing, obtaining liquidity or refinancing the underlying financial assets on improved terms. Securitization involves transferring assets to a SPE to convert all or a portion of those assets into cash before they would have been realized in the normal course of business, through the SPE’s issuance of debt or equity instruments. Investors in a SPE usually have recourse only to the assets in the SPE and, depending on the overall structure of the transaction, may benefit from various forms of credit enhancement such as over-collateralization in the form of excess assets in the SPE, priority with respect to receipt of cash flows relative to holders of other debt or equity instruments issued by the SPE, or a line of credit or other form of liquidity agreement that is designed with the objective of ensuring that investors receive principal and/or interest cash flow on the investment in accordance with the terms of their investment agreement.

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

The Company has engaged in loan securitizations primarily for the purpose of obtaining improved overall financing terms as well as non-recourse financing on a portion of its residential whole loan portfolio. Notwithstanding the Company’s participation in these transactions, the risks facing the Company are largely unchanged as the Company remains economically exposed to the first loss position on the underlying assets transferred to the VIEs.

Loan Securitization Transactions

The following table summarizes the key details of the Company’s loan securitization transactions currently outstanding as of December 31, 2020 and 2019:

| (Dollars in Thousands) | December 31, 2020 | December 31, 2019 |
|--|---------------------------|---------------------------|
| Aggregate unpaid principal balance of residential whole loans sold | \$ 2,232,561 | \$ 1,290,029 |
| Face amount of Senior Bonds issued by the VIE and purchased by third-party investors | \$ 1,862,068 | \$ 802,817 |
| Outstanding amount of Senior Bonds, at carrying value | \$ 645,027 ⁽¹⁾ | \$ 570,952 ⁽¹⁾ |
| Outstanding amount of Senior Bonds, at fair value | \$ 869,482 | \$ — |
| Outstanding amount of Senior Bonds, total | \$ 1,514,509 | \$ 570,952 |
| Weighted average fixed rate for Senior Bonds issued | 2.11 % ⁽²⁾ | 3.68 % ⁽²⁾ |
| Weighted average contractual maturity of Senior Bonds | 41 years ⁽²⁾ | 30 years ⁽²⁾ |
| Face amount of Senior Support Certificates received by the Company ⁽³⁾ | \$ 268,548 | \$ 275,174 |
| Cash received | \$ 1,853,408 | \$ 802,815 |

⁽¹⁾ Net of \$3.2 million and \$2.9 million of deferred financing costs at December 31, 2020 and December 31, 2019, respectively.

⁽²⁾ At December 31, 2020 and December 31, 2019, \$568.7 million and \$493.2 million, respectively, of Senior Bonds sold in securitization transactions contained a contractual coupon step-up feature whereby the coupon increases by either 100 or 300 basis points or more at 36 months from issuance if the bond is not redeemed before such date.

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

During the year ended December 31, 2020, the Company issued Senior Bonds with a current face of \$1.3 billion to third-party investors for proceeds of \$1.3 billion before offering costs and accrued interest. A portion of the Senior Bonds issued by the Company during the year ended December 31, 2020 are presented at fair value on its consolidated balance sheets as a result of a fair value election made at the time of issuance.

As of December 31, 2020 and 2019, as a result of the transactions described above, securitized loans with a carrying value of approximately \$1.4 billion and \$186.4 million are included in “Residential whole loans, at carrying value,” securitized loans with a fair value of approximately \$382.3 million and \$567.4 million are included in “Residential whole loans, at fair value,” and REO with a carrying value of approximately \$49.5 million and \$137.8 million are included in “Other assets” on the

MFA FINANCIAL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Company's consolidated balance sheets, respectively. As of December 31, 2020 and 2019, the aggregate carrying value of Senior Bonds issued by consolidated VIEs was \$1.5 billion and \$571.0 million, respectively. These Senior Bonds are disclosed as "Securitized debt" and are included in Other liabilities on the Company's consolidated balance sheets. The holders of the securitized debt have no recourse to the general credit of the Company, but the Company does have the obligation, under certain circumstances to repurchase assets from the VIE upon the breach of certain representations and warranties with respect to the residential whole loans sold to the VIE. In the absence of such a breach, the Company has no obligation to provide any other explicit or implicit support to any VIE.

The Company concluded that the entities created to facilitate the loan securitization transactions are VIEs. The Company then completed an analysis of whether each VIE created to facilitate the securitization transactions should be consolidated by the Company, based on consideration of its involvement in each VIE, including the design and purpose of the SPE, and whether its involvement reflected a controlling financial interest that resulted in the Company being deemed the primary beneficiary of each VIE. In determining whether the Company would be considered the primary beneficiary, the following factors were assessed:

- whether the Company has both the power to direct the activities that most significantly impact the economic performance of the VIE; and
- whether the Company has a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE.

Based on its evaluation of the factors discussed above, including its involvement in the purpose and design of the entity, the Company determined that it was required to consolidate each VIE created to facilitate the loan securitization transactions.

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

Included on the Company's consolidated balance sheets as of December 31, 2020 and 2019 are a total of \$5.3 billion and \$7.4 billion, respectively, of residential whole loans, of which approximately \$4.1 billion and \$6.1 billion, respectively, are reported at carrying value and \$1.2 billion and \$1.4 billion, respectively, are reported at fair value. These assets, and certain of the Company's REO assets, are directly owned by certain trusts established by the Company to acquire the loans and entities established in connection with the Company's loan securitization transactions. The Company has assessed that these entities are required to be consolidated (see Notes 3 and 5(a)).

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16. Summary of Quarterly Results of Operations (Unaudited)

| (In Thousands, Except per Share Amounts) | 2020 Quarter Ended | | | |
|---|--------------------|-----------|--------------|-------------|
| | March 31 | June 30 | September 30 | December 31 |
| Interest income | \$ 145,460 | \$ 87,368 | \$ 66,080 | \$ 60,476 |
| Interest expense | (83,759) | (87,991) | (55,964) | (41,044) |
| Net interest income | 61,701 | (623) | 10,116 | 19,432 |
| (Provision)/Reversal for credit and valuation losses on residential whole loans and other financial instruments | (150,711) | 85,377 | 27,244 | 15,709 |
| Net Interest Income after Provision for Credit and Valuation Losses | (89,010) | 84,754 | 37,360 | 35,141 |
| Net gain on residential whole loans measured at fair value through earnings | (52,760) | 20,320 | 76,871 | 49,782 |
| Net realized gain on sales of residential mortgage securities and residential whole loans | (238,380) | 49,485 | 48 | — |
| Other income | (499,623) | 6,552 | 292 | (18,708) |
| Operating and other expense | (29,222) | (64,533) | (27,361) | (20,398) |
| Net income | (908,995) | 96,578 | 87,210 | 45,817 |
| Preferred stock dividends | (5,215) | (8,144) | (8,219) | (8,218) |
| Net (loss)/ income available to common stock and participating securities | \$ (914,210) | \$ 88,434 | \$ 78,991 | \$ 37,599 |
| (Loss)/Earnings per Common Share - Basic | \$ (2.02) | \$ 0.19 | \$ 0.17 | \$ 0.08 |
| (Loss)/Earnings per Common Share - Diluted | \$ (2.02) | \$ 0.19 | \$ 0.17 | \$ 0.08 |

| (In Thousands, Except per Share Amounts) | 2019 Quarter Ended | | | |
|--|--------------------|------------|--------------|-------------|
| | March 31 | June 30 | September 30 | December 31 |
| Interest income | \$ 140,952 | \$ 144,935 | \$ 142,721 | \$ 153,118 |
| Interest expense | (79,026) | (85,044) | (85,823) | (82,463) |
| Net interest income | 61,926 | 59,891 | 56,898 | 70,655 |
| Provision for credit and valuation losses on residential whole loans and other financial instruments | (805) | (385) | (347) | (1,032) |
| Net Interest Income after Provision for Credit and Valuation Losses | 61,121 | 59,506 | 56,551 | 69,623 |
| Net gain on residential whole loans measured at fair value through earnings | 25,267 | 51,473 | 40,175 | 41,415 |
| Net realized gain on sales of residential mortgage securities and residential whole loans | 24,609 | 7,710 | 17,708 | 11,975 |
| Other income | 1,293 | (2,321) | 4,546 | 2,007 |
| Operating and other expense | (23,433) | (23,328) | (23,381) | (24,399) |
| Net income | 88,857 | 93,040 | 95,599 | 100,621 |
| Preferred stock dividends | (3,750) | (3,750) | (3,750) | (3,750) |
| Net income available to common stock and participating securities | \$ 85,107 | \$ 89,290 | \$ 91,849 | \$ 96,871 |
| Earnings per Common Share - Basic and Diluted | \$ 0.19 | \$ 0.20 | \$ 0.20 | \$ 0.21 |

MFA FINANCIAL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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17. Subsequent Events

Redemption of Senior Notes

On January 6, 2021, the Company redeemed all of the outstanding \$100 million aggregate principal amount of 8.00% Senior Notes Due 2042. The Senior Notes were redeemed at a price equal to 100% of the principal amount of the Senior Notes, or \$25 per \$25 principal amount of Senior Notes, plus unpaid interest, if any, accrued thereon to, but excluding, the redemption date. In connection with this redemption, the Company recorded in its fourth quarter interest expense a non-cash charge of approximately \$3.1 million representing remaining unamortized deferred expenses incurred when the Senior Notes were originally issued in 2012.

Securitization of Business Purpose Rental Loans

Subsequent to the end of the fourth quarter, the Company completed a securitization solely consisting of \$217.5 million of Business Purpose Rental Loans, generating approximately \$48.4 million of additional liquidity. As the weighted average coupon of the bonds sold was approximately 1.06%, this transaction is expected to lower the funding rate of the underlying assets by more than 150 basis points.

Schedule IV - Mortgage Loans on Real Estate
December 31, 2020

| Asset Type | Number | Interest Rate | Maturity Date Range | Balance Sheet Reported Amount | Principal Amount of Loans Subject to Delinquent Principal or Interest |
|---|---------------|----------------|---------------------|-------------------------------|---|
| (Dollars in Thousands) | | | | | |
| Residential Whole Loans, at Carrying Value | | | | | |
| Original loan balance \$0 - \$149,999 | 3,947 | 0.00% - 16.00% | 9/1/2016-8/25/2058 | \$ 347,041 | \$ 29,614 |
| Original loan balance \$150,000 - \$299,999 | 4,341 | 0.00% - 13.49% | 11/1/2018-1/1/2060 | 832,365 | 73,749 |
| Original loan balance \$300,000 - \$449,999 | 2,064 | 1.50% - 9.63% | 12/1/2018-5/1/2062 | 667,272 | 65,629 |
| Original loan balance greater than \$449,999 | 2,760 | 0.88% - 11.25% | 12/1/2018-1/1/2061 | 2,348,654 | 286,120 |
| | <u>13,112</u> | | | <u>\$ 4,195,332</u> | <u>\$ 455,112</u> |
| Residential Whole Loans, at Fair Value | | | | | |
| Original loan balance \$0 - \$149,999 | 2,044 | 0.00% - 14.13% | 7/26/2016-1/1/2060 | \$ 167,671 | \$ 70,748 |
| Original loan balance \$150,000 - \$299,999 | 1,909 | 1.95% - 11.53% | 3/10/2013-7/1/2060 | 355,854 | 167,303 |
| Original loan balance \$300,000 - \$449,999 | 1,000 | 0.00% - 10.75% | 5/1/2020-2/1/2060 | 313,588 | 165,901 |
| Original loan balance greater than \$449,999 | 669 | 1.70% - 10.20% | 7/1/2017-11/1/2059 | 379,789 | 221,669 |
| | <u>5,622</u> | | | <u>\$ 1,216,902</u> | <u>\$ 625,621</u> |
| | <u>18,734</u> | | | <u>\$ 5,412,234</u> | <u>\$ 1,080,733</u> |

(1) Excludes an allowance for loan losses of \$86.8 million at December 31, 2020.

(2) The federal income tax basis is approximately \$3.9 billion.

Reconciliation of Balance Sheet Reported Amounts of Mortgage Loans on Real Estate

The following table summarizes the changes in the carrying amounts of residential whole loans during the year ended December 31, 2020:

| (In Thousands) | For the Year Ended December 31, 2020 | |
|---|--|--|
| | Residential Whole Loans, at Carrying Value | Residential Whole Loans, at Fair Value |
| Beginning Balance | \$ 6,066,345 | \$ 1,381,583 |
| Additions during period: | | |
| Purchases | 1,431,673 | — |
| Changes in fair value recorded in Net gain on residential whole loans measured at fair value through earnings | N/A | 17,204 |
| Deductions during period: | | |
| Repayments | (1,565,553) | (92,733) |
| Premium amortization/discount accretion, net | (11,590) | N/A |
| Provision for loan loss | (21,447) | N/A |
| Loan sales and repurchases | (1,766,220) | (18,530) |
| Transfer to REO | (24,709) | (70,622) |
| Ending Balance | <u>\$ 4,108,499</u> | <u>\$ 1,216,902</u> |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

Management, under the direction of its Chief Executive Officer and Chief Financial Officer, is responsible for maintaining disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the 1934 Act) that are designed to ensure that information required to be disclosed in reports filed or submitted under the 1934 Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Annual Report on Form 10-K, management reviewed and evaluated the Company's disclosure controls and procedures. The evaluation was performed under the direction of the Company's Chief Executive Officer and Chief Financial Officer to determine the effectiveness, as of December 31, 2020, of the design and operation of the Company's disclosure controls and procedures. Based on that review and evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's current disclosure controls and procedures, as designed and implemented, were effective as of December 31, 2020. Notwithstanding the foregoing, a control system, no matter how well designed, implemented and operated can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

(b) Management's Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the 1934 Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP, and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020. In making this assessment, the Company's management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control-Integrated Framework 2013* (the "2013 COSO Framework"). As a result of this assessment, management concluded that, as of December 31, 2020, the Company's internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The Company's independent registered public accounting firm, KPMG LLP, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting. This report appears on page 137 of this Annual Report on Form 10-K.

(c) Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting that occurred during the fourth quarter of 2020 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors

MFA Financial, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited MFA Financial, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income/(loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes and Schedule IV – Mortgage Loans on Real Estate (collectively, the consolidated financial statements), and our report dated February 23, 2021 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

New York, New York
February 23, 2021

Item 9B. Other Information.

Amended and Restated Employment Agreements with Craig L Knutson, Gudmundur Kristjansson and Bryan Wulfsohn

On February 22, 2021, the Company entered into amended and restated employment agreements (each, an “Amended Employment Agreement”), effective as of January 1, 2021, with Craig L. Knutson, Chief Executive Officer and President of the Company, and each of Gudmundur Kristjansson and Bryan Wulfsohn, each a Co-Chief Investment Officer and Senior Vice President of the Company. (Mr. Knutson, Mr. Kristjansson and Mr. Wulfsohn are sometimes hereinafter referred to individually as the “Executive” or together, the “Executives.”) The Amended Employment Agreements amend and restate the existing employment agreements that each Executive had entered into with the Company on November 26, 2019 (and which became effective January 1, 2020) (each, a “Prior Employment Agreement”). Set forth below is a summary of the material terms and conditions of the Amended Employment Agreements.

Term

Each Executive’s Amended Employment Agreement has a fixed term running through December 31, 2021, which term automatically renews for an additional one-year period at the end of the initial term and each year thereafter, unless either MFA or the Executive gives the other party written notice of its or his intent not to renew the term of the Amended Employment Agreement at least 90 days prior to the end of the then current-term.

Base Salary

Mr. Knutson’s Amended Employment Agreement provides for a base salary of \$800,000 per annum. Each of Mr. Kristjansson’s and Mr. Wulfsohn’s Amended Employment Agreement provides for a base salary of \$400,000 per annum. Generally, the Executive’s base salary may not be decreased unless in connection with an overall reduction in base salaries for the Company’s senior executives.

Annual Performance-Based Bonus

Similar to the Prior Employment Agreements, the Amended Employment Agreements provide that, during the term of employment, each Executive is eligible to receive an annual performance-based bonus (the “Annual Bonus”) based on the Company’s and each Executive’s individual performance during the 12-month period beginning each December 1 during the term and ending on November 30 of the next succeeding year (each 12-month period being a “Performance Period”). Pursuant to the terms of each Amended Employment Agreement, the target annual bonus (the “Overall Target Bonus”) for each Performance Period is \$2,000,000 for Mr. Knutson, and is \$950,000 for each of Mr. Kristjansson and Mr. Wulfsohn. Generally, the Executive’s Overall Target Bonus may not be decreased unless in connection with an overall reduction in target bonuses for the Company’s senior executives.

The Amended Employment Agreements provide that each Executive’s Annual Bonus is comprised of two performance components. Similar to the terms of the Prior Employment Agreements, (i) a portion of each Executive’s Annual Bonus will be payable based on MFA’s adjusted return on average equity (“ROAE”) during the applicable Performance Period (such portion of the Annual Bonus hereinafter referred to as the “ROAE Bonus”) and (ii) a portion of each Executive’s Annual Bonus will be based on the Executive’s individual performance and the Company’s performance and risk management (such portion of the Annual Bonus hereinafter referred to as the “IRM Bonus”).

ROAE Bonus. With respect to the ROAE Bonus, for each Performance Period the target amount of the ROAE Bonus (the “Target ROAE Bonus”) for each Executive will be equal to 75% of such Executive’s Overall Target Bonus. Based on each Executive’s Overall Target Bonus, Mr. Knutson’s Target ROAE Bonus will be \$1,500,000 and each of Mr. Kristjansson’s and Mr. Wulfsohn’s Target ROAE Bonus will be \$712,500. The Amended Employment Agreements provide that each Executive will be eligible to receive from zero to 200% of his respective Target ROAE Bonus (i.e., up to \$3,000,000 in the case of Mr. Knutson and up to \$1,425,000 in the case of each of Mr. Kristjansson and Mr. Wulfsohn).

The actual amount of the ROAE Bonus to be paid to each Executive will be based on the Company’s adjusted ROAE for the applicable Performance Period relative to threshold, target, and maximum ROAE performance goals established by the Compensation Committee of the Board of Directors (the “Compensation Committee”) for each Performance Period, which will be established within 90 days following commencement of the applicable Performance Period. If performance is between threshold and target goals or between target and maximum goals, the amount of the ROAE Bonus will be determined by straight line interpolation.

For purposes of determining the ROAE Bonus, adjusted ROAE will be calculated by dividing (i) MFA’s net income as determined in accordance with GAAP (but excluding non-cash expense items such as depreciation and amortization expense,

life-of-loan loss reserves at acquisition under the Current Expected Credit Loss accounting standard, the write off of offering expenses incurred in connection with the redemption of equity and/or debt and, in certain circumstances, any gains or losses from hedging instruments) by (ii) MFA's average stockholders' equity (based on stockholders' equity as of the last day of each month during the Performance Period) as determined in accordance with GAAP (but excluding accumulated other comprehensive income or loss, stockholders equity attributable to preferred stock and such other items as may be determined by the Compensation Committee).

IRM Bonus. With respect to the IRM Bonus, for each Performance Period the target amount of the IRM Bonus (the "Target IRM Bonus") for each Executive will be equal to 25% of such Executive's Overall Target Bonus. Based on his Overall Target Bonus, Mr. Knutson's Target IRM Bonus will be \$500,000 and each of Mr. Kristjansson's and Mr. Wulfohn's Target IRM Bonus will be \$237,500. The Amended Employment Agreements provide that each Executive will be eligible to receive from zero to 200% of his respective Target IRM Bonus (i.e., up to \$1,000,000 in the case of Mr. Knutson and up to \$475,000 in the case of each of Mr. Kristjansson and Mr. Wulfohn).

The actual amount of the IRM Bonus to be paid to each Executive will be determined by the Compensation Committee in its discretion based upon any factors it deems relevant and appropriate, including, without limitation, MFA's leverage strategy relative to other similarly situated companies as well as relative to its own business plan, MFA's total stockholder return (both on an absolute basis, as well as relative to relevant indices and other similarly situated companies) and the Executive's individual performance.

The terms of each Executive's Prior Employment Agreement have been modified in the Amended Employment Agreement to provide that payment of the Executive's Annual Bonus will be made in solely in cash rather than as a combination cash and shares of the Company's common stock.

Equity Awards

As was the case under each Executive's Prior Employment Agreement, under the Amended Employment Agreements, each Executive receives annual grants of restricted stock units ("RSUs"), which consist of time-based RSUs ("TRSUs") and performance-based RSUs ("PRSUs"), if the Executive is still employed by the Company on the applicable grant date. The TRSUs and PRSUs are subject to the terms of the Company's Equity Compensation Plan, as may be amended, or any successor plan, and an award agreement entered into between the Executive and the Company.

TRSUs. Under the terms of Mr. Knutson's Amended Employment Agreement, he is entitled to an annual grant of TRSUs with an aggregate grant date value of \$1,040,000, with the number of TRSUs granted determined by the quotient of 1,040,000 divided by the closing price of MFA common stock on the date of grant (the "Grant Date Share Price"). Under the terms of Mr. Kristjansson's and Mr. Wulfohn's respective Amended Employment Agreement, each Executive is entitled to an annual grant of TRSUs with an aggregate grant date value of \$320,000, with the number of TRSUs granted determined by the quotient of 320,000 divided by the Grant Date Share Price. Under the terms of the Amended Employment Agreements, the Committee may increase or decrease the aggregate grant date value for any annual grant of TRSUs made in future years.

Except in certain circumstances described below in "Payments and Other Benefits upon Termination of Employment," each TRSU award will vest on the third December 31st to occur following the date of grant, subject to the Executive's continued employment with the Company. In addition, subject to exceptions in certain circumstances described below, unvested TRSUs will be forfeited as of the date of the Executive's termination of employment with the Company. Upon vesting, each Executive will receive one share of MFA common stock for each vested TRSU.

If dividends are paid on MFA common stock during the period in which TRSUs are outstanding, each Executive will be credited with an amount, per TRSU, equal to the amount of dividends declared and paid in respect of one share of MFA common stock. Such credited amount will be credited in the form of additional TRSUs (such TRSUs, "DER TRSUs"), based on the fair market value of a share of MFA common stock on the payment date of the cash dividend. The DER TRSUs will include the right to receive additional DER TRSUs with respect to any additional dividends declared and will be paid in cash subject to the same terms and conditions (including with respect to vesting and payment timing) applicable to the grant of TRSUs with respect to which the DER TRSUs were credited.

PRSUs. Under the terms of the Amended Employment Agreements, Mr. Knutson is entitled to an annual grant of PRSUs with an aggregate grant date value of \$1,810,000, and each of Mr. Kristjansson and Mr. Wulfohn is entitled to an annual grant of PRSUs with an aggregate grant date value of \$480,000 (for each Executive, the "PRSU Grant Date Value"). Under the terms of the Amended Employment Agreements, the Committee may increase or decrease the PRSU Grant Date Value for any annual grant of PRSUs made to an Executive in future years.

A portion of each annual PRSU award will vest based on the Company's level of absolute total stockholder return ("TSR") during the applicable three-year performance period and a portion will vest based on the Company's level of TSR during the applicable three-year performance period relative to the TSR during such period of a peer group of companies designated by the Compensation Committee at the time of each grant. (The PRSUs that vest based on the Company's level of absolute TSR are hereinafter referred to as the "Absolute TSR PRSUs," and the PRSUs that vest based on the Company's level of relative TSR are hereinafter referred to as the "Relative TSR PRSUs.") Except in certain circumstances described below in "Payments and Other Benefits upon Termination of Employment," PRSUs will vest on the last day of the applicable performance period, subject to the level of performance achieved and the Executive's continued employment with the Company.

Each annual grant of PRSUs provides for a target grant of Absolute TSR PRSUs (the "Absolute TSR Target Award") and a target grant of Relative TSR PRSUs (the "Relative TSR Target Award"). For each Executive, the Absolute TSR Target Award is a number of PRSUs equal to the quotient of (a) 50% of the Executive's PRSU Grant Date Value divided by (b) the grant date fair value per unit of one Absolute TSR PRSU. Similarly, the Relative TSR Target Award for each Executive is a number of PRSUs equal to (a) 50% of the Executive's PRSU Grant Date Value divided by (b) the grant date fair value per unit of one Relative TSR PRSU.

With respect to the Absolute TSR PRSUs, the actual number of Absolute TSR PRSUs that will vest will be based on the level of the Company's cumulative total stockholder return (i.e., share price appreciation or depreciation, as the case may be, plus dividends divided by initial share price) relative to an 8% per annum simple TSR for the three-year performance period beginning on January 1 of the year of grant (e.g., the performance period for the PRSUs granted in 2021 is January 1, 2021 through December 31, 2023). To determine the actual number of Absolute TSR PRSUs that will vest, the target number of each grant of Absolute TSR PRSUs will be adjusted up or down at the end of the applicable three-year performance period based on the Company's cumulative TSR relative to an 8% per annum simple TSR objective from 0% of the target number (reflecting 0% per annum TSR during the performance period) to 200% of the target number (reflecting 16% per annum (or higher) TSR during the performance period), with 100% of the target number vesting if TSR of 8% per annum is achieved during the performance period.

With respect to the Relative TSR PRSUs, the actual number of Relative TSR PRSUs that will vest will be based on the Company's cumulative TSR during the applicable three-year performance period (beginning on January 1 of the year of grant) as compared to the cumulative TSR of designated peer group companies for such performance period. To the extent that the Company's TSR rank is less than or equal to the 25th percentile when compared to the TSR of the members of the peer group, the Executive will vest in 0% of the target number of Relative TSR PRSUs awarded to him in respect of the applicable performance period. To the extent that the Company's TSR rank is in the 50th percentile, the Executive will vest in 100% of the target number of Relative TSR PRSUs awarded to him in respect of the applicable performance period. To the extent that the Company's TSR rank is greater than or equal to the 80th percentile, the Executive will vest in 200% of the target number of Relative TSR PRSUs awarded to him in respect of the applicable performance period. (To the extent that the Company's TSR ranking falls in between the percentiles identified in the preceding sentences, the number of Relative TSR PRSUs that vest will be interpolated.) The terms of the Relative TSR PRSUs also provide that, regardless of the Company's TSR rank, in the event the Company has negative TSR for a performance period, the Executive will not vest in more than 100% of the target number of Relative TSR PRSUs awarded to him in respect of the applicable performance period.

Absolute TSR PRSUs and Relative TSR PRSUs that do not vest at the end of the performance period will be forfeited. The Executive will receive one share of the Company's common stock for each Absolute TSR PRSU and Relative TSR PRSU that vests, provided that the fair market value of the shares of MFA common stock delivered upon settlement may not exceed 400% of the PRSU Grant Date Value of the PRSUs granted in respect of the completed performance period. Any PRSUs that vest are subject to an additional one year deferral prior to settlement, subject to accelerated payout under certain circumstances.

Dividend equivalents will not be paid in respect of the PRSUs during the performance period. Rather, dividend equivalents will accrue with respect to the PRSUs during the performance period, and to the extent that the underlying PRSUs vest, an amount equal to the accrued dividend equivalents related to the vested PRSUs will be paid to the Executive in the form of additional shares of MFA common stock based on the closing price of MFA common stock on the vesting date. Any dividend equivalents applicable to dividends declared and paid during the deferral period following vesting will generally be paid in cash as and when dividends are declared.

Payments and Other Benefits upon Termination of Employment

The Amended Employment Agreements provide for the payment of severance and other benefits to each Executive under various circumstances in which his employment with MFA is terminated.

Death or Disability. In circumstances where termination of the Executive's employment is due to his death or disability (as such term is defined in each Amended Employment Agreement), the Executive or his legal representative or estate, as the case may be, will be entitled to the following:

- (i) aggregate cash (generally payable in lump sum in the case of death and installments in the case of disability) equal to the sum of (A) his annual base salary and (B) the median annual bonus received by such Executive over the three preceding years (the "Median Bonus");
- (ii) any unpaid Annual Bonus for the Performance Period that ended immediately preceding the Executive's termination;
- (iii) in the case of disability only, reimbursement of health insurance premiums for the Executive and his eligible dependents for a period of 18 months following such termination; and
- (iv) immediate vesting of all outstanding unvested equity-based awards; provided, however, that performance-based equity awards will continue to vest in accordance with their respective terms and conditions determined as though the Executive remained actively employed through the end of the applicable performance period (or if termination occurs within 12 months following a change in control, vesting will be based on the target number of shares subject to such awards).

Termination without Cause or Resignation for Good Reason. In circumstances where termination of the Executive's employment is without cause (as such term is defined in the Amended Employment Agreement) or he resigns for good reason (as such term is defined in the Amended Employment Agreement), except as described below with respect to a change in control, the Executive will be entitled to the following:

- (i) aggregate cash equal to two times (in the case of Mr. Knutson) and 1.5 times (in the case of each of Mr. Kristjansson and Mr. Wulfsohn) the sum of (A) his annual base salary and (B) the Median Bonus, which will be payable over the twenty-four month period following termination (in the case of Mr. Knutson) and the eighteen-month period following termination (in the case of each of Mr. Kristjansson and Mr. Wulfsohn);
- (ii) any unpaid Annual Bonus for the Performance Period that ended immediately preceding the Executive's termination; and
- (iii) immediate vesting of all outstanding unvested equity-based awards that would otherwise vest within the 12 months following such termination; provided, however, that performance-based equity awards will continue to vest in accordance with their respective terms and conditions, and the Executive will be entitled to receive a pro rata share of the amount, if any, ultimately payable in respect of such award based on the Executive's length of service during the applicable performance period through the next anniversary of the grant date of such award relative to the length of the applicable performance period.

Termination Related to Change in Control. Each Amended Employment Agreement provides that in the event the Executive's employment is terminated by the Company other than for cause (including upon expiration of his Amended Employment Agreement) or the Executive resigns for good reason, in either case, during the 12-month period following a change in control of the Company (or, in certain limited instances, within the three-month period preceding a change in control of the Company), he will be entitled to the following (in lieu of the amounts described above): (i) a lump sum payment equal to two times (in the case of Mr. Knutson) or 1.5 times (in the case of either Mr. Kristjansson or Mr. Wulfsohn) the sum of (A) his annual base salary and (B) the Median Bonus; (ii) immediate vesting of all outstanding unvested equity-based awards (which, for performance-based equity awards, will be based on the target number of shares subject to such awards); (iii) reimbursement of health insurance premiums for the Executive and his eligible dependents for a period of 18 months following such termination; (iv) a lump sum payment equal to a pro rata target Annual Bonus for the year in which the date of termination occurs; and (v) any unpaid Annual Bonus for the Performance Period that ended immediately preceding the Executive's termination.

Retirement Provisions (Mr. Knutson). In circumstances where Mr. Knutson's termination of employment is voluntary and constitutes an eligible retirement (as such term is defined in his Amended Employment Agreement), he will be entitled to the following:

- (i) any unpaid Annual Bonus for the Performance Period that ended immediately preceding the Executive's termination;
- (ii) a pro rata Annual Bonus for any partial Performance Period in which the date of termination occurs; and

(iii) immediate vesting of all outstanding unvested equity-based awards; provided, however, that performance-based equity awards will continue to vest in accordance with their respective terms and conditions determined as though the Executive remained actively employed through the end of the applicable performance period (or if termination occurs within 12 months following a change in control, vesting will be based on the target number of shares subject to such awards).

Notice of Termination

Each Executive must provide 90 days' notice prior to his resignation, and the Company generally must provide 90 days' notice prior to its terminating the Executive, except, in certain limited circumstances. During this 90-day period after any such notice has been given, the Executive will continue to receive base salary and benefits, but will be ineligible to receive an Annual Bonus for any Performance Period that was not completed as of the beginning of the 90-day period.

Other Terms and Provisions

In addition, each Amended Employment Agreement provides that if any payments or benefits provided to the Executive would constitute excess parachute payments within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), and would be subject to the excise tax imposed under Section 4999 of the Code, the payments or benefits will be reduced by the amount required to avoid the excise tax, if such reduction would give the Executive a better after-tax result than if he received the full payments and benefits and paid the excise tax.

The Amended Employment Agreements also contain customary confidentiality, non-disparagement, non-solicitation and non-competition covenants, as well as other terms customary for agreements applicable to senior executives.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

We expect to file with the SEC, in April 2021 (and, in any event, not later than 120 days after the close of our last fiscal year), a definitive proxy statement (the "Proxy Statement"), pursuant to SEC Regulation 14A in connection with our Annual Meeting of Stockholders to be held on or about June 2, 2021. The information to be included in the Proxy Statement regarding the Company's directors, executive officers, and certain other matters required by Item 401 of Regulation S-K is incorporated herein by reference.

The information to be included in the Proxy Statement regarding compliance with Section 16(a) of the 1934 Act required by Item 405 of Regulation S-K is incorporated herein by reference.

The information to be included in the Proxy Statement regarding the Company's Code of Business Conduct and Ethics required by Item 406 of Regulation S-K is incorporated herein by reference.

The information to be included in the Proxy Statement regarding certain matters pertaining to the Company's corporate governance required by Item 407(c) (3), (d)(4) and (d)(5) of Regulation S-K is incorporated by reference.

We have adopted a set of Corporate Governance Guidelines, which together with the charters of the three standing committees of our Board of Directors (Audit, Compensation, and Nominating and Corporate Governance), and our Code of Business Conduct and Ethics (which constitutes the Company's code of ethics), provide the framework for the governance of the Company. A complete copy of our Corporate Governance Guidelines, the charters of each of the Board committees and the Code of Business Conduct and Ethics (which applies not only to our Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, but also to all other employees of the Company) may be found by clicking on the "Overview" link found at the top of our homepage at www.mfafinancial.com and then clicking on the "Corporate Governance" link (information from such site is not incorporated by reference into this Annual Report on Form 10-K). You may also obtain free copies of these materials by writing to our General Counsel at the Company's headquarters.

Item 11. Executive Compensation.

The information to be included in the Proxy Statement regarding executive compensation and other compensation related matters required by Items 402 and 407(e)(4) and (e)(5) of Regulation S-K is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The tables to be included in the Proxy Statement, which will contain information relating to the Company's equity compensation and beneficial ownership of the Company required by Items 201(d) and 403 of Regulation S-K, are incorporated herein by reference.

Securities Authorized For Issuance Under Equity Compensation Plans

During 2020, we adopted the Equity Plan, as approved by our stockholders. The Equity Plan amended and restated our 2010 Equity Compensation Plan. (For a description of the Equity Plan, see Note 13(a) to the consolidated financial statements included under Item 8 of this Annual Report on Form 10-K.)

The following table presents certain information with respect to our equity compensation plans as of December 31, 2020:

| Award (1) | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column of this table) |
|------------------|--|--|--|
| RSUs | 3,452,629 | | |
| Total | 3,452,629 | (2) | 14,273,190 (3) |

(1) All equity based compensation is granted pursuant to plans that have been approved by our stockholders.

(2) A weighted average exercise price is not applicable for our RSUs, as such equity awards result in the issuance of shares of our common stock provided that such awards vest and, as such, do not have an exercise price. At December 31, 2020, 1,569,416 RSUs were vested, 669,039 RSUs were subject to time based vesting and 1,214,174 RSUs will vest subject to achieving a market condition.

(3) Number of securities remaining available for future issuance under equity compensation plans excludes RSUs presented in the table which were issued and outstanding at December 31, 2020.

Item 13. Certain Relationships and Related Transactions and Director Independence.

The information to be included in the Proxy Statement regarding transactions with related persons, promoters and certain control persons and director independence required by Items 404 and 407(a) of Regulation S-K is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

The information to be included in the Proxy Statement concerning principal accounting fees and services and the Audit Committee's pre-approval policies and procedures required by Item 14 is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of the report

The following documents are filed as part of this Annual Report on Form 10-K:

(1) Financial Statements. The consolidated financial statements of the Company, together with the independent registered public accounting firm's report thereon, are set forth on pages 66 through 133 of this Annual Report on Form 10-K and are incorporated herein by reference.

(b) Exhibits required by Item 601 of Regulation S-K

EXHIBIT INDEX

The following exhibits are filed as part of this Annual Report on Form 10-K. The exhibit numbers followed by an asterisk (*) indicate exhibits electronically filed herewith. All other exhibit numbers indicate exhibits previously filed and are hereby incorporated herein by reference. Exhibits numbered 10.1 through 10.22 are management contracts or compensatory plans or arrangements.

[3.1](#) Amended and Restated Articles of Incorporation of the Company, dated April 8, 1998 (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K, dated April 24, 1998 (Commission File No. 1-13991)).

[3.2](#) Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company, dated August 5, 2002 (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K, dated August 13, 2002 (Commission File No. 1-13991)).

[3.3](#) Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company, dated August 13, 2002 (incorporated herein by reference to Exhibit 3.3 to the Company's Form 10-Q for the quarter ended September 30, 2002 (Commission File No. 1-13991)).

[3.4](#) Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company, dated December 29, 2008 (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K, dated December 29, 2008 (Commission File No. 1-13991)).

[3.5](#) Articles of Amendment (Articles Supplementary) to the Amended and Restated Articles of Incorporation of the Company, dated January 1, 2010 (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K, dated January 5, 2010 (Commission File No. 1-13991)).

[3.6](#) Articles Supplementary of the Company, dated March 8, 2011 (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K, dated March 11, 2011 (Commission File No. 1-13991)).

[3.7](#) Articles of Amendment to the Amended and Restated Articles of Incorporation of the Company, dated May 24, 2011 (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K, dated May 26, 2011 (Commission File No. 1-13991)).

[3.8](#) Articles Supplementary of the Company, dated April 22, 2004, designating the Company's 8.50% Series A Cumulative Redeemable Preferred Stock (incorporated herein by reference to Exhibit 3.4 to the Company's Form 8-A, dated April 23, 2004 (Commission File No. 1-13991)).

[3.9](#) Articles Supplementary of the Company, dated April 12, 2013, designating the Company's 7.50% Series B Cumulative Redeemable Preferred Stock (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K, dated April 15, 2013 (Commission File No. 1-13991)).

[3.10](#) Articles Supplementary to the Amended and Restated Articles of Incorporation of the Company, as amended and supplemented, designating the Company's 6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, par value \$0.01 per share (incorporated by reference to Exhibit 3.10 to the Company's Registration Statement on Form 8-A filed on February 28, 2020 (Commission File No. 1-13991)).

[3.11](#) Amended and Restated Bylaws of the Company (as amended and restated through April 10, 2017) (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K, dated April 12, 2017 (Commission File No. 1-13991)).

[4.1*](#) Description of the Company's securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.

[4.2](#) Specimen of Common Stock Certificate of the Company (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-4, dated February 12, 1998 (Commission File No. 333-46179)).

[4.3](#) Specimen of certificate representing the 7.50% Series B Cumulative Redeemable Preferred Stock (incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K, dated April 15, 2013 (Commission File No. 1-13991)).

[4.4](#) Specimen of certificate representing the 6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form 8-A filed on February 28, 2020 (Commission File No. 1-13991)).

[4.5](#) Indenture, dated as of April 11, 2012, between the Company and Wilmington Trust, National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K, dated April 11, 2012 (Commission File No. 1-13991)).

[4.6](#) First Supplemental Indenture, dated as of April 11, 2012, between the Company and Wilmington Trust, National Association, as Trustee (incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K, dated April 11, 2012 (Commission File No. 1-13991)).

[4.7](#) Indenture, dated June 3, 2019, between the Company and Wilmington Trust, National Association, as Trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Form 8-K, dated June 3, 2019 (Commission File No. 1-13991)).

[4.8](#) First Supplemental Indenture, dated June 3, 2019, between the Company and Wilmington Trust, National Association, as Trustee (incorporated herein by reference to Exhibit 4.2 to the Company's Form 8-K, dated June 3, 2019 (Commission File No. 1-13991)).

[4.9](#) Form of 8.00% Senior Notes due 2042 (incorporated herein by reference to Exhibit 4.3 to the Company's Form 8-K, dated April 11, 2012 (Commission File No. 1-13991)).

[4.10](#) Form of 6.25% Convertible Senior Notes due 2024 (incorporated herein by reference to Exhibit 4.3 to the Company's Form 8-K, dated June 3, 2019 (Commission File No. 1-13991)).

[10.1](#) Employment Agreement, entered into as of November 26, 2019, by and between the Company and Craig L. Knutson (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, dated November 26, 2019 (Commission File No. 1-13991)).

[10.2*](#) Amended and Restated Employment Agreement, entered into as of February 22, 2021, by and between the Company and Craig L. Knutson.

[10.3](#) Employment Agreement, entered into as of November 26, 2019, by and between the Company and Gudmundur Kristjansson (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K, dated November 26, 2019 (Commission File No. 1-13991)).

[10.4*](#) Amended and Restated Employment Agreement, entered into as of February 22, 2021, by and between the Company and Gudmundur Kristjansson.

[10.5](#) Employment Agreement, entered into as of November 26, 2019, by and between the Company and Bryan Wulfsohn (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K, dated November 26, 2019 (Commission File No. 1-13991)).

[10.6*](#) Amended and Restated Employment Agreement, entered into as of February 22, 2021, by and between the Company and Bryan Wulfsohn.

[10.7](#) Agreement, entered into as of May 6, 2020, by and between the Company and Stephen D. Yarad (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, dated May 8, 2020 (Commission File No. 1-13991))

[10.8*](#) Agreement, entered into as of May 6, 2020, by and between the Company and Harold E. Schwartz.

[10.9](#) MFA Financial, Inc. Equity Compensation Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated May 22, 2015 (Commission File No. 1-13991)).

[10.10](#) MFA Financial, Inc. Equity Compensation Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K dated June 12, 2020 (Commission File No. 1-13991))

10.11 Senior Officers Deferred Bonus Plan, dated December 10, 2008 (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K, dated December 12, 2008 (Commission File No. 1-13991)).

10.12 Fourth Amended and Restated 2003 Non-Employee Directors Deferred Compensation Plan, as amended and restated through December 15, 2014 (incorporated herein by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (Commission File No. 1-13991)).

10.13 Form of Phantom Share Award Agreement (Time-Based Vesting) (Knutson) relating to the Company's Equity Compensation Plan (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K, dated January 24, 2014 (Commission File No. 1-13991)).

10.14 Form of Phantom Share Award Agreement (Performance-Based Vesting) (Knutson) relating to the Company's Equity Compensation Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, dated January 11, 2017 (Commission File No. 1-13991)).

10.15 Form of Phantom Share Award Agreement (Vested Award) relating to the Company's Equity Compensation Plan (incorporated herein by reference to Exhibit 10.5 to the Company's Form 8-K, dated January 24, 2014 (Commission File No. 1-13991)).

10.16 Form of Phantom Share Award Agreement (Time-Based Vesting) relating to the Company's Equity Compensation Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, dated December 27, 2018 (Commission File No. 1-13991)).

10.17 Form of Phantom Share Award Agreement (Performance-Based Vesting) relating to the Company's Equity Compensation Plan (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K, dated December 27, 2018 (Commission File No. 1-13991)).

10.18* Form of Phantom Share Award Agreement (Time-Based Vesting) relating to the Company's Equity Compensation Plan.

10.19* Form of Phantom Share Award Agreement (Performance-Based Vesting) relating to the Company's Equity Compensation Plan.

10.20 Summary Description of Compensation Payable to Non-Employee Directors (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 30, 2014 (Commission File No. 1-13991)).

10.21 Modification to Compensation Payable to the Non-Executive Chairman of the Board (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 30, 2016 (Commission File No. 1-13991)).

10.22 Modification to Compensation Payable to Non-Employee Directors (incorporated herein by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 30, 2017 (Commission File No. 1-13991)).

10.23 Form of Director and Officer Indemnification Agreement (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, dated May 19, 2020 (Commission File No. 1-13991)).

10.24 Credit Agreement, dated June 15, 2020, among MFResidential Assets Holding Corp., the Company, the lenders party thereto and Wilmington Trust, National Association, as administrative agent and collateral agent (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, dated June 30, 2020 (Commission File No. 1-13991)).

10.25 Investment Agreement, dated June 15, 2020, by and among the Company, Omaha Equity Aggregator, L.P. and Athene USA Corporation (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K, dated June 30, 2020 (Commission File No. 1-13991)).

10.26 Registration Rights Agreement, dated June 26, 2020, by and among the Company, the Purchasers and the Assignees (incorporated herein by reference to Exhibit 10.3 to the Company's Form 8-K, dated June 30, 2020 (Commission File No. 1-13991)).

[10.27](#) Form of Warrant, dated June 26, 2020 (incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K, dated June 30, 2020 (Commission File No. 1-13991)).

[10.28](#) Reinstatement Agreement, dated as of June 26, 2020, by and among the Company and the several Participating Counterparties thereto (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, dated June 30, 2020 (Commission File No. 1-13991)).

[21](#)* Subsidiaries of the Company.

[23.1](#)* Consent of KPMG LLP.

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

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

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

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

101 Interactive Data Files pursuant to Rule 405 of Regulation S-T formatted in iXBRL (Inline Extensible Business Reporting Language): (i) our Consolidated Balance Sheets as of December 31, 2020 and 2019; (ii) our Consolidated Statements of Operations for the years ended December 31, 2020, 2019 and 2018; (iii) our Consolidated Statements of Comprehensive Income / (Loss) for the years ended December 31, 2020, 2019 and 2018; (iv) Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2020, 2019 and 2018; (v) our Consolidated Statements of Cash Flows for the years ended December 31, 2020, 2019 and 2018; and (vi) the notes to our Consolidated Financial Statements.

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

(c) Financial Statement Schedules required by Regulation S-X

Schedule IV - Mortgage Loans on Real Estate as of December 31, 2020.

All other financial statement schedules have been omitted because the required information is not applicable or deemed not material, or the required information is presented in the consolidated financial statements and/or in the notes to consolidated financial statements filed in response to Item 8 of this Annual Report on Form 10-K.

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Annual Report on Form 10-K, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements proved to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Annual Report on Form 10-K and the Company's other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 23, 2021

MFA FINANCIAL, INC.
(Registrant)

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

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| | | |
|-------------------------|----|---|
| Date: February 23, 2021 | By | <u>/s/ Craig L. Knutson</u> Craig L. Knutson President, Chief Executive Officer and Director (Principal Executive Officer) |
| Date: February 23, 2021 | By | <u>/s/ Stephen D. Yarad</u> Stephen D. Yarad Chief Financial Officer and Chief Accounting Officer (Principal Financial Officer) |
| Date: February 23, 2021 | By | <u>/s/ George H. Krauss</u> George H. Krauss Chairman and Director |
| Date: February 23, 2021 | By | <u>/s/ James A. Brodsky</u> James A. Brodsky Director |
| Date: February 23, 2021 | By | <u>/s/ Laurie Goodman</u> Laurie Goodman Director |
| Date: February 23, 2021 | By | <u>/s/ Robin Josephs</u> Robin Josephs Director |
| Date: February 23, 2021 | By | <u>/s/ Francis J. Oelerich III</u> Francis J. Oelerich III Director |
| Date: February 23, 2021 | By | <u>/s/ Lisa Polsky</u> Lisa Polsky Director |
| Date: February 23, 2021 | By | <u>/s/ Richard C. Wald</u> Richard C. Wald Director |

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2020, MFA Financial, Inc. had four classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): (1) our common stock, par value \$0.01 per share (our "common stock"); (2) our 7.50% Series B Cumulative Redeemable Preferred Stock, par value \$0.01 per share (the "Series B Preferred Stock"); (3) our 6.50% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock"); and (4) our 8.00% Senior Notes due 2042 (the "Notes"). Our charter also authorizes 3,840,000 shares of preferred stock, par value \$0.01 per share, without further designation (the "Undesignated Preferred Stock"), and 1,160,000 shares of 8.00% Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share (the "Series A Preferred Stock"). No shares of Series A Preferred Stock or Undesignated Preferred Stock are outstanding or registered pursuant to the Exchange Act. As such, a description of the terms of the Series A Preferred Stock or the Undesignated Preferred Stock is not included in this exhibit.

Description of Common Stock

The following description of the terms of our common stock is only a summary. This summary is not complete and is qualified by the provisions of our charter and bylaws, which have been filed with the U.S. Securities and Exchange Commission (the "SEC") and incorporated by reference herein, and the Maryland General Corporation Law, or MGCL.

General

Our charter provides that we may issue up to one billion shares of capital stock, all with a par value of \$0.01 per share. As of December 31, 2020, 874,300,000 of these authorized shares were classified as common stock, par value \$0.01 per share. As of December 31, 2020, we had 451,714,455 shares of common stock outstanding.

Pursuant to our charter, the board of directors of our company (or our board) is authorized to classify and reclassify any unissued shares of our capital stock, to provide for the issuance of shares in other classes or series (including preferred stock in one or more series), to establish the number of shares in each class or series and to fix the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption of each class or series. Under Maryland law, stockholders are generally not liable for our debts or obligations.

All shares of our common stock were duly authorized, validly issued, fully paid and nonassessable. Holders of our common stock are entitled to receive distributions on their shares of common stock if, as and when our board authorizes and we declare distributions out of legally available assets. However, rights to distributions may be subordinated to the rights of holders of our preferred stock, when preferred stock is issued and outstanding, or subject to the provisions of our charter regarding the restrictions on ownership and transfer of shares of stock. See "*Restrictions on Ownership and Transfer*" below. In the event of our liquidation, dissolution or winding up, each outstanding share of our common stock will entitle its holder to a proportionate share of the assets that remain after we pay our liabilities and any preferential distributions owed to preferred stockholders.

Holders of our common stock are entitled to one vote for each share on all matters submitted to a vote of the common stockholders. There is no cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of common stock can elect all of the directors then standing for election, and the holders of the remaining shares will not be able to elect any directors.

Holders of shares of our common stock have no preference, conversion, sinking fund, redemption or exchange rights or any preemptive rights to subscribe for any of our securities and generally have no appraisal

rights. Subject to the provisions of our charter regarding the restrictions on ownership and transfer of shares of stock, all shares of our common stock have equal dividend, distribution, liquidation and other rights.

Under the MGCL, a Maryland corporation cannot amend its charter, consolidate, convert, merge, sell all or substantially all of its assets, engage in a statutory share exchange or dissolve unless the action is advised by its board of directors and approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter, unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is set forth in the corporation's charter. Our charter provides that these matters (other than certain amendments to the provisions of our charter related to our board, consideration of various factors when considering a change of control transaction, indemnification, exculpation, advance notice of stockholder proposals and the charter amendment section, which must be approved by the affirmative vote of not less than 80% of the aggregate vote entitled to be cast) may be approved by the affirmative vote of the holders of a majority of the total number of shares of all classes outstanding and entitled to vote thereon.

Our charter grants our board the power to authorize the issuance of additional authorized but unissued shares of common stock and preferred stock. Our board may also classify or reclassify unissued shares of common stock or preferred stock and authorize their issuance.

We believe that these powers of our board provide increased flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. Although our board does not intend to do so at the present time, it could authorize the issuance of a class or series that could delay, defer or prevent a change of control or other transaction that might involve a premium price for the common stock or otherwise be in the best interest of our stockholders.

Restrictions on Ownership and Transfer

In order for us to qualify as a real estate investment trust, or a REIT, our capital stock must be beneficially owned by 100 or more persons for at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of the outstanding shares of our capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code, or the Code, to include certain exempt entities) during the last half of a taxable year.

Our charter provides that, subject to certain exceptions, no stockholder or "group" (as defined in Section 13(d)(3) of the Exchange Act) may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% of the number or value of the outstanding shares of our capital stock (or the Ownership Limit). Our board may waive the Ownership Limit if it is presented with evidence satisfactory to it that the waiver will not jeopardize our qualification as a REIT. As a condition to any such waiver, our board may require a ruling of the Internal Revenue Service or an opinion of counsel satisfactory to it and must receive certain undertakings, representations and agreements from the applicant with respect to preserving our REIT qualification. The Ownership Limit will not apply if our board determines that it is no longer in our best interests to continue to qualify as a REIT.

If shares of common stock and/or preferred stock (i) in excess of the Ownership Limit, (ii) which would cause us to be beneficially owned by fewer than 100 persons or (iii) that cause us to become "closely held" under Section 856(h) of the Code, are transferred to any person, the issuance or transfer shall be void as to the number of shares in violation of such restrictions and the intended transferee will acquire no rights to such shares of common stock and/or preferred stock. Shares transferred that would cause any stockholder (or a Prohibited Owner) to own more than the Ownership Limit or cause us to become "closely held" under Section 856(h) of the Code will automatically be converted into an equal number of shares of excess stock. All excess stock will be automatically transferred, without action by the Prohibited Owner, to a trust for the exclusive benefit of one or more charitable beneficiaries that we select, and the Prohibited Owner will not acquire any rights in the shares of excess stock. Such automatic transfer shall be deemed to be effective as of the close of business on the day prior to the date of the transfer causing a violation. The trustee of the trust shall be appointed by us and must be independent of us and the Prohibited Owner. The Prohibited Owner shall have no right to receive dividends or other distributions with respect to, or be entitled to vote, any shares of excess stock held in the trust. Any dividend or other distribution paid prior to

the discovery by us that excess stock has been transferred to the trust must be paid by the recipient of the dividend or distribution to the trustee upon demand for the benefit of the charitable beneficiary, and any dividend or other distribution authorized but unpaid shall be paid when due to the trust. The trust shall have all dividend and voting rights with respect to the shares of excess stock held in the trust, which rights shall be exercised for the exclusive benefit of the charitable beneficiary. Any dividend or distribution so paid to the trust shall be held in trust for the charitable beneficiary.

Within 20 days of receipt of our notice that excess stock has been transferred to the trust, the trustee will sell the excess stock held in the trust to a person, designated by the trustee, whose ownership of the shares will not violate the ownership limitations set forth in our charter. Upon such sale, any interest of the charitable beneficiary in the excess stock sold shall terminate and the trustee shall distribute the net proceeds of the sale to the Prohibited Owner and to the charitable beneficiary as follows. The Prohibited Owner shall receive the lesser of (a) the price paid by the Prohibited Owner for the excess stock or, if the Prohibited Owner did not give value for the excess stock in connection with the event causing the excess stock to be held in the trust (e.g., a gift, devise or other such transaction), the Market Price (as defined in our charter) of the excess stock on the day of the event causing the excess stock to be held in the trust, and (b) the price per share received by the trustee from the sale or other disposition of the excess stock held in the trust. Any net sale proceeds in excess of the amount payable to the Prohibited Owner will be paid immediately to the charitable beneficiary. If, prior to our discovery that excess stock has been transferred to the trust, the excess stock is sold by a Prohibited Owner, then the excess stock will be deemed to have been sold on behalf of the trust and, to the extent that the Prohibited Owner received an amount for the excess stock that exceeds the amount that such Prohibited Owner was entitled to receive pursuant to the aforementioned requirement, the excess shall be paid to the trustee upon demand.

The Ownership Limit provision will not be automatically removed even if the REIT provisions of the Code are changed so as to no longer contain any ownership concentration limitation or if the ownership concentration is increased. Any change in the Ownership Limit would require an amendment to our charter. Such an amendment must be advised by our board of directors and approved by the affirmative vote of the holders of a majority of the outstanding shares of common stock and any other class of capital stock with such voting rights. In addition to preserving our qualification as a REIT, the Ownership Limit may have the effect of precluding an acquisition of control of our company without the approval of our board.

To the extent our shares of common stock or preferred stock are certificated, all certificates representing shares of our common stock or preferred stock will refer to the restrictions described above.

Any person who acquires or attempts or intends to acquire shares of our common stock or preferred stock in violation of any of the foregoing restrictions on transferability and ownership will be required to give written notice immediately to us and provide us with such other information as we may request in order to determine the effect of such transfer on our qualification as a REIT.

All persons who own, directly or by virtue of the attribution provisions of the Code, 5% or more of our outstanding shares of stock (or such other percentage at the time prescribed by the Code or the regulations promulgated thereunder) must file a written statement with us containing the information specified in our charter within 30 days after January 1 of each year. In addition, each stockholder must upon demand disclose to us such information as we deem necessary in order to determine our qualification as a REIT and to ensure compliance with the Ownership Limit.

Certain Provisions of Maryland Law and of Our Charter and Bylaws

The following description of the terms of our stock and of certain provisions of Maryland law is only a summary. This summary is not complete and is qualified by the provisions of our charter and bylaws, and the MGCL.

Classification of Our Board

Our bylaws provide that the number of directors may be established by our board but may not be fewer than the minimum number permitted by the MGCL nor more than fifteen. Any vacancy may be filled, at any regular meeting or at any special meeting called for that purpose, only by a majority of the remaining directors. Any director elected to fill a vacancy by our board serves for the remainder of the full term of the class of directors in which the vacancy occurred and until his or her successor is elected and qualifies.

Pursuant to our charter, our board is divided into three classes of directors. Directors of each class serve for three-year terms and each year one class of directors will be elected by the stockholders. The number of directors in each class and the expiration of the current term of each class term is as follows:

| | | |
|-----------|-------------|--------------|
| Class I | 3 Directors | Expires 2023 |
| Class II | 2 Directors | Expires 2021 |
| Class III | 3 Directors | Expires 2022 |

We believe that the classification of our board helps to assure the continuity and stability of our business strategies and policies as determined by our board. Common stockholders have no right to cumulative voting in the election of directors, which means that the holders of a majority of the outstanding shares of common stock can elect all of the directors then standing for election, and the holders of the remaining shares will not be able to elect any directors.

The classified board provision of our charter could have the effect of making the replacement of incumbent directors more time-consuming and difficult. At least two annual meetings of stockholders, instead of one, will generally be required to effect a change in a majority of our board. Thus, the classified board provision could increase the likelihood that incumbent directors will retain their positions. The staggered terms of directors may delay, defer or prevent a tender offer or an attempt to change control of our company, even though the tender offer or change in control might be in the best interest of our stockholders.

Removal of Directors

Our charter provides that a director may be removed only for cause and only by the affirmative vote of at least 80% of the votes entitled to be cast in the election of directors. This provision, when coupled with the exclusive power of our board to fill vacant directorships, precludes stockholders from removing incumbent directors except for cause and by a substantial affirmative vote and filling the vacancies created by the removal with their own nominees.

Business Combinations

Under Maryland law, “business combinations” between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who, directly or indirectly, beneficially owns ten percent or more of the voting power of the corporation’s outstanding voting stock; or
- an affiliate or associate of the corporation who, directly or indirectly, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of ten percent or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under the statute if our board approved in advance the transaction by which he or she otherwise would have become an interested stockholder. However, in approving a transaction,

our board may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by our board.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by our board of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Control Share Acquisitions

Maryland law provides that holders of control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval or shares acquired directly from the corporation. A control share acquisition means the acquisition of issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel our board of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The control share acquisition statute does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction, or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation. Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock. There can be no assurance that this provision will not be amended or eliminated at any time in the future.

Subtitle 8

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to any or all of five provisions:

- a classified board;
- a two-thirds vote requirement for removing a director;
- a requirement that the number of directors be fixed only by vote of the directors;
- a requirement that a vacancy on the board be filled only by the remaining directors in office and for the remainder of the full term of the class of directors in which the vacancy occurred; and
- a majority requirement for the calling of a special meeting of stockholders.

Without our having elected to be subject to Subtitle 8, our charter and bylaws already (1) provide for a classified board, (2) require the affirmative vote of the holders of at least 80% of the votes entitled to be cast in the election of directors for the removal of any director from our board, which removal will be allowed only for cause, and (3) vest in our board the exclusive power to fix the number of directorships. In addition, we have elected to be subject to the Subtitle 8 provision that requires a vacancy on our board to be filled only by the remaining directors in office and for the remainder of the full term of the class of directors in which the vacancy occurred.

Meetings of Stockholders

Pursuant to our bylaws, a meeting of our stockholders for the election of directors and the transaction of any business will be held annually. In addition, our Chairman of our Board, Chief Executive Officer, President or our board may call a special meeting of our stockholders. Subject to the provisions of our bylaws, a special meeting of our stockholders to act on any matter that may properly be considered at a meeting of our stockholders will also be called by our Secretary upon the written request of the stockholders entitled to cast not less than 25% of all the votes entitled to be cast at the meeting.

Limitation and Indemnification of Directors' and Officers' Liability

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law.

Our charter obligates us to indemnify, to the maximum extent permitted by Maryland law, any director or officer or any individual who, while a director or officer of our company and at the request of our company, serves or has served another entity, from and against any claim or liability to which that individual may become subject or which that individual may incur by reason of his or her status as a director or officer of our company and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. The charter also permits our company to indemnify and advance expenses to any employee or agent of our company if authorized by our board.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made

or threatened to be made a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or threatened to be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (i) was committed in bad faith or (ii) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer only upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Amendment to Our Charter

Our charter may be amended only by the affirmative vote of the holders of not less than a majority of all of the votes entitled to be cast on the matter; provided, however, that certain amendments related to our board (including a declassification of the board or removal of directors), consideration of various factors when considering a change of control transaction, indemnification, exculpation, advance notice of stockholder proposals and the charter amendment section require the affirmative vote of not less than 80% of all the votes entitled to be cast on such matters.

Dissolution of Our Company

Our dissolution must be declared advisable by a majority of our entire board and approved by the affirmative vote of the holders of not less than a majority of all of the votes entitled to be cast on the matter.

Advance Notice of Director Nominations and New Business

Our charter provides that, with respect to annual meetings, timely notice of stockholder business proposals and stockholder nominees for directors must be received in accordance with the bylaws. The bylaws provide that with respect to an annual meeting of stockholders, nominations of individuals for election to our board and the proposal of other business to be considered by stockholders may be made only pursuant to our notice of the meeting, by or at the direction of our board or by a stockholder who was a stockholder of record both at the time the stockholder provided the notice required by the bylaws and at the time of the annual meeting, who is entitled to vote at the meeting in the election of each individual so nominated or any such other business and who has complied with the advance notice requirements of and provided the information and other materials required by the bylaws. With respect to special meetings of stockholders, proposals of business to be considered by stockholders may be made only pursuant to our notice of the meeting, by our board or by a stockholder who was a stockholder of record both at the time the stockholder provided the notice required by the bylaws and at the time of the special meeting, who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the advance notice provisions of the bylaws.

Exclusive Forum

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, will be the sole and exclusive forum for (a) any derivative action or proceeding brought on our behalf, (b) any action asserting a claim of breach of any duty owed by any of our directors, officers or other employees to us or to our stockholders, (c) any action asserting a claim against us or any

of our directors, officers or other employees arising pursuant to any provision of the MGCL or our charter or bylaws or (d) any action asserting a claim against us or any of our directors, officers or other employees that is governed by the internal affairs doctrine.

Anti-takeover Effect of Certain Provisions of Maryland Law and of Our Charter and Bylaws

The business combination provisions and the control share acquisition provisions of Maryland law, the provisions of our charter on classification of our board and removal of directors and the advance notice provisions of our bylaws could delay, defer or prevent a transaction or a change in control of our company that might involve a premium price for holders of common stock or otherwise be in their best interest.

Listing

Our common stock is listed on the NYSE under the symbol “MFA.”

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Computershare Inc., 480 Washington Boulevard, Jersey City, NJ 07310-1900. Its telephone number is 866-249-2610 and its website is www.computershare.com. The information on such website is not, and should not be interpreted to be, part of this exhibit.

Description of the Series B Preferred Stock

The following description of certain terms and provisions of the Series B Preferred Stock does not purport to be complete and is in all respects subject to, and qualified in its entirety by reference to, our charter, including the articles supplementary setting forth the terms of the Series B Preferred Stock, our bylaws and Maryland law.

General

Our charter provides that we may issue up to one billion shares of capital stock, all with a par value of \$0.01 per share. As of December 31, 2020, 8,050,000 of these authorized shares were classified as Series B Preferred Stock. As of December 31, 2020, there were 8,000,000 shares of the Series B Preferred Stock outstanding.

Each class or series of preferred stock will have the designations, preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption as Maryland law may permit and our board of directors may determine by adoption of articles supplementary to our charter.

All shares of Series B Preferred Stock were validly issued, fully paid and nonassessable. Our board of directors may, without notice to or the consent of holders of Series B Preferred Stock, authorize the issuance and sale of additional shares of Series B Preferred Stock and authorize and issue additional shares of any class or series of parity equity securities from time to time.

Listing

The Series B Preferred Stock is listed on the NYSE under the symbol “MFA/PB.”

Ranking

The Series B Preferred Stock ranks, with respect to dividend rights and rights upon the voluntary or involuntary liquidation, dissolution or winding up of our affairs:

- senior to all classes or series of our common stock, and to any other class or series of our capital stock expressly designated as ranking junior to the Series B Preferred Stock with respect to dividend rights and rights upon the voluntary or involuntary liquidation, dissolution or winding up of our affairs;
- on parity with any class or series of our capital stock expressly designated as ranking on parity with the Series B Preferred Stock with respect to dividend rights and rights upon the voluntary or involuntary liquidation, dissolution or winding up of our affairs (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock); and
- junior to any other class or series of our capital stock expressly designated as ranking senior to the Series B Preferred Stock with respect to dividend rights and rights upon the voluntary or involuntary liquidation, dissolution or winding up of our affairs.

The term “capital stock” does not include convertible or exchangeable debt securities, none of which is outstanding as of the date hereof, which, prior to conversion or exchange, will rank senior in right of payment to the Series B Preferred Stock. The Series B Preferred Stock also ranks junior in right of payment to our other existing and future debt obligations. Our existing and future debt includes our repurchase agreements, securitized debt, unsecured debt, obligation to return securities obtained as collateral, and other financing arrangements.

Dividends

Subject to the preferential rights of the holders of any class or series of our capital stock ranking senior to the Series B Preferred Stock with respect to dividend rights, holders of shares of the Series B Preferred Stock are entitled to receive, when, as and if authorized by our board of directors and declared by us out of funds legally available for the payment of dividends, cumulative cash dividends at the rate of 7.50% per annum of the \$25.00 liquidation preference per share of the Series B Preferred Stock (equivalent to the fixed annual amount of \$1.875 per share of the Series B Preferred Stock).

Dividends on the Series B Preferred Stock will accrue and be cumulative from, and including, the date of original issue and are payable to holders quarterly in arrears on or about March 31, June 30, September 30 and December 31 of each year or, if such day is not a business day, on the next succeeding business day, except that, if such business day is in the next succeeding year, such payment shall be made on the immediately preceding business day, in each case with the same force and effect as if made on such date. The term “business day” means each day, other than a Saturday or a Sunday, which is not a day on which banks in New York are required to close.

The amount of any dividend payable on the Series B Preferred Stock for any dividend period, including any partial dividend period, is computed on the basis of a 360-day year consisting of twelve 30-day months. A dividend period is the respective period commencing on, and including, the first day of January, April, July and October of each year and ending on, and including, the day preceding the first day of the next succeeding dividend period (other than the initial dividend period and the dividend period during which any shares of Series B Preferred Stock shall be redeemed). Dividends are payable to holders of record as they appear in our stock records at the close of business on the applicable record date, which shall be the date designated by our board of directors as the record date for the payment of dividends that is not more than 35 and not fewer than ten days prior to the scheduled dividend payment date.

Dividends on the Series B Preferred Stock will accrue whether or not:

- we have earnings;
- there are funds legally available for the payment of those dividends; or
- those dividends are authorized or declared.

Except as described in the next two paragraphs, unless full cumulative dividends on the Series B Preferred Stock for all past dividend periods that have ended shall have been or contemporaneously are declared and paid in cash or declared and a sum sufficient for the payment thereof in cash is set apart for payment, we will not:

- declare and pay or declare and set apart for payment of dividends, and we will not declare and make any distribution of cash or other property, directly or indirectly, on or with respect to any shares of our common stock or shares of any other class or series of our capital stock ranking, as to dividends, on parity with (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) or junior to the Series B Preferred Stock, for any period; or
- redeem, purchase or otherwise acquire for any consideration, or make any other distribution of cash or other property, directly or indirectly, on or with respect to, or pay or make available any monies for a sinking fund for the redemption of, any common stock or shares of any other class or series of our capital stock ranking, as to dividends and upon liquidation, on parity with (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) or junior to the Series B Preferred Stock.

The foregoing sentence, however, will not prohibit:

- dividends payable solely in capital stock ranking junior to the Series B Preferred Stock;
- the conversion into or exchange for other shares of any class or series of capital stock ranking junior to the Series B Preferred Stock;
- our purchase of shares of Series B Preferred Stock, preferred stock ranking on parity with (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) the Series B Preferred Stock as to payment of dividends and upon liquidation, dissolution or winding up or capital stock or equity securities ranking junior to the Series B Preferred Stock pursuant to our charter to the extent necessary to preserve our qualification as a REIT as discussed under “- *Restrictions on Ownership and Transfer*” below;
- our redemption or other acquisition of shares under incentive, benefit or share purchase plans for officers, directors or employees or others performing or providing similar services; and
- our purchase of Series B Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series B Preferred Stock.

When we do not pay dividends in full (or set apart a sum sufficient to pay them in full) on the Series B Preferred Stock and the shares of any other class or series of capital stock ranking, as to dividends, on parity with the Series B Preferred Stock (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock), we will declare any dividends upon the Series B Preferred Stock and each such other class or series of capital stock ranking, as to dividends, on parity with the Series B Preferred Stock (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) pro rata, so that the amount of dividends declared per share of Series B Preferred Stock and such other class or series of capital stock will in all cases bear to each other the same ratio that accrued dividends per share on the Series B Preferred Stock and such other class or series of capital stock (which will not include any accrual in respect of unpaid dividends on such other class or series of capital stock for prior dividend periods if such other class or series of capital stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on the Series B Preferred Stock which may be in arrears.

Holders of shares of Series B Preferred Stock are not entitled to any dividend, whether payable in cash, property or shares of capital stock, in excess of full cumulative dividends on the Series B Preferred Stock as described above. Any dividend payment made on the Series B Preferred Stock will first be credited against the earliest accrued but unpaid dividends due with respect to those shares which remain payable. Accrued but unpaid dividends on the Series B Preferred Stock will accumulate as of the dividend payment date on which they first become payable.

We do not intend to declare dividends on the Series B Preferred Stock, or pay or set apart for payment dividends on the Series B Preferred Stock, if the terms of any of our agreements, including any agreements relating

to our indebtedness, prohibit such a declaration, payment or setting apart for payment or provide that such declaration, payment or setting apart for payment would constitute a breach of or default under such an agreement. Likewise, no dividends will be authorized by our board of directors and declared by us or paid or set apart for payment if such authorization, declaration or payment is restricted or prohibited by law. We do not believe that these restrictions currently have any adverse impact on our ability to pay dividends on the Series B Preferred Stock.

Liquidation Preference

Upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, before any distribution or payment shall be made to holders of shares of our common stock or any other class or series of capital stock ranking, as to rights upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, junior to the Series B Preferred Stock, holders of shares of Series B Preferred Stock will be entitled to be paid out of our assets legally available for distribution to our stockholders, after payment of or provision for our debts and other liabilities, a liquidation preference of \$25.00 per share of Series B Preferred Stock, plus an amount equal to any accrued and unpaid dividends (whether or not authorized or declared) to, but not including, the date of payment. If, upon our voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the full amount of the liquidating distributions on all outstanding shares of Series B Preferred Stock and the corresponding amounts payable on all shares of each other class or series of capital stock ranking, as to liquidation rights, on parity with the Series B Preferred Stock (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) in the distribution of assets, then holders of shares of Series B Preferred Stock and each such other class or series of capital stock ranking, as to rights upon any voluntary or involuntary liquidation, dissolution or winding up, on parity with the Series B Preferred Stock (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) will share ratably in any distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

Holders of shares of Series B Preferred Stock will be entitled to written notice of any distribution in connection with any voluntary or involuntary liquidation, dissolution or winding up of our affairs not less than 30 days and not more than 60 days prior to the distribution payment date. After payment of the full amount of the liquidating distributions to which they are entitled, holders of shares of Series B Preferred Stock will have no right or claim to any of our remaining assets. Our consolidation or merger with or into any other corporation, trust or other entity, or the voluntary sale, lease, transfer or conveyance of all or substantially all of our property or business, will not be deemed to constitute a liquidation, dissolution or winding up of our affairs.

In determining whether a distribution (other than upon voluntary or involuntary liquidation), by dividend, redemption or other acquisition of shares of our capital stock or otherwise, is permitted under Maryland law, amounts that would be needed, if we were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of holders of shares of Series B Preferred Stock will not be added to our total liabilities.

Redemption

Optional Redemption

Except with respect to the special optional redemption described below and in certain limited circumstances relating to our ability to continue to qualify as a REIT as described in “- *Restrictions on Ownership and Transfer*,” we cannot redeem the Series B Preferred Stock prior to April 15, 2018. On and after April 15, 2018, we may, at our option, upon not fewer than 30 and not more than 60 days’ written notice, redeem the Series B Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends (whether or not authorized or declared) to, but not including, the date fixed for redemption, without interest.

Special Optional Redemption

Upon the occurrence of a Change of Control, we may, at our option, redeem the Series B Preferred Stock, in whole or in part within 120 days after the first date on which such Change of Control occurred, by paying \$25.00 per share, plus any accrued and unpaid dividends to, but not including, the date of redemption. If, prior to the Change of Control Conversion Date, we have provided or provide notice of redemption with respect to the Series B Preferred Stock (whether pursuant to our optional redemption right or our special optional redemption right), the holders of Series B Preferred Stock subject to such notice of redemption will not have the conversion right described below under “- *Conversion Rights*.”

A “Change of Control” is when, after the initial issuance of the Series B Preferred Stock, the following have occurred and are continuing:

- the acquisition by any person, including any syndicate or group deemed to be a “person” under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of stock of our company entitling that person to exercise more than 50% of the total voting power of all stock of our company entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and
- following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or ADRs representing such securities) listed on the NYSE, the NYSE MKT or NASDAQ or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE MKT or NASDAQ.

Redemption Procedures

We will mail to the record holders of the Series B Preferred Stock a notice of redemption no fewer than 30 days nor more than 60 days before the redemption date. We will send the notice to their respective addresses as shown on our stock transfer books. A failure to give notice of redemption or any defect in the notice or in its mailing will not affect the validity of the redemption of any Series B Preferred Stock except as to the holder to whom notice was defective. Each notice will state the following:

- the redemption date;
- the redemption price;
- the number of shares of Series B Preferred Stock to be redeemed;
- the place or places where the certificates, if any, representing shares of Series B Preferred Stock are to be surrendered for payment of the redemption price;
- procedures for surrendering noncertificated shares of Series B Preferred Stock for payment of the redemption price;
- that dividends on the shares of Series B Preferred Stock to be redeemed will cease to accumulate on such redemption date;
- that payment of the redemption price and any accumulated and unpaid dividends will be made upon presentation and surrender of such Series B Preferred Stock;
- if redeeming pursuant to our special optional redemption right, that the Series B Preferred Stock is being redeemed pursuant to our special optional redemption right in connection with the occurrence of a Change of Control and a brief description of the transaction or transactions constituting such Change of Control; and
- if applicable, that the holders of the Series B Preferred Stock to which the notice relates will not be able to tender such Series B Preferred Stock for conversion in connection with the Change of Control and each share of Series B Preferred Stock tendered for conversion that is selected, prior to the Change of Control Conversion Date, for redemption will be redeemed on the related date of redemption instead of converted on the Change of Control Conversion Date.

If we redeem fewer than all of the outstanding shares of Series B Preferred Stock, the notice of redemption mailed to each stockholder will also specify the number of shares of Series B Preferred Stock that we will redeem from each stockholder. In this case, we will determine the number of shares of Series B Preferred Stock to be redeemed as described below.

If fewer than all of the outstanding shares of the Series B Preferred Stock are to be redeemed, we will select the shares of Series B Preferred Stock to be redeemed pro rata (as nearly as may be practicable without creating fractional shares) or by lot. If such redemption is to be by lot and, as a result of such redemption, any holder of shares of Series B Preferred Stock, other than a holder of Series B Preferred Stock that has received an exemption from the ownership limit, would have actual or constructive ownership of more than 9.8% of the issued and outstanding shares of Series B Preferred Stock by value or number of shares, whichever is more restrictive, because such holder's shares of Series B Preferred Stock were not redeemed, or were only redeemed in part, then, except as otherwise provided in the charter, we will redeem the requisite number of shares of Series B Preferred Stock of such holder such that no holder will own in excess of the 9.8% Series B Preferred Stock ownership limit subsequent to such redemption. See "*Restrictions on Ownership and Transfer*" below. In order for their shares of Series B Preferred Stock to be redeemed, holders must surrender their shares at the place, or in accordance with the book-entry procedures, designated in the notice of redemption. Holders will then be entitled to the redemption price and any accrued and unpaid dividends payable upon redemption following surrender of the shares as detailed below. If a notice of redemption has been given (in the case of a redemption of the Series B Preferred Stock other than to preserve our qualification as a REIT), if the funds necessary for the redemption have been set apart by us in trust for the benefit of the holders of any shares of Series B Preferred Stock called for redemption and if irrevocable instructions have been given to pay the redemption price and all accrued and unpaid dividends, then from and after the redemption date, dividends will cease to accrue on such shares of Series B Preferred Stock and such shares of Series B Preferred Stock will no longer be deemed outstanding. At such time, all rights of the holders of such shares will terminate, except the right to receive the redemption price plus any accrued and unpaid dividends payable upon redemption, without interest. So long as no dividends are in arrears and subject to the provisions of applicable law, we may from time to time repurchase all or any part of the Series B Preferred Stock, including the repurchase of shares of Series B Preferred Stock in open-market transactions and individual purchases at such prices as we negotiate, in each case as duly authorized by our board of directors.

Unless full cumulative dividends on all shares of Series B Preferred Stock have been or contemporaneously are authorized, declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods that have ended, no shares of Series B Preferred Stock will be redeemed unless all outstanding shares of Series B Preferred Stock are simultaneously redeemed and we will not purchase or otherwise acquire directly or indirectly any shares of Series B Preferred Stock or any class or series of our capital stock ranking, as to dividends or upon liquidation, dissolution or winding up, on parity with (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) or junior to the Series B Preferred Stock (except by conversion into or exchange for our capital stock ranking junior to the Series B Preferred Stock as to dividends and upon liquidation, dissolution or winding up); provided, however, that whether or not the requirements set forth above have been met, we may purchase shares of Series B Preferred Stock, preferred stock ranking on parity with the Series B Preferred Stock (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) as to payment of dividends and upon liquidation, dissolution or winding up or capital stock or equity securities ranking junior to the Series B Preferred Stock pursuant to our charter to the extent necessary to ensure that we meet the requirements for qualification as a REIT for federal income tax purposes, we may redeem or acquire shares under incentive, benefit or share purchase plans for officers, directors or employees or others performing or providing similar services, and may purchase or acquire shares of Series B Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series B Preferred Stock. See "*Restrictions on Ownership and Transfer*" below.

If a redemption date falls after a dividend record date and on or prior to the corresponding dividend payment date, each holder of shares of the Series B Preferred Stock at the close of business of such dividend record date will be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares on or prior to such dividend payment date and each holder of shares of Series B Preferred Stock that surrenders such shares on such redemption date will be entitled to the dividends

accruing after the end of the applicable dividend period, to, but not including, the date of redemption. Except as described above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series B Preferred Stock for which a notice of redemption has been given.

All shares of Series B Preferred Stock that we redeem or repurchase will be retired and restored to the status of authorized but unissued shares of common stock.

Subject to applicable law and the limitation on purchases when dividends on the Series B Preferred Stock are in arrears, we may, at any time and from time to time, purchase Series B Preferred Stock in the open market, by tender or by private agreement.

Future debt instruments may prohibit us from redeeming or otherwise repurchasing any shares of our capital stock, including the Series B Preferred Stock, except in limited circumstances. We are not aware of any restrictions that currently would have any adverse impact on our ability to redeem or purchase shares of the Series B Preferred Stock.

Conversion Rights

Upon the occurrence of a Change of Control, each holder of Series B Preferred Stock will have the right, other than shares of Series B Preferred Stock with respect to which prior to the Change of Control Conversion Date we have provided or provide notice of our election to redeem such Series B Preferred Stock as described above under “ - *Redemption - Optional Redemption*” or “ - *Redemption - Special Optional Redemption*,” to convert some or all of the Series B Preferred Stock held by such holder (the “Change of Control Conversion Right”) on the Change of Control Conversion Date into a number of shares of our common stock per share of Series B Preferred Stock (the “Common Stock Conversion Consideration”), which is equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference plus the amount of any accrued and unpaid dividends to, but not including, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a record date for a Series B Preferred Stock dividend payment and prior to the corresponding Series B Preferred Stock dividend payment date, in which case no additional amount for such accrued and unpaid dividend will be included in this sum) by (ii) the Common Stock Price; and
- 5.3135 (the “Share Cap”).

The Share Cap is subject to pro rata adjustments for any stock splits (including those effected pursuant to a distribution of our common stock), subdivisions or combinations (in each case, a “Stock Split”) with respect to our common stock as follows: the adjusted Share Cap as the result of a Stock Split will be the number of shares of our common stock that is equivalent to the product obtained by multiplying (i) the Share Cap in effect immediately prior to such Stock Split by (ii) a fraction, the numerator of which is the number of shares of our common stock outstanding after giving effect to such Stock Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Stock Split.

For the avoidance of doubt, subject to the immediately succeeding sentence, the aggregate number of shares of our common stock (or equivalent Alternative Conversion Consideration (as defined below), as applicable) issuable or deliverable, as applicable, in connection with the exercise of the Change of Control Conversion Right will not exceed the product of the Share Cap times the aggregate number of shares of the Series B Preferred Stock issued and outstanding at the Change of Control Conversion Date (or equivalent Alternative Conversion Consideration, as applicable) (the “Exchange Cap”). The Exchange Cap is subject to pro rata adjustments for any Stock Splits on the same basis as the corresponding adjustment to the Share Cap.

In the case of a Change of Control pursuant to which our common stock will be converted into cash, securities or other property or assets (including any combination thereof) (the “Alternative Form Consideration”), a holder of Series B Preferred Stock will receive upon conversion of such Series B Preferred Stock the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon

the Change of Control had such holder held a number of shares of our common stock equal to the Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control (the “Alternative Conversion Consideration”). The Common Stock Conversion Consideration or the Alternative Conversion Consideration, as may be applicable to a Change of Control, is referred to in this exhibit as the “Conversion Consideration.”

If the holders of our common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the Conversion Consideration will be deemed to be the kind and amount of consideration actually received by holders of a majority of our common stock that voted for such an election (if electing between two types of consideration) or holders of a plurality of our common stock that voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in the Change of Control.

We will not issue fractional shares of common stock upon the conversion of the Series B Preferred Stock. Instead, we will pay the cash value of such fractional shares.

Within 15 days following the occurrence of a Change of Control, we will mail to the record holders of Series B Preferred Stock a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right. We will send the notice to the address shown on our stock transfer books, and the notice will state the following:

- the events constituting the Change of Control;
- the date of the Change of Control;
- the last date on which the holders of Series B Preferred Stock may exercise their Change of Control Conversion Right;
- the method and period for calculating the Common Stock Price;
- the Change of Control Conversion Date;
- that if, prior to the Change of Control Conversion Date, we have provided or provide notice of our election to redeem all or any portion of the Series B Preferred Stock, holders of Series B Preferred Stock that are subject to such notice of redemption will not be able to convert the Series B Preferred Stock designated for redemption and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Change of Control Conversion Right;
- if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of Series B Preferred Stock;
- the name and address of the paying agent and the conversion agent;
- the procedures that the holders of Series B Preferred Stock must follow to exercise the Change of Control Conversion Right; and
- the last date on which holders of Series B Preferred Stock may withdraw shares surrendered for conversion and the procedures that such holders must follow to effect such a withdrawal.

We will issue a press release for publication on the Dow Jones & Company, Inc., Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), or post a notice on our website, in any event prior to the opening of business on the first business day following any date on which we provide the notice described above to the holders of Series B Preferred Stock.

To exercise the Change of Control Conversion Right, the holders of Series B Preferred Stock will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if

any) representing Series B Preferred Stock to be converted, duly endorsed for transfer, together with a written conversion notice completed, to our transfer agent. The conversion notice must state:

- the relevant Change of Control Conversion Date;
- the number of shares of Series B Preferred Stock to be converted; and
- that the Series B Preferred Stock is to be converted pursuant to the applicable provisions of the articles supplementary related to the Series B Preferred Stock.

The “Change of Control Conversion Date” is the date the Series B Preferred Stock is to be converted, which will be a business day that is no fewer than 20 days nor more than 35 days after the date on which we mail the notice described above to the holders of Series B Preferred Stock.

The “Common Stock Price” will be (i) if the consideration to be received in the Change of Control by the holders of our common stock is solely cash, the amount of cash consideration per share of our common stock or (ii) if the consideration to be received in the Change of Control by holders of our common stock is other than solely cash (x) the average of the closing sale prices per share of our common stock (or, if no closing sale price is reported, the average of the closing bid and ask prices or, if more than one in either case, the average of the average closing bid and the average closing ask prices) for the 10 consecutive trading days immediately preceding, but not including, the effective date of the Change of Control as reported on the principal U.S. securities exchange on which our common stock is then traded, or (y) the average of the last quoted bid prices for our common stock in the over-the-counter market as reported by OTC Markets Group, Inc. or similar organization for the 10 consecutive trading days immediately preceding, but not including, the effective date of the Change of Control, if our common stock is not then listed for trading on a U.S. securities exchange.

Holders of Series B Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the business day prior to the Change of Control Conversion Date. The notice of withdrawal must state:

- the number of withdrawn shares of Series B Preferred Stock;
- if certificated Series B Preferred Stock have been issued, the certificate numbers of the withdrawn shares of Series B Preferred Stock; and
- the number of shares of Series B Preferred Stock, if any, which remain subject to the conversion notice.

Notwithstanding the foregoing, if the Series B Preferred Stock is held in global form, the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures of The Depository Trust Company.

Series B Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided or provide notice of our election to redeem such Series B Preferred Stock, whether pursuant to our optional redemption right or our special optional redemption right. If we elect to redeem Series B Preferred Stock that would otherwise be converted into the applicable Conversion Consideration on a Change of Control Conversion Date, such Series B Preferred Stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date \$25.00 per share, plus any accrued and unpaid dividends thereon to, but not including, the date of redemption, in accordance with our optional redemption right or special optional redemption right. See “- *Redemption - Optional Redemption*” and “- *Redemption - Special Optional Redemption*” above.

We will deliver amounts owing upon conversion no later than the third business day following the Change of Control Conversion Date.

In connection with the exercise of any Change of Control Conversion Right, we will comply with all federal and state securities laws and stock exchange rules in connection with any conversion of Series B Preferred Stock into shares of our common stock. Notwithstanding any other provision of the Series B Preferred Stock, no holder of Series B Preferred Stock will be entitled to convert such Series B Preferred Stock into shares of our common stock to the extent that receipt of such common stock would cause such holder (or any other person) to exceed the stock ownership limits contained in our charter, including the articles supplementary setting forth the terms of the Series B Preferred Stock, unless we provide an exemption from the applicable limits for such holder. See “- *Restrictions on Ownership and Transfer*” below.

The Change of Control conversion feature may make it more difficult for a party to take over our company or discourage a party from taking over our company.

Except as provided above in connection with a Change of Control, the Series B Preferred Stock is not convertible into or exchangeable for any other securities or property.

No Maturity, Sinking Fund or Mandatory Redemption

The Series B Preferred Stock has no maturity date and we are not required to redeem the Series B Preferred Stock at any time. Accordingly, the Series B Preferred Stock will remain outstanding indefinitely, unless we decide, at our option, to exercise our redemption right or, under circumstances where the holders of the Series B Preferred Stock have a conversion right, such holders convert the Series B Preferred Stock into our common stock. The Series B Preferred Stock is not subject to any sinking fund.

Limited Voting Rights

Holders of shares of the Series B Preferred Stock generally have no voting rights, except as set forth below.

If dividends on the Series B Preferred Stock are in arrears for six or more quarterly periods, whether or not consecutive (which we refer to as a preferred dividend default), holders of shares of the Series B Preferred Stock (voting together as a class with the holders of all other classes or series of preferred stock upon which like voting rights have been conferred and are exercisable, (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock)) will be entitled to vote for the election of two additional directors to serve on our board of directors (which we refer to as preferred stock directors), until all unpaid dividends for past dividend periods that have ended with respect to the Series B Preferred Stock and any other class or series of preferred stock upon which like voting rights have been conferred and are exercisable (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) have been paid or declared and a sum sufficient for payment is set apart for such payment. In such a case, the number of directors serving on our board of directors will be increased by two. The preferred stock directors will be elected by a plurality of the votes cast in the election for a one-year term and each preferred stock director will serve until his successor is duly elected and qualified or until the director’s right to hold the office terminates, whichever occurs earlier. The election will take place at:

- a special meeting called upon the written request of holders of at least 10% of the outstanding shares of Series B Preferred Stock together with any other class or series of preferred stock upon which like voting rights have been conferred and are exercisable (including, if applicable, our Series A Preferred Stock and the Series C Preferred Stock), if this request is received more than 90 days before the date fixed for our next annual or special meeting of stockholders or, if we receive the request for a special meeting within 90 days before the date fixed for our next annual or special meeting of stockholders, at our next annual or special meeting of stockholders; and
- each subsequent annual meeting (or special meeting held in its place) until all dividends accumulated on the Series B Preferred Stock and on any other class or series of preferred stock upon which like voting rights have been conferred and are exercisable (including, if applicable, our Series A Preferred Stock and the Series C Preferred Stock) have been paid in full for all past dividend periods that have ended.

If and when all accumulated dividends on the Series B Preferred Stock and all other classes or series of preferred stock upon which like voting rights have been conferred and are exercisable (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) shall have been paid in full or a sum sufficient for such payment in full is set apart for payment, holders of shares of Series B Preferred Stock shall be divested of the voting rights set forth above (subject to re-vesting in the event of each and every preferred dividend default) and the term and office of such preferred stock directors so elected will terminate and the entire board of directors will be reduced accordingly.

Any preferred stock director elected by holders of shares of Series B Preferred Stock and other holders of preferred stock upon which like voting rights have been conferred and are exercisable (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) may be removed at any time with or without cause by the vote of, and may not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of Series B Preferred Stock and other parity preferred stock entitled to vote thereon when they have the voting rights described above (voting as a single class). So long as a preferred dividend default continues, any vacancy in the office of a preferred stock director may be filled by written consent of the preferred stock director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series B Preferred Stock when they have the voting rights described above (voting as a single class with all other classes or series of preferred stock upon which like voting rights have been conferred and are exercisable (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock)). Each preferred stock director is entitled to one vote on any matter.

Subject to the exception described below, so long as any shares of Series B Preferred Stock remain outstanding, we will not, without the consent or the affirmative vote of the holders of at least two-thirds of the outstanding shares of the Series B Preferred Stock together with the holders of all other shares of any class or series of preferred stock ranking on parity with the Series B Preferred Stock (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) with respect to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up (voting as a single class):

- authorize, create or issue, or increase the number of authorized or issued shares of, any class or series of stock ranking senior to the Series B Preferred Stock with respect to payment of dividends, or the distribution of assets upon our liquidation, dissolution or winding up, or reclassify any of our authorized capital stock into any such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares; or
- amend, alter or repeal the provisions of our charter, including the terms of the Series B Preferred Stock, whether by merger, consolidation, transfer or conveyance of all or substantially all of our company's assets or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series B Preferred Stock,

except that with respect to the occurrence of any of the events described in the second bullet point immediately above, so long as (1) the Series B Preferred Stock remains outstanding with the terms of the Series B Preferred Stock materially unchanged, or (2) the holders of the Series B Preferred Stock receive equity securities with rights, preferences, privileges or voting powers substantially the same as those of the Series B Preferred Stock, then the occurrence of such event will not be deemed to materially and adversely affect the rights, preferences, privileges or voting power of the Series B Preferred Stock, and in such case such holders shall not have any voting rights with respect to the events described in the second bullet point immediately above. Furthermore, if, pursuant to the occurrence of any of the events described in the second bullet point immediately above, holders of shares of the Series B Preferred Stock receive the greater of the full trading price of the Series B Preferred Stock on the date of such event described in the second bullet point immediately above or the \$25.00 per share liquidation preference plus accrued and unpaid dividends to, but not including, the date of such event described in the second bullet point immediately above, then such holders shall not have any voting rights with respect to the events described in the second bullet point immediately above.

Notwithstanding the above, if the occurrence of any such event would materially and adversely affect the rights, preferences, privileges or voting powers of the Series B Preferred Stock disproportionately relative to other

classes or series of preferred stock ranking on parity with the Series B Preferred Stock (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) with respect to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up, then the affirmative vote of the holders of at least two-thirds of the outstanding shares of the Series B Preferred Stock (voting as a separate class) shall also be required.

Holders of shares of Series B Preferred Stock will not be entitled to vote with respect to any increase in the total number of authorized shares of our common stock or preferred stock, any increase in the number of authorized shares of Series B Preferred Stock or the creation or issuance of any other class or series of capital stock, or any increase in the number of authorized shares of any other class or series of capital stock, in each case ranking on parity with (including, if any shares are then outstanding, our Series A Preferred Stock and the Series C Preferred Stock) or junior to the Series B Preferred Stock with respect to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up.

Holders of shares of Series B Preferred Stock will not have any voting rights with respect to, and the consent of the holders of shares of Series B Preferred Stock is not required for, the taking of any corporate action, including any merger or consolidation involving us or a sale of all or substantially all of our assets, regardless of the effect that such merger, consolidation or sale may have upon the powers, preferences, voting power or other rights or privileges of the Series B Preferred Stock, except as set forth above.

In addition, the voting provisions above will not apply if, at or prior to the time when the act with respect to which the vote would otherwise be required would occur, we have redeemed or called for redemption upon proper procedures all outstanding shares of Series B Preferred Stock.

In any matter in which Series B Preferred Stock may vote (as expressly provided in the articles supplementary setting forth the terms of the Series B Preferred Stock), each share of Series B Preferred Stock shall be entitled to one vote per \$25.00 of liquidation preference. As a result, each share of Series B Preferred Stock will be entitled to one vote.

Information Rights

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series B Preferred Stock are outstanding, we will use our best efforts to (i) transmit by mail (or other permissible means under the Exchange Act) to all holders of Series B Preferred Stock, as their names and addresses appear in our record books and without cost to such holders, copies of the Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required) and (ii) promptly, upon request, supply copies of such reports to any prospective holder of Series B Preferred Stock. We will use our best efforts to mail (or otherwise provide) the information to the holders of Series B Preferred Stock within 15 days after the respective dates by which a periodic report on Form 10-K or Form 10-Q, as the case may be, in respect of such information would have been required to be filed with the SEC if we were subject to Section 13 or 15(d) of the Exchange Act, in each case, based on the dates on which we would be required to file such periodic reports if we were a “non-accelerated filer” within the meaning of the Exchange Act.

Restrictions on Ownership and Transfer

In order for us to qualify as a REIT under the Code, our shares of capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year. Also, no more than 50% of the value of our outstanding shares of capital stock may be owned, directly or indirectly, by five or fewer individuals (as defined by the Code to include certain entities) during the last half of any taxable year.

To help us to qualify as a REIT, our charter, subject to certain exceptions, contains, and the Series B Preferred Stock articles supplementary contain, restrictions on the number of shares of our common stock, the Series

B Preferred Stock and our capital stock that a person may own. Our charter provides that generally no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% in value or in number of shares of our outstanding shares of capital stock. In addition, the Series B Preferred Stock articles supplementary provide that generally no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding Series B Preferred Stock.

The consequences of attempting to own or transfer shares of our common stock or our capital stock in violation of the ownership restrictions are described in the exhibit under “*Description of Common Stock - Restrictions on Ownership and Transfer*.” Those consequences also apply to any person who attempts to own, or would be deemed to own by virtue of the attribution provisions of the Code, more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding Series B Preferred Stock.

The beneficial ownership and/or constructive ownership rules under the Code are complex and may cause shares of stock owned actually or constructively by a group of related individuals and/or entities to be owned constructively by one individual or entity. See “*Description of Common Stock - Restrictions on Ownership and Transfer*” in this exhibit.

Transfer Agent and Registrar

The transfer agent and registrar for the Series B Preferred Stock is Computershare.

Book-Entry Procedures

The Series B Preferred Stock was issued in the form of global securities held in book-entry form. The Depository Trust Company (“DTC”) or its nominee is the sole registered holder of the Series B Preferred Stock. Owners of beneficial interests in the Series B Preferred Stock represented by the global securities will hold their interests pursuant to the procedures and practices of DTC. As a result, beneficial interests in any such securities will be shown on, and transfers will be effected only through, records maintained by DTC and its direct and indirect participants and any such interest may not be exchanged for certificated securities, except in limited circumstances. Owners of beneficial interests must exercise any rights in respect of other interests, including any right to convert their Series B Preferred Stock, in accordance with the procedures and practices of DTC. Beneficial owners will not be holders and will not be entitled to any rights provided to the holders of the Series B Preferred Stock under the global securities or the articles supplementary. We and any of our agents may treat DTC as the sole holder and registered owner of the global securities.

DTC has advised us as follows: DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC facilitates the settlement of transactions amongst participants through electronic computerized book-entry changes in participants’ accounts, eliminating the need for physical movement of securities certificates. DTC’s participants include securities brokers and dealers, including the underwriters, banks, trust companies, clearing corporations and other organizations, some of whom and/or their representatives own DTC. Access to DTC’s book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

The Series B Preferred Stock, represented by one or more global securities, will be exchangeable for certificated securities with the same terms only if:

- DTC is unwilling or unable to continue as depository or if DTC ceases to be a clearing agency registered under the Exchange Act and a successor depository is not appointed by us within 90 days; or
- we decide to discontinue use of the system of book-entry transfers through DTC (or any successor depository).

Description of the Series C Preferred Stock

The following description of certain terms and provisions of the Series C Preferred Stock does not purport to be complete and is in all respects subject to, and qualified in its entirety by reference to, our charter, including the articles supplementary setting forth the terms of the Series C Preferred Stock, our bylaws and Maryland law.

General

Our charter provides that we may issue up to one billion shares of capital stock, all with a par value of \$0.01 per share. As of December 31, 2020, 12,650,000 of these authorized shares were classified as Series C Preferred Stock. As of December 31, 2020, there were 11,000,000 shares of the Series C Preferred Stock outstanding.

Each class or series of preferred stock will have the designations, preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption as Maryland law may permit and our board of directors may determine by adoption of articles supplementary to our charter.

All shares of Series C Preferred Stock were validly issued, fully paid and nonassessable. Our board of directors may, without notice to or the consent of holders of Series C Preferred Stock, authorize the issuance and sale of additional shares of Series C Preferred Stock and authorize and issue additional shares of any class or series of parity equity securities from time to time.

Listing

The Series C Preferred Stock is listed on the NYSE under the symbol “MFA/PC.”

Maturity

The Series C Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption. Shares of the Series C Preferred Stock will remain outstanding indefinitely unless we decide to redeem or otherwise repurchase them or they become convertible and are converted as described below under “—Conversion Rights.” We are not required to set apart for payment the funds to redeem the Series C Preferred Stock.

Ranking

The Series C Preferred Stock ranks, with respect to rights to the payment of dividends and the distribution of assets upon our liquidation, dissolution or winding up:

- senior to all classes or series of our common stock and any other Junior Stock we may issue;
- on a parity with our Parity Stock;
- junior to any Senior Stock we may issue; and
- effectively junior to all of our existing and future indebtedness (including indebtedness convertible into or exchangeable for our common stock or preferred stock) and the indebtedness of our existing and future subsidiaries.

Our “Junior Stock” means our common stock and any class or series of stock we may issue in the future that by its terms ranks junior to the Series C Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution, or winding up. Our “Parity Stock” means the Series

B Preferred Stock and any other class or series of stock issued by us from time to time that by its terms ranks on parity with the Series B Preferred Stock and the Series C Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up. Our “Senior Stock” means any class or series of stock we may issue in the future that by its terms ranks senior to the Series C Preferred Stock with respect to the payment of dividends and the distribution of assets in the event of our liquidation, dissolution or winding up. The term “stock” does not include any convertible or exchangeable debt securities we may issue in the future.

Dividends

Holders of shares of the Series C Preferred Stock are entitled to receive, when, as and if authorized by our board of directors and declared by us, out of funds legally available for the payment of dividends, cumulative cash dividends. The initial dividend rate for the Series C Preferred Stock from and including the date of original issuance to, but not including, March 31, 2025 (the “Fixed Rate Period”) will be 6.50% of the \$25.00 per share liquidation preference per annum (equivalent to \$1.625 per annum per share). On and after March 31, 2025 (the “Floating Rate Period”), dividends on the Series C Preferred Stock will accumulate at a percentage of the \$25.00 liquidation preference equal to an annual floating rate of the Three-Month LIBOR Rate plus a spread of 5.345%. Dividends on the Series C Preferred Stock will accumulate daily and with respect to any shares of Series C Preferred Stock issued before June 30, 2020 shall be cumulative from, and including, the date of original issue, or, with respect to any shares of Series C Preferred Stock issued after June 30, 2020, shall be cumulative from the most recent dividend payment date to which dividends have been paid in full (or declared and the record date for determining stockholders entitled to payment thereof has passed) and will be payable quarterly in arrears on the last day of each March, June, September and December (each, as may be modified as provided below, a “dividend payment date”). If any dividend payment date is not a business day, as defined in the articles supplementary designating the Series C Preferred Stock, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day with the same force and effect as if paid on such dividend payment date, and no interest, additional dividends or sums in lieu of interest will be payable for the period from and after that dividend payment date to that next succeeding business day. Dividends payable on the Series C Preferred Stock for the Fixed Rate Period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends payable on the Series C Preferred Stock for the Floating Rate Period will be computed based on the actual number of days in a Dividend Period and a 360-day year. Dividends will be payable to holders of record as they appear on our stock records at the close of business on the applicable record date, which will be no fewer than ten days and no more than 35 days prior to the applicable dividend payment date, as shall be fixed by the board of directors (each, a “dividend record date”). The dividends payable on any dividend payment date shall include dividends accumulated to, but not including, such dividend payment date.

For each Dividend Period during the Floating Rate Period, LIBOR (the London interbank offered rate) (“Three-Month LIBOR Rate”) will be determined by us, as of the applicable Dividend Determination Date (as defined below), in accordance with the following provisions:

- LIBOR will be the rate (expressed as a percentage per year) for deposits in U.S. dollars having an index maturity of three months, in amounts of at least \$1,000,000, as such rate appears on “Reuters Page LIBOR01” at approximately 11:00 a.m. (London time) on the relevant Dividend Determination Date; or

- if no such rate appears on “Reuters Page LIBOR01” or if the “Reuters Page LIBOR01” is not available at approximately 11:00 a.m. (London time) on the relevant Dividend Determination Date, then we will select four nationally-recognized banks in the London interbank market and request that the principal London offices of those four selected banks provide us with their offered quotation for deposits in U.S. dollars for a period of three months, commencing on the first day of the applicable Dividend Period, to prime banks in the London interbank market at approximately 11:00 a.m. (London time) on that Dividend Determination Date for the applicable Dividend Period. Offered quotations must be based on a principal amount equal to an amount that, in our discretion, is representative of a single transaction in U.S. dollars in the London interbank market at that time. If at least two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of those quotations. If fewer than two quotations are provided, the Three-Month LIBOR Rate for such Dividend Period will be the arithmetic mean (rounded upward if necessary, to the nearest 0.00001 of 1%) of the rates quoted at approximately 11:00 a.m. (New York City time) on that Dividend Determination Date for such Dividend Period by three nationally-recognized banks in New York, New York selected by us, for loans in U.S. dollars to nationally-recognized European banks (as selected by us), for a period of three months commencing on the first day of such Dividend Period. The rates quoted must be based on an amount that, in our discretion, is representative of a single transaction in U.S. dollars in that market at that time. If no quotation is provided as described above, then if a Calculation Agent (as defined below) has not been appointed at such time, we will appoint a Calculation Agent who shall, after consulting such sources as it deems comparable to any of the foregoing quotations or display page, or any such source as it deems reasonable from which to estimate LIBOR or any of the foregoing lending rates, shall determine LIBOR for the second London Business Day immediately preceding the first day of such distribution period in its sole discretion. If the Calculation Agent is unable or unwilling to determine LIBOR as provided in the immediately preceding sentence, then LIBOR will be equal to Three-Month LIBOR for the then current Dividend Period, or, in the case of the first Dividend Period in the Floating Rate Period, the most recent dividend rate that would have been determined based on the last available Reuters Page LIBOR01 had the Floating Rate Period been applicable prior to the first Dividend Period in the Floating Rate Period.

Notwithstanding the foregoing, if we determine on the relevant Dividend Determination Date that the LIBOR base rate has been discontinued, then we will appoint a Calculation Agent and the Calculation Agent will consult with an investment bank of national standing to determine whether there is an industry accepted substitute or successor base rate to Three-Month LIBOR Rate. If, after such consultation, the Calculation Agent determines that there is an industry accepted substitute or successor base rate, the Calculation Agent shall use such substitute or successor base rate. In such case, the Calculation Agent in its sole discretion may (without implying a corresponding obligation to do so) also implement changes to the business day convention, the definition of business day, the Dividend Determination Date, the interest rate spread and any method for obtaining the substitute or successor base rate if such rate is unavailable on the relevant Business Day, in a manner that is consistent with industry accepted practices for such substitute or successor base rate. Unless the Calculation Agent determines that there is an industry accepted substitute or successor base rate as so provided above, the Calculation Agent will, in consultation with us, follow the steps specified in the second bullet point in the immediately preceding paragraph in order to determine Three-Month LIBOR Rate for the applicable Dividend Period.

“Calculation Agent” shall mean a third party independent financial institution of national standing with experience providing such services, which has been selected by us.

“Dividend Determination Date” means the second London Business Day (as defined below) immediately preceding the first date of the applicable Dividend Period.

“Dividend Period” means the period from, and including, a dividend payment date to, but excluding, the next succeeding dividend payment date, except for the initial Dividend Period, which will be the period from, and including, the original issue date of the Series C Preferred Stock to, but excluding June 30, 2020.

“London Business Day” means any day on which dealings in deposits in U.S. dollars are transacted in the London interbank market.

“Reuters Page LIBOR01” means the display so designated on the Reuters 3000 Xtra (or such other page as may replace the LIBOR01 page on that service, or such other service as may be nominated by the ICE Benchmark Administration Limited, or ICE, or its successor, or such other entity assuming the responsibility of ICE or its successor in the event ICE or its successor no longer does so, as the successor service, for the purpose of displaying London interbank offered rates for U.S. dollar deposits).

No dividends on shares of Series C Preferred Stock may be authorized by our board of directors or paid or set apart for payment by us at any time when the terms and provisions of any agreement of ours, including any agreement relating to our indebtedness, prohibit the authorization, payment or setting apart for payment thereof or provide that the authorization, payment or setting apart for payment thereof would constitute a breach of the agreement or a default under the agreement, or if the authorization, payment or setting apart for payment is restricted or prohibited by law. You should review the information appearing above under “Risk Factors—We may not be able to pay dividends or other distributions on the Series C Preferred Stock” for more information as to, among other things, other circumstances under which we may be unable to pay dividends on the Series C Preferred Stock.

Notwithstanding the foregoing, dividends on the Series C Preferred Stock will accumulate whether or not (i) the terms and provisions of any laws or agreements referred to in the preceding paragraph at any time prohibit the current payment of dividends, (ii) we have earnings, (iii) there are funds legally available for the payment of those dividends and (iv) those dividends are declared. No interest, or sum in lieu of interest, will be payable in respect of any dividend payment or payments on the Series C Preferred Stock which may be in arrears, and holders of Series C Preferred Stock will not be entitled to any dividends in excess of full cumulative dividends described above. Any dividend payment made on the Series C Preferred Stock will first be credited against the earliest accumulated but unpaid dividend due with respect to those shares.

Future dividends on our common stock and preferred stock, including the Series C Preferred Stock, will be at the discretion of our board of directors and will depend on, among other things, our results of operations, cash flow from operations, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Code, applicable law, any debt service requirements and any other factors our board of directors deems relevant. Accordingly, we cannot guarantee that we will be able to make cash distributions on the Series C Preferred Stock or what the actual dividends will be for any future period.

Except as noted below, unless full cumulative dividends on the Series C Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods, (i) no dividends (other than in shares of our common stock or other Junior Stock we may issue) may be declared or paid or set apart for payment upon our common stock or other Junior Stock or our Parity Stock and no other distribution may be declared or made upon our common stock or other Junior Stock or our Parity Stock and (ii) our common stock and other Junior Stock or Parity Stock we may issue may not be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such securities) by us (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock we may issue or pursuant to a purchase or exchange offer made on the same terms to all holders of Series C Preferred Stock and all Parity Stock). The foregoing will not, however, prevent the redemption, purchase or acquisition by us of shares of any class or series of stock for the purpose of enforcing restrictions on transfer and ownership of our stock contained in our charter, including in order to preserve our qualification as a REIT, or the redemption, purchase or acquisition by us of shares of our common stock for purposes of and in compliance with any incentive or benefit plan of ours. When dividends are not paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series C Preferred Stock and our Parity Stock, all dividends declared upon the Series C Preferred Stock and such Parity Stock must be declared pro rata so that the amount of dividends declared per share of Series C Preferred Stock and such Parity Stock will in all cases bear to each other the same ratio that accumulated dividends per share on the Series C Preferred Stock and such Parity Stock (which will not include any accrual in respect of unpaid dividends for prior Dividend Periods if such other Parity Stock do not have a cumulative dividend) bear to each other. No interest, or

sum of money in lieu of interest, will be payable in respect of any dividend payment or payments on the Series C Preferred Stock which may be in arrears.

Liquidation Preference

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of Series C Preferred Stock will be entitled to be paid out of the assets we have legally available for distribution to our stockholders, subject to the preferential rights of the holders of any Senior Stock, a liquidation preference of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the payment date, before any distribution of assets is made to holders of common stock or other Junior Stock we may issue; and the holders of Series C Preferred Stock will not be entitled to any further payment.

In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series B Preferred Stock, Series C Preferred Stock and any other Parity Stock we may issue, then the holders of Series B Preferred Stock, Series C Preferred Stock and such other Parity Stock will share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

Notice of any such liquidation stating the payment date or dates when, and the place or places where, the amounts distributable in each circumstance shall be payable, will be given no fewer than 30 days and no more than 60 days prior to the payment date, to each holder of record of Series C Preferred Stock at the address of such holder as it appears on our stock records. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series C Preferred Stock will have no right or claim to any of our remaining assets. The consolidation, conversion or merger of us with or into any other corporation, trust or entity or of any other entity with or into us, the sale, lease, transfer or conveyance of all or substantially all of our property or business or a statutory share exchange, will not be deemed to constitute a liquidation, dissolution or winding up of us (although such events may give rise to the special optional redemption and contingent conversion rights described below).

In determining whether a distribution (other than upon voluntary or involuntary liquidation), by dividend, redemption or other acquisition of shares of stock or otherwise, is permitted under Maryland law with respect to any share of any class or series of our stock, amounts that would be needed, if we were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of holders of shares of Series C Preferred Stock will not be added to our total liabilities.

Redemption

The Series C Preferred Stock is not redeemable by us prior to March 31, 2025, except under circumstances where it is necessary to preserve our qualification as a REIT for U.S. federal income tax purposes (please see “—Restrictions on Transfer and Ownership” below) and except as described below under “—Special Optional Redemption” upon the occurrence of a Change of Control (as defined herein).

Optional Redemption. On and after March 31, 2025, we may, at our option, upon not less than 30 nor more than 60 days’ notice, redeem the Series C Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date, without interest.

Special Optional Redemption. Upon the occurrence of a Change of Control (as defined below), we may, at our option, upon not less than 30 nor more than 60 days’ notice, redeem the Series C Preferred Stock, in whole or in part, within 120 days after the first date on which such Change of Control occurred, for cash at a redemption price of \$25.00 per share, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the redemption date. If, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of Series C Preferred Stock (whether pursuant to our optional

redemption right described above under “—Optional Redemption” or this special optional redemption right), the holders of Series C Preferred Stock will not have the Change of Control Conversion Right (as defined below) described below under “—Conversion Rights” with respect to the shares called for redemption.

A “Change of Control” is deemed to occur when, after the original issuance of the Series C Preferred Stock, the following have occurred and are continuing:

- the acquisition by any person, including any syndicate or group deemed to be a “person” under Section 13(d)(3) of the Exchange Act, of beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of purchases, mergers or other acquisition transactions of our stock entitling that person to exercise more than 50% of the total voting power of all our stock entitled to vote generally in the election of our directors (except that such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition); and
- following the closing of any transaction referred to in the bullet point above, neither we nor the acquiring or surviving entity has a class of common securities (or American Depositary Receipts representing such securities) listed on the NYSE, the NYSE American LLC or the Nasdaq Stock Market, or listed or quoted on an exchange or quotation system that is a successor to the NYSE, the NYSE American LLC or the Nasdaq Stock Market.

Redemption Procedures. In the event we elect to redeem Series C Preferred Stock pursuant to our optional redemption right or our special optional redemption right, the notice of redemption will be given to each holder of record of Series C Preferred Stock called for redemption at such holder’s address as it appears on our stock records and will state the following:

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| | • | <p>the redemption date;</p> <ul style="list-style-type: none"> • the number of shares of Series C Preferred Stock to be redeemed; • the redemption price; • the place or places where certificates (if any) for the Series C Preferred Stock are to be surrendered for payment of the redemption price; • that dividends on the shares to be redeemed will cease to accumulate on the redemption date; • if applicable, that such redemption is being made in connection with a Change of Control and, in that case, a brief description of the transaction or transactions constituting such Change of Control; and • if such redemption is being made in connection with a Change of Control, that the holders of the shares of Series C Preferred Stock being so called for redemption will not be able to tender such shares of Series C Preferred Stock for conversion in connection with the Change of Control and that each share of Series C Preferred Stock tendered for conversion that is called, prior to the Change of Control Conversion Date, for redemption will be redeemed on the related date of redemption instead of converted on the Change of Control Conversion Date. |
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If less than all of the Series C Preferred Stock held by any holder is to be redeemed, the notice given to such holder shall also specify the number of shares of Series C Preferred Stock held by such holder to be redeemed. No failure to

give such notice or any defect thereto or in the giving thereof will affect the validity of the proceedings for the redemption of any shares of Series C Preferred Stock, except as to the holder to whom notice was defective or not given.

Holders of shares of Series C Preferred Stock to be redeemed must surrender such shares at the place designated in the notice of redemption and will be entitled to the redemption price and any accumulated and unpaid dividends payable upon the redemption following the surrender.

If notice of redemption of any shares of Series C Preferred Stock has been given and if we have irrevocably set apart for payment the funds necessary for redemption (including any accumulated and unpaid dividends) in trust for the benefit of the holders of the shares of Series C Preferred Stock so called for redemption, then from and after the redemption date (unless we default in providing for the payment of the redemption price plus accumulated and unpaid dividends, if any), dividends will cease to accumulate on those shares of Series C Preferred Stock, those shares of Series C Preferred Stock will no longer be deemed outstanding and all rights of the holders of those shares will terminate, except the right to receive the redemption price plus accumulated and unpaid dividends, if any, payable upon redemption.

If any redemption date is not a business day, then the redemption price and accumulated and unpaid dividends, if any, payable upon redemption may be paid on the next business day and no interest, additional dividends or other sums will accumulate on the amount payable for the period from and after that redemption date to that next business day.

If less than all of the outstanding shares of Series C Preferred Stock are to be redeemed, the shares of Series C Preferred Stock to be redeemed will be selected pro rata (as nearly as may be practicable without creating fractional shares) or by lot. If such redemption is to be by lot and if, as a result of such redemption, any holder of Series C Preferred Stock would own, or be deemed by virtue of certain attribution provisions of the Code to own, in excess of 9.8% in value or in number of shares (whichever is more restrictive) of the outstanding shares of capital stock (including the Series C Preferred Stock), or violate any other restriction or limitation of our stock set forth in our charter, then, except as otherwise provided in our charter, we will redeem the requisite number of shares of Series C Preferred Stock of that holder such that the holder will not own or be deemed by virtue of certain attribution provisions of the Code to own, subsequent to the redemption, in excess of 9.8% in value or in number of shares (whichever is more restrictive) of any class or series of our stock or violate any other restriction or limitation of our stock set forth in our charter. See “—Restrictions on Transfer and Ownership” below.

Immediately prior to any redemption of Series C Preferred Stock, we will pay, in cash, any accumulated and unpaid dividends to, but excluding, the redemption date, unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case each holder of Series C Preferred Stock at the close of business on such dividend record date will be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date. Except as provided above, we will make no payment or allowance for unpaid dividends, whether or not in arrears, on shares of the Series C Preferred Stock to be redeemed.

Unless full cumulative dividends on all shares of Series C Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for payment for all past Dividend Periods, no shares of Series C Preferred Stock may be redeemed unless all outstanding shares of Series C Preferred Stock are simultaneously redeemed, and we may not purchase or otherwise acquire directly or indirectly any shares of Series C Preferred Stock (except by conversion into or exchange for shares of, or options, warrants or rights to purchase or subscribe for, our common stock or other Junior Stock we may issue or pursuant to a purchase or exchange offer made on the same terms to all holders of Series C Preferred Stock and all Parity Stock); provided, however, that the foregoing will not prevent the redemption, purchase or acquisition by us of shares of Series C Preferred Stock for the purpose of enforcing restrictions on ownership and transfer of our stock contained in our charter, including in order to preserve our qualification as a REIT.

Subject to applicable law, we may purchase shares of Series C Preferred Stock in the open market, by tender or by privately negotiated transactions. Any shares of Series C Preferred Stock that we acquire, by redemption, conversion or otherwise, shall automatically be reclassified as authorized but unissued shares of preferred stock, without designation as to class or series, and may thereafter be issued as any class or series of preferred stock.

Conversion Rights

Upon the occurrence of a Change of Control, each holder of Series C Preferred Stock will have the right (unless, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem some or all of the shares of Series C Preferred Stock held by such holder as described above under “—Redemption,” in which case such holder will have the right only with respect to shares of Series C Preferred Stock that are not called for redemption) to convert some or all of the shares of the Series C Preferred Stock held by such holder (the “Change of Control Conversion Right”) on the Change of Control Conversion Date into a number of shares of our common stock per share of Series C Preferred Stock (the “Common Stock Conversion Consideration”) equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference per share of Series C Preferred Stock, plus any accumulated and unpaid dividends thereon (whether or not authorized or declared) to, but excluding, the Change of Control Conversion Date (unless the Change of Control Conversion Date is after a dividend record date and prior to the corresponding dividend payment date for the Series C Preferred Stock, in which case no additional amount for such accumulated and unpaid dividends to be paid on such dividend payment date will be included in this sum) by (ii) the Common Stock Price, as defined below (such quotient, the “Conversion Rate”); and
- 6.45161, or the “Share Cap,” subject to certain adjustments as described below.

Notwithstanding anything in the articles supplementary designating the Series C Preferred Stock to the contrary and except as otherwise required by law, the persons who are the holders of record of shares of Series C Preferred Stock at the close of business on a dividend record date will be entitled to receive the dividend payable on the corresponding dividend payment date notwithstanding the conversion of those shares after such dividend record date and on or prior to such dividend payment date and, in such case, the full amount of such dividend will be paid on such dividend payment date to the persons who were the holders of record at the close of business on such dividend record date. Except as provided above, we will make no allowance for unpaid dividends that are not in arrears on the shares of Series C Preferred Stock to be converted.

The Share Cap is subject to pro rata adjustments for any share splits (including those effected pursuant to a distribution of our common stock to existing holders of our common stock), subdivisions or combinations (in each case, a “Share Split”) with respect to our common stock as follows: the adjusted Share Cap as the result of a Share Split will be the number of shares of our common stock that is equivalent to the product obtained by multiplying (i) the Share Cap in effect immediately prior to such Share Split by (ii) a fraction, the numerator of which is the number of shares of our common stock outstanding immediately after giving effect to such Share Split and the denominator of which is the number of shares of our common stock outstanding immediately prior to such Share Split.

For the avoidance of doubt, subject to the immediately succeeding sentence, the aggregate number of shares of our common stock (or equivalent Alternative Conversion Consideration, as applicable) issuable or deliverable, as applicable, in connection with the exercise of the Change of Control Conversion Right will not exceed the product of the Share Cap times the aggregate number of shares of the Series C Preferred Stock issued and outstanding at the Change of Control Conversion Date (or equivalent Alternative Conversion Consideration, as applicable) (the “Exchange Cap”). The Exchange Cap is subject to pro rata adjustments for any Share Splits on the same basis as the corresponding adjustment to the Share Cap.

In the case of a Change of Control pursuant to which our common stock is or will be converted into cash, securities or other property or assets (including any combination thereof) (the “Alternative Form Consideration”), a holder of Series C Preferred Stock will receive upon conversion of such shares of the Series C Preferred Stock the kind and amount of Alternative Form Consideration which such holder would have owned or been entitled to receive upon the Change of Control had such holder held a number of shares of our common stock equal to the Common Stock Conversion Consideration immediately prior to the effective time of the Change of Control (the “Alternative Conversion Consideration”). The Common Stock Conversion Consideration or the Alternative Conversion Consideration, whichever shall be applicable to a Change of Control, is referred to as the “Conversion Consideration.”

If the holders of our common stock have the opportunity to elect the form of consideration to be received in the Change of Control, the Conversion Consideration in respect of such Change of Control will be deemed to be the kind and amount of consideration actually received by holders of a majority of the outstanding shares of our common stock that made or voted for such an election (if electing between two types of consideration) or holders of a plurality of the outstanding shares of our common stock that made or voted for such an election (if electing between more than two types of consideration), as the case may be, and will be subject to any limitations to which all holders of our common stock are subject, including, without limitation, pro rata reductions applicable to any portion of the consideration payable in such Change of Control.

We will not issue fractional shares of our common stock upon the conversion of the Series C Preferred Stock in connection with a Change of Control. Instead, we will make a cash payment equal to the value of such fractional shares based upon the Common Stock Price used in determining the Common Stock Conversion Consideration for such Change of Control.

Within 15 days following the occurrence of a Change of Control, provided that we have not exercised our right to redeem all shares of Series C Preferred Stock pursuant to the redemption provisions described above, we will provide to holders of Series C Preferred Stock a notice of occurrence of the Change of Control that describes the resulting Change of Control Conversion Right, which notice shall be delivered to the holders of record of the shares of Series C Preferred Stock to their addresses as they appear on our stock records. No failure to give such notice or any defect thereto or in the giving thereof will affect the validity of the proceedings for the conversion of any shares of Series C Preferred Stock except as to the holder to whom notice was defective or not given. This notice will state the following:

- the events constituting the Change of Control;
- the date of the Change of Control;
- the last date on which the holders of Series C Preferred Stock may exercise their Change of Control Conversion Right;
- the method and period for calculating the Common Stock Price;
- the Change of Control Conversion Date;
- that if, prior to the Change of Control Conversion Date, we have provided notice of our election to redeem all or any shares of Series C Preferred Stock, holders of Series C Preferred Stock that are subject to such notice of redemption will not be able to convert the shares of Series C Preferred Stock called for redemption and such shares will be redeemed on the related redemption date, even if such shares have already been tendered for conversion pursuant to the Change of Control Conversion Right;

- if applicable, the type and amount of Alternative Conversion Consideration entitled to be received per share of Series C Preferred Stock;
- the name and address of the paying agent, transfer agent and conversion agent for the Series C Preferred Stock;
- the procedures that the holders of Series C Preferred Stock must follow to exercise the Change of Control Conversion Right (including procedures for surrendering shares of Series C Preferred Stock for conversion through the facilities of a Depositary (as defined below)), including the form of conversion notice to be delivered by such holders as described below; and
- the last date on which holders of Series C Preferred Stock may withdraw shares of Series C Preferred Stock surrendered for conversion and the procedures that such holders must follow to effect such a withdrawal.

Under such circumstances, we also will issue a press release containing such notice for publication on the Wall Street Journal, Business Wire, PR Newswire or Bloomberg Business News (or, if these organizations are not in existence at the time of issuance of the press release, such other news or press organization as is reasonably calculated to broadly disseminate the relevant information to the public), and post a notice on our website (if any), in any event prior to the opening of business on the first business day following any date on which we provide the notice described above to the holders of Series C Preferred Stock.

To exercise the Change of Control Conversion Right, the holders of Series C Preferred Stock will be required to deliver, on or before the close of business on the Change of Control Conversion Date, the certificates (if any) representing the shares of Series C Preferred Stock to be converted, duly endorsed for transfer (or, in the case of any shares of Series C Preferred Stock held in book-entry form through a Depositary or shares directly registered with the transfer agent, therefor, to deliver, on or before the close of business on the Change of Control Conversion Date, the shares of Series C Preferred Stock to be converted through the facilities of such Depositary or through such transfer agent, respectively), together with a written conversion notice in the form provided by us, duly completed, to our transfer agent. The conversion notice must state:

- the relevant Change of Control Conversion Date;
- the number of shares of Series C Preferred Stock to be converted; and
- that the shares of the Series C Preferred Stock are to be converted pursuant to the applicable provisions of the articles supplementary designating the Series C Preferred Stock.

The “Change of Control Conversion Date” is the date the Series C Preferred Stock is to be converted, which will be a business day selected by us that is no fewer than 20 days nor more than 35 days after the date on which we provide the notice described above to the holders of Series C Preferred Stock.

The “Common Stock Price” is (i) if the consideration to be received in the Change of Control by the holders of our common stock is solely cash, the amount of cash consideration per share of our common stock or (ii) if the consideration to be received in the Change of Control by holders of our common stock is other than solely cash (x) the average of the closing sale prices per share of our common stock (or, if no closing sale price is reported, the average of the closing bid and ask prices per share or, if more than one in either case, the average of the average closing bid and the average closing ask prices per share) for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred as reported on the principal U.S. securities exchange on which our common stock is then traded, or (y) if our common stock is not then listed for trading on a

U.S. securities exchange, the average of the last quoted bid prices for our common stock in the over-the-counter market as reported by OTC Markets Group Inc. or similar organization for the ten consecutive trading days immediately preceding, but not including, the date on which such Change of Control occurred.

Holders of Series C Preferred Stock may withdraw any notice of exercise of a Change of Control Conversion Right (in whole or in part) by a written notice of withdrawal delivered to our transfer agent prior to the close of business on the business day prior to the Change of Control Conversion Date. The notice of withdrawal delivered by any holder must state:

- the number of withdrawn shares of Series C Preferred Stock;
- if certificated shares of Series C Preferred Stock have been surrendered for conversion, the certificate numbers of the withdrawn shares of Series C Preferred Stock; and
- the number of shares of Series C Preferred Stock, if any, which remain subject to the holder's conversion notice.

Notwithstanding the foregoing, if any shares of Series C Preferred Stock are held in book-entry form through the DTC or a similar depository (each, a "Depository"), the conversion notice and/or the notice of withdrawal, as applicable, must comply with applicable procedures, if any, of the applicable Depository.

Shares of Series C Preferred Stock as to which the Change of Control Conversion Right has been properly exercised and for which the conversion notice has not been properly withdrawn will be converted into the applicable Conversion Consideration in accordance with the Change of Control Conversion Right on the Change of Control Conversion Date, unless prior to the Change of Control Conversion Date we have provided notice of our election to redeem some or all of the shares of Series C Preferred Stock, as described above under "—Redemption," in which case only the shares of Series C Preferred Stock properly surrendered for conversion and not properly withdrawn that are not called for redemption will be converted as aforesaid. If we elect to redeem shares of Series C Preferred Stock that would otherwise be converted into the applicable Conversion Consideration on a Change of Control Conversion Date, such shares of Series C Preferred Stock will not be so converted and the holders of such shares will be entitled to receive on the applicable redemption date the redemption price described above under "—Redemption—Optional Redemption" or "—Redemption—Special Optional Redemption," as applicable.

We will deliver all securities, cash and any other property owing upon conversion no later than the third business day following the Change of Control Conversion Date. Notwithstanding the foregoing, the persons entitled to receive any shares of our common stock or other securities delivered on conversion will be deemed to have become the holders of record thereof as of the Change of Control Conversion Date.

In connection with the exercise of any Change of Control Conversion Right, we will comply with all applicable federal and state securities laws and stock exchange rules in connection with any conversion of shares of the Series C Preferred Stock into shares of our common stock or other property. Notwithstanding any other provision of the Series C Preferred Stock, no holder of Series C Preferred Stock will be entitled to convert such shares of the Series C Preferred Stock into shares of our common stock to the extent that receipt of such shares of common stock would cause such holder (or any other person) to violate the applicable restrictions on transfer and ownership of our stock contained in our charter, unless we provide an exemption from this limitation to such holder pursuant to the terms of our charter. Please see the sections entitled "—Restrictions on Transfer and Ownership" below.

The Change of Control conversion feature may make it more difficult for a third party to acquire us or discourage a party from acquiring us. Except as provided above in connection with a Change of Control, the Series C Preferred Stock is not convertible into or exchangeable for any other securities or property.

Voting Rights

Holders of Series C Preferred Stock will not have any voting rights, except as set forth below.

Whenever dividends on any shares of Series C Preferred Stock are in arrears for six or more full quarterly Dividend Periods, whether or not consecutive, the number of directors constituting our board of directors will be automatically increased by two (if not already increased by two by reason of the election of directors by the holders of any other class or series of Parity Stock upon which like voting rights have been conferred and are exercisable) and the holders of Series C Preferred Stock, voting as a single class with holders of the Parity Stock upon which like voting rights have been conferred and are exercisable, will be entitled to vote for the election of those two additional directors at a special meeting called by us at the request of the holders of record of at least 25% of the outstanding shares of Series C Preferred Stock and all other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable to be held no later than 90 days after our receipt of such request (unless the request is received less than 90 days before the date fixed for the next annual or special meeting of our stockholders, in which case, such vote will be held at the earlier of the next annual or special meeting of the stockholders to the extent permitted by applicable law), and at each subsequent annual meeting until all dividends accumulated on the Series C Preferred Stock for all past Dividend Periods and the then current Dividend Period will have been fully paid. In that case, the right of holders of Series C Preferred Stock to elect any directors will cease and, unless there are other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable, the term of office of any directors elected by holders of Series C Preferred Stock will immediately terminate and the number of directors constituting the board of directors will be reduced accordingly. For the avoidance of doubt, in no event will the total number of directors elected by holders of Series C Preferred Stock (voting together as a single class with the Parity Stock upon which like voting rights have been conferred and are exercisable) pursuant to these voting rights exceed two. The directors elected by the holders of the Series C Preferred Stock and the holders of the Parity Stock upon which like voting rights have been conferred and are exercisable will be elected by a plurality of the votes cast by the holders of the outstanding shares of Series C Preferred Stock when they have the voting rights described in this paragraph and the Parity Stock upon which like voting rights have been conferred and are exercisable (voting together as a single class) to serve until our next annual meeting of stockholders and until their successors are duly elected and qualify or until such directors' right to hold the office terminates as described above, whichever occurs earlier.

If, at any time when the voting rights conferred upon the Series C Preferred Stock are exercisable, any vacancy in the office of a director elected by the holders of the Series C Preferred Stock and any class or series of Parity Stock upon which like voting rights have been conferred and are exercisable will occur, then such vacancy may be filled only by the remaining director or by vote of the holders of the outstanding Series C Preferred Stock and any other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable.

Any director elected by holders of shares of Series C Preferred Stock and any class or series of Parity Stock upon which like voting rights have been conferred and are exercisable may be removed at any time, with or without cause, by the vote of, and may not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of Series C Preferred Stock and any class or series of Parity Stock we may issue when they have the voting rights described above (voting as a single class with all other classes or series of Parity Stock upon which like voting rights have been conferred and are exercisable).

So long as any shares of Series C Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of Series C Preferred Stock and Parity Stock upon which like voting rights have been conferred and are exercisable (voting together as a single class), (i) authorize, create, or increase the authorized or issued amount of, any class or series of Senior Stock or reclassify any of our authorized stock into such shares, or create or authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares or (ii) amend, alter or repeal the provisions of our charter, whether by merger, conversion, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series C Preferred Stock (each, an "Event"); provided, however, with respect to the occurrence of any Event set forth in clause (ii) above, so long as the Series C Preferred Stock remains outstanding

with the terms thereof materially unchanged, or the holders of Series C Preferred Stock receive shares of stock or other equity interests with rights, preferences, privileges and voting powers substantially the same as those of the Series C Preferred Stock, taking into account that upon the occurrence of an Event we may not be the successor entity, the occurrence of any such Event will not be deemed to materially and adversely affect the rights, preferences, privileges or voting power of holders of Series C Preferred Stock; and, provided further, that any increase in the amount of the authorized or issued Series C Preferred Stock or the creation or issuance, or any increase in the amounts authorized of any Parity Stock, including the Series B Preferred Stock, or Junior Stock will not be deemed to materially and adversely affect the rights, preferences, privileges or voting powers of holders of Series C Preferred Stock. Notwithstanding the foregoing, if any amendment, alteration or repeal of any provision of our charter would materially and adversely affect the rights, preferences or privileges of the Series C Preferred Stock disproportionately relative to other classes or series of Parity Stock, including the Series B Preferred Stock, then the affirmative vote or consent of the holders of at least two-thirds of the outstanding shares of Series C Preferred Stock (voting as a separate class) shall also be required.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series C Preferred Stock have been redeemed or called for redemption upon proper notice and sufficient funds have been irrevocably set apart to effect such redemption.

On each matter on which holders of Series C Preferred Stock are entitled to vote, each share of Series C Preferred Stock will be entitled to one vote, except that when shares of any other class or series of preferred stock we may issue, including the Parity Stock, have the right to vote with the Series C Preferred Stock as a single class on any matter, the Series C Preferred Stock, the Parity Stock and each such other class or series of stock will have one vote for each \$25.00 of liquidation preference (excluding accumulated dividends).

Except as expressly stated in the articles supplementary designating the Series C Preferred Stock, Series C Preferred Stock will not have any relative, participating, optional or other special voting rights or powers and the consent of the holders thereof will not be required for the taking of any corporate action. The holders of Series C Preferred Stock will have exclusive voting rights on any amendment to our charter that would alter the contract rights, as expressly set forth in the charter, of only the Series C Preferred Stock. For the avoidance of doubt nothing in the foregoing sentence gives the holders of Series C Preferred Stock the right to vote separately or as a class on any matter other than as expressly contemplated above.

Information Rights

During any period in which we are not subject to Section 13 or 15(d) of the Exchange Act and any shares of Series C Preferred Stock are outstanding, we will use our best efforts to transmit through our website at <http://www.mfafinancial.com> (or other permissible means under the Exchange Act) copies of the Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q that we would have been required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act if we were subject thereto (other than any exhibits that would have been required). We will use our best efforts to provide such reports on our website within 15 days after the respective dates by which we would have been required to file such reports with the SEC if we were subject to Section 13 or 15(d) of the Exchange Act and we were a “non-accelerated filer” within the meaning of the Exchange Act.

Restrictions on Transfer and Ownership

To assist us in qualifying as a REIT, our charter prohibits any person from acquiring or holding, directly or constructively, ownership of 9.8% (in value or in number of shares, whichever is more restrictive) of the outstanding shares of our capital stock. For this purpose the term “ownership” generally means either direct ownership or constructive ownership in accordance with the constructive ownership provisions of Section 544 of the Code, as modified in Section 856(h) of the Code.

The constructive ownership provisions of Section 544 of the Code generally attribute ownership of securities owned by a corporation, partnership, estate or trust proportionately to its stockholders, partners or beneficiaries;

attribute ownership of securities owned by family members to other members of the same family; and set forth rules for attributing securities constructively owned by one person to another person. To determine whether a person holds or would hold capital stock in excess of the 9.8% ownership limit, a person will be treated as owning not only shares of capital stock actually owned, but also any shares of capital stock attributed to that person under the attribution rules described above. Accordingly, a person who individually owns less than 9.8% of the shares outstanding may nevertheless be in violation of the 9.8% ownership limit.

Any transfer of shares of Series C Preferred Stock that would cause us to be disqualified as a REIT or that would (a) create a direct or constructive ownership of shares of Series C Preferred Stock in excess of the 9.8% ownership limit, or (b) result in the shares of our capital stock being beneficially owned (within the meaning of Section 856(a) of the Code) by fewer than 100 persons (determined without reference to any rules of attribution), or (c) result in us being “closely held” within the meaning of Section 856(h) of the Code, will be null and void, and the intended transferee (the “purported transferee”) will acquire no rights to those shares. In addition, no holder of Series C Preferred Stock will be entitled to convert the Series C Preferred Stock into our common stock upon a Change of Control to the extent that receipt of our common stock would cause the holder to actually or constructively own stock exceeding either of the 9.8% ownership thresholds unless we provide an exemption from these ownership limitations to such holder at our sole discretion. These restrictions on transferability and ownership will not apply if our board of directors determines that it is no longer in our best interests to continue to qualify as a REIT.

Any purported transfer of shares of Series C Preferred Stock or conversion of Series C Preferred Stock into shares of our common stock upon a Change of Control that would, if effective, result in a purported transferee owning (directly or constructively) shares of capital stock in excess of the 9.8% ownership limit due to the unenforceability of the transfer restrictions described above will constitute “excess securities.” Excess securities will be transferred by operation of law to a trustee of a trust that we will establish for the exclusive benefit of a charitable organization, until such time as the trustee of the trust retransfers the excess securities. The trustee will be designated by us and must not be affiliated with the purported transferee or us. While the excess securities are held in trust, the purported transferee will not be entitled to vote or to share in any dividends or other distributions with respect to the securities. Subject to the 9.8% ownership limit, excess securities may be transferred by the trust to any person (if such transfer would not result in excess securities) and upon such transfer, the purported transferee will have the right to receive the lesser of the price paid by the purported transferee (or, if no consideration was paid by the purported transferee, the fair market value of the excess securities on the date of the purported transfer), or the price per share for the excess securities received by the trust, at which point the excess securities will automatically cease to be excess securities.

Upon a purported transfer of excess securities, the purported transferee shall cease to be entitled to distributions, voting rights and other benefits with respect to the shares of capital stock except the right to payment of the purchase price for the shares of capital stock on the retransfer of securities as provided above. Any dividend or distribution paid to a purported transferee on excess securities prior to our discovery that shares of capital stock have been transferred in violation of our charter shall be paid to the trust for the exclusive benefit of the beneficiary. If these transfer restrictions are determined to be void, invalid or unenforceable by a court of competent jurisdiction, then the purported transferee of any excess securities may be deemed, at our option, to have acted as an agent on our behalf in acquiring the excess securities and to hold the excess securities on our behalf.

Any person who acquires or attempts or intends to acquire shares of our stock in violation of any of the foregoing restrictions on transferability and ownership will be required to give written notice immediately to us and provide us with such other information as we may request in order to determine the effect of such transfer on our qualification as a REIT. All persons who own, directly or by virtue of the attribution provisions of the Code, 5% or more of our outstanding shares of stock (or such other percentage at the time prescribed by the Code or the regulations promulgated thereunder) must file a written statement with us containing the information specified in our charter within 30 days after January 1 of each year. In addition, each stockholder must upon demand disclose to us such information as we deem necessary in order to determine our qualification as a REIT and to ensure compliance with the 9.8% ownership limit.

Our board may waive the 9.8% ownership limit if it is presented with evidence satisfactory to it that the waiver will not jeopardize our qualification as a REIT. As a condition to any such waiver, our board may require a ruling of the Internal Revenue Service, opinions of counsel or other evidence satisfactory to it and must receive representations and undertakings from the applicant with respect to preserving our REIT qualification. The 9.8% ownership limit will not apply if our board determines that it is no longer in our best interests to continue to qualify as a REIT. At present, we do not intend to waive the 9.8% ownership limit for any purchaser.

Preemptive Rights

No holders of Series C Preferred Stock will, as holders of Series C Preferred Stock, have any preemptive rights to purchase or subscribe for our common stock or any of our other securities.

Book-Entry Procedures

DTC will act as securities depository for the Series C Preferred Stock, which will only be issued in the form of global securities held in book-entry form. We will not issue certificates to you for the shares of Series C Preferred Stock that you purchase, unless DTC's services are discontinued as described below.

Title to book-entry interests in the Series C Preferred Stock will pass by book-entry registration of the transfer within the records of DTC in accordance with its procedures. Book-entry interests in the securities may be transferred within DTC in accordance with procedures established for these purposes by DTC. Each person owning a beneficial interest in shares of the Series C Preferred Stock must rely on the procedures of DTC and the participant through which such person owns its interest to exercise its rights as a holder of the Series C Preferred Stock.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, including the underwriters, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

When you purchase shares of Series C Preferred Stock within the DTC system, the purchase must be by or through a Direct Participant. The Direct Participant will receive a credit for the Series C Preferred Stock on DTC's records. You will be considered to be the "beneficial owner" of the Series C Preferred Stock. Your beneficial ownership interest will be recorded on the Direct and Indirect Participants' records, but DTC will have no knowledge of your individual ownership. DTC's records reflect only the identity of the Direct Participants to whose accounts shares of Series C Preferred Stock are credited.

You will not receive written confirmation from DTC of your purchase. The Direct or Indirect Participants through whom you purchased the Series C Preferred Stock should send you written confirmations providing details of your transactions, as well as periodic statements of your holdings. The Direct and Indirect Participants are responsible for keeping an accurate account of the holdings of their customers like you.

Transfers of ownership interests held through Direct and Indirect Participants will be accomplished by entries on the books of Direct and Indirect Participants acting on behalf of the beneficial owners.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

We understand that, under DTC's existing practices, in the event that we request any action of the holders, or an owner of a beneficial interest in a global security, such as you, desires to take any action which a holder is entitled to take under our charter (including the articles supplementary designating the Series C Preferred Stock), DTC would authorize the Direct Participants holding the relevant shares to take such action, and those Direct Participants and any Indirect Participants would authorize beneficial owners owning through those Direct and Indirect Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Any redemption notices with respect to the Series C Preferred Stock will be sent to Cede & Co. If less than all of the outstanding shares of Series C Preferred Stock are being redeemed, DTC will reduce each Direct Participant's holdings of shares of Series C Preferred Stock in accordance with its procedures.

In those instances where a vote is required, neither DTC nor Cede & Co. itself will consent or vote with respect to the shares of Series C Preferred Stock. Under its usual procedures, DTC would mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants whose accounts the shares of Series C Preferred Stock are credited to on the record date, which are identified in a listing attached to the omnibus proxy.

Dividends on the Series C Preferred Stock will be made directly to DTC's nominee (or its successor, if applicable). DTC's practice is to credit participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that payment date.

Payments by Direct and Indirect Participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name." These payments will be the responsibility of the participant and not of DTC, us or any agent of ours.

DTC may discontinue providing its services as securities depository with respect to the Series C Preferred Stock at any time by giving reasonable notice to us. Additionally, we may decide to discontinue the book-entry only system of transfers with respect to the Series C Preferred Stock. In that event, we will print and deliver certificates in fully registered form for the Series C Preferred Stock. If DTC notifies us that it is unwilling to continue as securities depository, or it is unable to continue or ceases to be a clearing agency registered under the Exchange Act and a successor depository is not appointed by us within 90 days after receiving such notice or becoming aware that DTC is no longer so registered, we will issue the Series C Preferred Stock in definitive form, at our expense, upon registration of transfer of, or in exchange for, such global security.

According to DTC, the foregoing information with respect to DTC has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

Transfer Agent and Registrar

The transfer agent and registrar for the Series C Preferred Stock is Computershare.

Global Clearance and Settlement Procedures

Initial settlement for the Series C Preferred Stock will be made in immediately available funds. Secondary market trading among DTC's Participants will occur in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System.

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “Agreement”) is entered into as of the 22nd day of February, 2021, and effective as of the first day of January, 2021 (the “Effective Date”), by and between MFA Financial, Inc. (“MFA”), and Craig L. Knutson (the “Executive”).

WITNESSETH:

WHEREAS, MFA and the Executive entered into an employment agreement, effective as of January 1, 2020 (the “Former Employment Agreement”);

WHEREAS, MFA and the Executive desire to enter into an amended and restated employment agreement that supersedes and replaces the Former Employment Agreement in all respects as of the Effective Date and sets forth the terms of the Executive’s employment with MFA; and

WHEREAS, the Executive wishes to continue serving MFA, and MFA wishes to secure the continued exclusive services of the Executive, under the terms and conditions described in this Agreement, which will be legally binding on the date the Agreement is executed by the parties hereto.

NOW THEREFORE, in consideration of the foregoing premises and the mutual agreements herein contained, the parties hereto agree as follows:

1. Term of Employment.

(a) MFA hereby employs the Executive, and the Executive hereby accepts employment with MFA, in the positions and with the duties and responsibilities as set forth in Section 2 below for the Term of Employment, subject to the terms and conditions of this Agreement. Except as otherwise provided in Section 3(b)(iii) below, as of the Effective Date of this Agreement, the Former Employment Agreement is terminated.

(b) The term of employment (the “Term of Employment”) under this Agreement shall commence on the Effective Date and continue until December 31, 2021 (the “Initial Term”); provided that, the Term of Employment shall automatically renew for periods of one-year (each an “Extension Term”) unless either party gives the other party written notice at least 90 days prior to the end of the Initial Term or any Extension Term, as applicable, that the Term of Employment shall not be further extended. If the last day of the Initial Term or any Extension Term occurs during a Garden Leave period, the Term of Employment shall continue through the end of such Garden Leave. The Term of Employment may also be terminated in accordance with Section 5 hereof. The Company’s failure to renew the Term of Employment at the end of the Initial Term or any Extension Term, as applicable, shall constitute termination without Cause (as defined below). The Executive’s failure to renew the Term of Employment at

the end of the Initial Term or any Extension Term shall not, by itself, constitute a termination for Good Reason (as defined below).

2. Position; Duties and Responsibilities.

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

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

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

3. Compensation.

(a) Base Salary. During the Term of Employment, the Executive shall be entitled to receive an annualized base salary (the "Base Salary") of not less than \$800,000. The Compensation Committee of the Board of Directors (the "Compensation Committee") shall review the Executive's Base Salary annually to determine whether increases or decreases are appropriate; provided that, the Executive's Base Salary may only be decreased if such decrease is part of an overall Company reduction of executive base salaries and the applicable decrease (on a percentage basis) is substantially equivalent to that applicable to other senior executives of MFA.

(b) Performance Bonus.

(i) During the Term of Employment, the Executive shall be eligible to receive an annual bonus for the 12-month performance periods beginning each December 1 during the Term of Employment, according to the terms set forth on the attached Exhibit A. The Compensation Committee shall make all determinations with respect to the annual bonus in good faith and consistent with the attached Exhibit A.

(ii) The annual bonus shall be paid in cash as set forth on Exhibit A. The annual bonus that is payable for any performance period will be paid between January 1 and March 15 following the end of the performance period.

(iii) Any annual bonus for the 12-month period beginning on December 1, 2019 shall be determined and paid in accordance with the terms of the Former Employment Agreement, but in no event may such bonus be paid to the Executive later than March 15, 2021.

(c) Equity Compensation. To the extent that the Executive is still employed by MFA on each applicable grant date, within the first five trading days of each calendar year during the Term of Employment, the Company shall grant to the Executive a time-based RSU award and a performance-based RSU award, each of which shall be granted according to the terms set forth on the attached Exhibit B, the terms of the MFA Financial, Inc. Equity Compensation Plan or any successor thereto (the "Equity Compensation Plan") (which, for the avoidance of doubt, shall not be inconsistent with the terms set forth on Exhibit B), and the terms set forth in the form time-based RSU award agreement and the form performance-based RSU award agreement attached hereto as Exhibits C and D, respectively (the "Award Agreements"). In the event of any inconsistency between the terms of this Agreement and the Award Agreements, the terms of the Award Agreements shall govern.

(d) Stock Ownership Requirements. All shares of MFA stock distributed to the Executive by the Company under this Agreement or otherwise shall be subject to the stock ownership guidelines in effect for executives from time to time, as determined by the Board of Directors. Unless the stock ownership guidelines provide otherwise, vested shares of equity grants cannot be transferred or sold during the Executive's employment by the Company unless and until the value of the Executive's stock holdings in MFA (including shares of restricted stock and RSUs (with any RSUs that vest based on performance valued at target)) exceeds four times the Executive's Base Salary; and following the termination of Executive's employment with the Company, vested shares of equity grants may not be sold or transferred to the extent the value of the Executive's stock holdings does not exceed four times the Executive's Base Salary as of the date of the Executive's termination of employment (provided, however, that this sentence shall no longer apply following the six-month anniversary of the Executive's termination of employment). Notwithstanding the foregoing, the restrictions of this subsection (d) shall not prevent Executive from selling shares of MFA stock to satisfy income tax and employment tax obligations relating to the vesting and settlement of the equity grants to which the shares relate.

4. Employee Benefit Programs and Fringe Benefits. The Executive shall be entitled to at least 25 days in the aggregate of vacation and paid time off for each calendar year during the Term of Employment and shall be entitled to participate in all executive incentive and employee benefit programs of MFA now or hereafter made available to MFA's senior executives or salaried employees generally, as such programs may be in effect from time to time. The Executive shall be entitled to sick leave in accordance with applicable law and MFA policies. MFA shall reimburse the Executive for any and all necessary, customary and usual business

expenses incurred by Executive in connection with his employment in accordance with applicable MFA policies.

5. Termination of Employment.

(a) Termination Due to Disability. If the Executive's employment is terminated during the Term of Employment by reason of the Executive's Disability, the Executive's Term of Employment shall terminate automatically without further obligations to the Executive under this Agreement except as provided in this Section 5(a) and Section 5(h) below. In addition, and if the requirements of Section 5(k) are met:

(i) The Executive shall receive cash payments in an aggregate amount equal to the sum of (A) Executive's then current Base Salary and (B) the median of the annual bonuses paid to the Executive for the three calendar years preceding such termination (the "Median Bonus"), with such amount to be paid in cash in equal ratable installments in accordance with applicable MFA payroll practices over the 12 month period following such termination. Such installment payments shall commence as soon as possible (without undue delay), but in any event within 60 days following the date of termination on account Disability, and the first payment shall include any unpaid installments for the period prior to commencement. Notwithstanding the foregoing, in the event that the Executive's employment is terminated on account of Disability and such termination occurs within 12 months following a Change of Control (as defined below), in lieu of payment in the form of installments, the sum of the amounts set forth in the preceding clauses (A) and (B) shall be paid in a lump sum cash payment as soon as possible (without undue delay), but in any event within 60 days following the date of termination on account of Disability.

(ii) The Executive shall receive any unpaid Annual Bonus (as defined in Exhibit A) for the Performance Period (as defined in Exhibit A) immediately preceding the Executive's date of termination, which shall be paid at the time set forth in Exhibit A.

(iii) The Company shall reimburse the Executive for 100% of the COBRA premiums incurred by the Executive for the Executive and his eligible dependents under the Company's health care plan during the 18 month period following the Executive's termination of employment. Such reimbursement shall be provided on the payroll date immediately following the date on which the Executive remits the applicable premium payment and shall commence within 60 days after the termination date; provided that the first payment shall include any reimbursements that would have otherwise been payable during the period beginning on the Executive's termination date and ending on the date of the first reimbursement payment. Reimbursement payments shall be treated as taxable compensation to the Executive to the extent required by law.

(iv) All of the Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares, RSUs and stock options) shall be treated in accordance with the following and paid at the time set forth in the applicable Award Agreement:

A. Except as otherwise provided in (C) below, all unvested awards shall immediately vest.

B. All vested options shall remain exercisable until the earlier of (x) 90 days following the date of such termination or (y) the date on which each such option would have expired had the Executive's employment not terminated.

C. Any equity award that is subject to vesting based on the achievement of performance goals shall vest in accordance with the terms and conditions applicable to such award, determined as though the Executive remained actively employed through the end of the applicable performance period, provided that if the Executive's date of termination occurs within 12 months following a Change of Control, such award shall become immediately vested with respect to the target number of shares subject to such award.

(b) Termination Due to Death. If the Executive's employment is terminated during the Term of Employment by reason of the Executive's death, the Executive's Term of Employment shall terminate automatically without further obligations to the Executive, his legal representative or his estate, as the case may be, under this Agreement except as provided in this Section 5(b) and Section 5(h) below. In addition:

(i) The Executive's legal representative or his estate, as the case may be, shall receive a lump sum cash payment equal to the sum of (A) Executive's then current Base Salary and (B) the Median Bonus. Such payment shall be made as soon as possible (without undue delay), but in any event within 60 days following the date of the Executive's death.

(ii) The Executive shall receive any unpaid Annual Bonus (as defined in Exhibit A) for the Performance Period (as defined in Exhibit A) immediately preceding the Executive's date of termination, which shall be paid at the time set forth in Exhibit A.

(iii) All of the Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares, RSUs and stock options) shall be treated in accordance with the following and paid at the time set forth in the applicable Award Agreement:

A. Except as otherwise provided in (C) below, all unvested awards shall immediately vest.

B. All vested options shall remain exercisable until the earlier of (x) 90 days following the date of such termination or (y) the date on which each such option would have expired had the Executive's employment not terminated.

C. Any equity award that is subject to vesting based on the achievement of performance goals shall vest in accordance with the terms and conditions applicable to such award, determined as though the Executive remained actively employed through the end of the applicable performance period, provided that if the Executive's date of termination occurs within 12 months following a Change of Control, such award shall become immediately vested with respect to the target number of shares subject to such award.

(c) Termination By MFA Without Cause or By the Executive for Good Reason. In the event the Executive's employment is terminated during the Term of Employment by the Company without Cause or by the Executive for Good Reason (other than for Disability, as described in Section 5(a)), the Executive's Term of Employment shall terminate without further obligations to the Executive under this Agreement, except as provided in this Section 5(c) and Section 5(h) below. In addition and if the requirements of Section 5(k) are met:

(i) The Executive shall be entitled to an amount (the "Severance Amount") equal to two times the sum of (x) his then current Base Salary, and (y) the Median Bonus, with such amount to be paid in cash in equal ratable installments in accordance with applicable MFA payroll practices over the 24 month period following such termination (the "Severance Period"). The severance payments shall commence within 60 days following the date of termination, and the first payment shall include any unpaid installments for the period prior to commencement.

(ii) The Executive shall receive any unpaid Annual Bonus for the Performance Period immediately preceding the Executive's date of termination, which shall be paid at the time set forth in Exhibit A.

(iii) All of the Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares, RSUs and stock options) shall be treated in accordance with the following and paid at the time set forth in the applicable Award Agreement:

A. Except as otherwise provided in (C) below, any such awards that would otherwise have vested within 12 months following such termination had the Executive continued in employment shall immediately vest.

B. All vested options shall remain exercisable until the earlier of (x) 90 days following the date of such termination or (y) the date on

which each such option would have expired had the Executive's employment not terminated.

C. Any equity award that is subject to vesting based on the achievement of performance goals shall vest in accordance with the terms and conditions applicable to such award; provided that the equity award shall vest no less favorably than the following: the Executive shall vest in a pro-rata portion of the amount determined based on achievement of the performance goals as of the end of the applicable performance period. The pro-rata portion shall be equal to the product of (I) the number of shares subject to such award that would have vested if the Executive had remained employed through the end of the applicable performance period (if any) based on the achievement of the performance goals, and (II) a fraction, the numerator of which is the number of days during the performance period that would have elapsed as of the anniversary of the date of grant of such award next following the Executive's date of termination (but not beyond the end of the applicable performance period), and the denominator of which is the number of days in the performance period. For the avoidance of doubt, nothing in this Section 5(c)(iii)(C) requires vesting of any equity award if and to the extent that the applicable performance goals are not achieved as of the end of the applicable performance period.

The parties agree that a termination of the Executive's employment pursuant to this Section 5(c), Section 5(d), Section 5(e), Section 5(g), or Section 5(l) below shall not be a breach of this Agreement and does not relieve either party of its/his other obligations hereunder.

(d) Retirement. In the event the Executive's employment is terminated during the Term of Employment on account of the Executive's voluntary resignation at a time when circumstances constituting Cause do not exist, and such termination of employment is an Eligible Retirement (as defined below), the Executive's Term of Employment shall terminate without further obligations to the Executive under this Agreement, except as provided in this Section 5(d) and Section 5(g) below. In addition and if the requirements of Section 5(k) are met:

(i) The Executive shall receive any unpaid Annual Bonus for the Performance Period immediately preceding the Executive's date of termination, which shall be paid at the time set forth in Exhibit A.

(ii) The Executive shall receive a pro rata portion of the Annual Bonus for the partial Performance Period in which the date of termination occurs in an amount equal to the Target Bonus (as defined in Exhibit A), multiplied by a fraction, the numerator of which is the number of completed calendar days during the applicable Performance Period (as defined on Exhibit A) that the Executive was actively employed by MFA, and the denominator of which is 365. Such payment shall be made at the time set forth in Exhibit A; provided that, in the event that the Executive's Eligible Retirement occurs within 12

months following a Change of Control (as defined below) and such Change of Control constitutes a “change in control event” for purposes of Section 409A of the Code, or if otherwise required by Section 409A of the Code, payment shall be made within 60 days following the date of termination, to the extent required by Section 409A of the Code.

(iii) All of the Executive’s outstanding unvested equity-based awards (e.g., restricted stock, phantom shares, RSUs and stock options) shall be treated in accordance with the following and paid at the time set forth in the applicable award Agreement:

A. Except as otherwise provided in (B) below, all unvested awards shall immediately vest.

B. Any equity award that is subject to vesting based on the achievement of performance goals shall vest in accordance with the terms and conditions applicable to such award, determined as though the Executive remained actively employed through the end of the applicable performance period, provided that if the Executive’s date of termination occurs within 12 months following a Change of Control, such award shall become immediately vested with respect to the target number of shares subject to such award.

For purposes of this Agreement, an “Eligible Retirement” means the Executive’s voluntary termination of employment without Good Reason and other than on account of death or Disability either (a) on or after age 65 or (b) on account of an Eligible Early Retirement (as defined below). For purposes of this Agreement, an “Eligible Early Retirement” means the Executive’s termination of employment without Good Reason prior to age 65 pursuant to a succession plan approved by the Board of Directors, which may include (but, for clarity would not necessarily require) the Executive and the Company entering into a consulting or advisory agreement and the Executive’s reasonable cooperation in providing transition services for a period of time following termination of employment; provided that, the Executive provides MFA with at least nine months prior written notice (or such shorter notice period as determined by the Board of Directors in its discretion) of the Executive’s termination of employment (and continues in active employment during such notice period) and the Board of Directors approves such termination of employment as an Eligible Early Retirement.

(e) Termination by the Company for Cause or Voluntary Termination by the Executive. In the event the Executive’s employment is terminated during the Term of Employment (i) by the Company for Cause, (ii) by the Executive on his own initiative for other than a Good Reason and other than due to the Executive’s Disability or pursuant to Section 5(d), or (iii) due to the Executive’s failure to renew this Agreement at the end of the Initial Term or any Extension Term, the Executive shall be entitled only to the amounts set forth in Section 5(h) below.

(f) Garden Leave. The Executive shall provide a Notice of Termination to the Company no less than 90 days prior to any termination of the Executive's employment (whether for Good Reason or without Good Reason) during the Term of Employment, other than a termination during the period described in Section 5(g), and the Company shall provide a Notice of Termination to the Executive no less than 90 days prior to any termination of the Executive's employment without Cause during the Term of Employment, other than a termination during the period described in Section 5(g). During this 90-day notice period (the "Garden Leave"), the Executive shall (i) continue to be an employee of MFA and shall make himself available to provide such services directed by the Company that are reasonably consistent with the Executive's status as a senior executive of the Company and (ii) continue to be paid his Base Salary and to be eligible to participate in the Company's benefits programs, but shall not be eligible to earn any annual bonus with respect to a performance period that ends after the commencement of the Garden Leave. During the Garden Leave, the Company may require the Executive to resign from any position with the Company and/or remove any or all of the Executive's duties or responsibilities, which shall not constitute Good Reason or otherwise be a violation of this Agreement. The Executive agrees that he will not commence employment with any entity during or in connection with the commencement of the Garden Leave. During the Garden Leave, the Executive shall take all steps reasonably requested by the Company to effect a successful transition of client and customer relationships to the person or persons designated by the Company.

(g) Termination Related to Change of Control. In the event of the termination of the Executive's employment during the Term of Employment by the Company other than for Cause (and other than for Disability, as described in Section 5(a)) or by the Executive for Good Reason, in either case within 12 months following a Change of Control, or within three months prior to a Change of Control if such termination (for clarity and the avoidance of doubt, including any forced retirement) is initiated by, at the request or suggestion of, or with the agreement of, the counterparty to the Change of Control, the Executive's Term of Employment shall terminate without further obligations to the Executive under this Agreement, except as provided in Section 5(h) below. In addition and if the requirements of Section 5(k) are met:

(i) MFA shall immediately pay to Executive in a lump sum, but in all events within 60 days following the date of termination, an amount in cash equal to two times the sum of (A) the Executive's then current Base Salary and (B) the Executive's Median Bonus;

(ii) (A) All of the Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares, RSUs and stock options) shall immediately vest in full (in the case of any such award which is subject to vesting based on the achievement of performance goals, such award shall become vested with respect to the target number of shares subject to such award) and shall be paid at the time set forth in the applicable Award Agreement; and (B) any such options shall remain exercisable until the earlier of (I) 90 days following the date of such termination or (II) the date on which each such option would have expired had the Executive's employment not terminated;

(iii) The Company shall reimburse the Executive for 100% of the COBRA premiums incurred by the Executive for the Executive and his eligible dependents under the Company's health care plan during the 18 month period following the Executive's termination of employment. Such reimbursement shall be provided on the payroll date immediately following the date on which the Executive remits the applicable premium payment and shall commence within 60 days after the termination date; provided that, the first payment shall include any reimbursements that would have otherwise been payable during the period beginning on the Executive's termination date and ending on the date of the first reimbursement payment. Reimbursement payments shall be treated as taxable compensation to the Executive to the extent required by law;

(iv) MFA shall immediately pay to Executive in a lump sum, but in all events within 60 days following the date of termination, an amount in cash equal to the Target Bonus, multiplied by a fraction, the numerator of which is the number of completed calendar days during the applicable Performance Period (as defined on Exhibit A) that the Executive was actively employed by MFA, and the denominator of which is 365; and

(v) The Executive shall receive any unpaid Annual Bonus for the Performance Period immediately preceding the Executive's date of termination, which shall be paid at the time set forth in Exhibit A.

For the avoidance of doubt, if the Executive is eligible to receive payments and benefits pursuant to this Section 5(g), he shall not be eligible to receive any payments and benefits pursuant to Section 5(a), 5(b), 5(c) or Section 5(d).

(h) Other Payments. Upon the termination of the Executive's employment during the Term of Employment, in addition to the amounts payable under any Section above and any accrued but unpaid Base Salary, the Executive shall be entitled to receive the following:

(i) any vested deferred compensation (including any interest accrued on or appreciation in value of such deferred amounts) in accordance with the applicable plan documents;

(ii) reimbursement for reasonable business expenses incurred but not yet reimbursed by the Company; and

(iii) any other benefits to which the Executive or his legal representative may be entitled under all applicable plans and programs of the Company, as provided in Section 4 above.

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

(i) This Agreement and all payments hereunder (including payments pursuant to this Section 5) are intended to comply with or be exempt from Section 409A of the Code and applicable Treasury regulations thereunder; provided that, MFA shall have no liability for any taxes or penalties incurred by the Executive pursuant to Section 409A. Notwithstanding anything herein to the contrary, the Executive shall not be entitled to any payment pursuant to this Section 5 prior to the earliest date permitted under Section 409A of the Code, and applicable Treasury regulations thereunder. To the extent any payment pursuant to this Section 5 is required to be delayed six months pursuant to the special rules of Section 409A of the Code related to “specified employees,” each affected payment shall be delayed until six months after the Executive’s termination of employment, and, unless provided otherwise, with the first such payment being a lump sum equal to the aggregate payments the Executive would have received during such six-month period if no payment delay had been imposed. Any payments or distributions delayed in accordance with the prior sentence shall be paid to the Executive on the first day of the seventh month following the Executive’s termination of employment. If the Executive dies during the postponement period prior to payment, the amounts delayed shall be paid within 60 days after the date of the Executive’s death.

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

(iii) With respect to the lump sum amounts payable in connection with a Change of Control set forth in Section 5(a)(i) and Section 5(g)(i), such amounts shall be paid in installments as described in Section 5(a)(i) and Section 5(c)(i) as though a Change of Control had not occurred, if such Change of Control does not constitute a “change in control event” for purposes of Section 409A of the Code or if otherwise required by Section 409A of the Code.

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

(v) Notwithstanding anything herein to the contrary, in the event that the reimbursements provided pursuant to Section 5(a)(iii) or Section 5(g)(iii) would subject the Executive or the Company to adverse tax consequences under Section 105(h) of the Code or any tax penalties, then the parties shall enter into an economically consistent arrangement that does not cause either party to incur such adverse tax consequences or penalties.

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

(k) Release. The Company's obligation to make any payment or provide any benefit pursuant to this Section 5 (other than pursuant to Sections 5(b) and 5(h) above) shall be contingent upon, and is the consideration for, (i) the Executive executing and delivering to the Company, within 60 days after termination of his employment, a general release (the "Release"), substantially in the form annexed hereto as Exhibit E (with any revisions necessary to comply with applicable law as reasonably determined by counsel to MFA and provided in writing to the Executive within five business days after the date of the termination of his employment), and (ii) such release becoming irrevocable in accordance with its terms within 60 days after termination of employment. In the event that any payment or benefit is subject to Section 409A of the Code and the 60-day period referred to in the immediately preceding sentence spans two calendar years, any such payments or benefits required to be made hereunder during such 60-day period shall be made in the second calendar year, the first payment of which shall include all payments that would otherwise have been made prior thereto.

(l) Change in Status following an Externalization Event. Notwithstanding anything in this Section 5 to the contrary, in the event that the circumstances described in clauses (i) or (ii) below occur, then for purposes of this Agreement, the Executive's termination of employment shall not constitute a termination by the Company without Cause or a termination by the Executive for Good Reason, and the Executive shall only be entitled to the amounts set forth in Section 5(h). For the avoidance of doubt, in the event that the circumstances described in clauses (i) or (ii) below occur, the Executive shall not be eligible to receive the payments and benefits described in Section 5(c) or Section 5(g).

(i) In connection with the Executive's termination of employment, MFA is managed by an external manager pursuant to a management and advisory contract and such external manager has provided the Executive with an offer of employment (x) on economic terms that are at least substantially equivalent in form and economic substance (and not in the aggregate) to those provided to the Executive immediately prior to such termination of employment, and (y) on other terms that would not be deemed to trigger "Good Reason" under the definition provided herein (an offer of employment that meets the requirements of (x) and (y), a "Qualifying Offer"); or

(ii) A Change of Control occurs and immediately following such Change of Control, MFA is managed by an external manager pursuant to a management and advisory contract and such external manager has provided the Executive with a Qualifying Offer.

(m) Parachute Payments.

(i) Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the “Payments”), would constitute an “excess parachute payment” within the meaning of Section 280G of the Code (after taking into consideration any mitigating factors such as the value of any non-competition restrictions or similar factors), the Company shall reduce (but not below zero) the aggregate present value of the Payments under the Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide the Executive with a greater net after-tax amount than would be the case if no such reduction was made (for clarity, if not reducing the Payments will provide the Executive with a greater net after-tax amount, then no reduction shall occur). The Payments shall be reduced as described in the preceding sentence only if (A) the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local income and payroll taxes on the reduced Payments), is greater than or equal to (B) the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local income and payroll taxes on the Payments and the amount of Excise Tax (as defined below) to which the Executive would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be reduced pursuant to this Section 5(m), and any reduction shall be made in accordance with Section 409A of the Code.

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

(iii) All determinations to be made under this Section 5(m) shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to a change of control, which shall provide its determinations and any supporting calculations both to the

Company and the Executive within ten days of the change of control. Any such determination by such firm shall be binding upon the Company and the Executive. All fees and expenses of the accounting or consulting firm in performing the determinations referred to in this Section 5(m) shall be borne solely by the Company.

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

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

(a) Cause. "Cause" shall mean the Executive's (i) commission of a felony, a crime of moral turpitude or any crime committed against MFA, other than traffic violations; (ii) engagement in willful misconduct, willful or gross negligence, or fraud, embezzlement or misappropriation relating to significant amounts, in each case in connection with the performance of his duties under this Agreement; (iii) failure to adhere to the lawful directions of the Board of Directors that are reasonably consistent with his duties and position provided for herein; (iv) breach in any material respect of any of the provisions of Section 7 of this Agreement; (v) material violation of the Company's Code of Conduct or any other material written policy of the Company, including without limitation, the Company's nondiscrimination and harassment policy; or (vi) breach in any material respect of the terms and provisions of this Agreement resulting in material and demonstrable economic injury to MFA. Notwithstanding the foregoing, (i) the Executive shall be given written notice of any action or failure to act that is alleged to constitute Cause (a "Default"), and if curable, an opportunity for 20 business days from the date of such notice in which to cure such Default, such period to be subject to extension in the discretion of the Board of Directors and (ii) regardless of whether the Executive is able to cure any Default, the Executive shall not be deemed to have been terminated for Cause without (A) reasonable prior written notice to the Executive setting forth the reasons for the decision to terminate the Executive for Cause, (B) an opportunity for the Executive, together with his counsel, to be heard by the Board of Directors and (C) delivery to the Executive of a Notice of Termination approved by the Board of Directors, stating its good faith opinion that the Executive has engaged in actions or conduct described in the preceding sentence, which notice specifies the particulars of such action or conduct in reasonable detail; provided, however, MFA may suspend the Executive with pay until such time as his right to appear before the Board of Directors, as the case may be, has been exercised, so long as such appearance is within two weeks of the date of suspension. For avoidance of doubt and notwithstanding the Executive's cure rights, if any, if MFA reasonably determines that it is necessary to place the Executive on administrative leave, or to relieve the Executive of some or all of the Executive's duties so that MFA may investigate any potential wrongdoing or misconduct, or pending resolution of any act, event or omission giving rise to Cause during any applicable cure period, MFA's doing so shall not be deemed to be either

a breach by MFA of any provision of this Agreement or a termination by MFA of the Executive's employment without Cause nor shall such action constitute a basis for the Executive to terminate the Executive's employment for Good Reason.

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

(i) any "person," as such term is used in Sections 13(d) and 14(d) of the Act (other than MFA, any of its affiliates or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of MFA or any of its affiliates, and other than the Executive) together with all "affiliates" and "associates" (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of MFA representing 30% or more of either (A) the combined voting power of MFA's then outstanding securities having the right to vote in an election of the Board of Directors ("voting securities"), or (B) the then outstanding shares of common stock of MFA ("Shares") (in either such case other than as a result of an acquisition of securities directly from MFA); or

(ii) persons who, as of the Effective Date of this Agreement, constitute MFA's Board of Directors (the "Incumbent Directors") cease for any reason, including, without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board of Directors, provided that any person becoming a Director of MFA subsequent to the Effective Date whose election or nomination for election was approved and/or ratified by a vote of at least a majority of the Incumbent Directors shall, for purposes of this Agreement, be considered an Incumbent Director; or

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

Notwithstanding the foregoing, a "Change of Control" shall not be deemed to have occurred for purposes of the foregoing clause (i) solely as the result of an acquisition of securities by MFA which, by reducing the number of Shares or other voting securities outstanding, increases (x) the proportionate number of Shares beneficially owned by any person to 30% or more of the Shares

then outstanding or (y) the proportionate voting power represented by the voting securities beneficially owned by any person to 30% or more of the combined voting power of all then outstanding voting securities; provided, however, that, if any person referred to in clause (x) or (y) of this sentence shall thereafter become the beneficial owner of any additional Shares or other voting securities (other than pursuant to a stock split, stock dividend, or similar transaction), then a “Change of Control” shall be deemed to have occurred for purposes of this Section 6(b).

(c) Competitor. “Competitor” shall mean any entity or person that is engaged in a business that is conducted by the Company during the Executive’s employment, or that is under consideration by the Board of Directors during the 12 months prior to the Executive’s termination of employment, including, without limitation, (i) any mortgage REIT, (ii) any entity or person engaged in any element of acquiring mortgage backed securities (“MBS”), single family residential mortgage loans (“Whole Loans”), credit risk transfer securities (“CRTs”) or other products or instruments in which the Company invests, including any private or public investment firm or broker dealer whose business strategy is based on or who engages in the trading, sales, investment or management of such securities, products or instruments, (iii) any entity that manages or advises (including any external advisor) either (A) a mortgage REIT or (B) an entity or person engaged in any element of acquiring MBS, Whole Loans, CRTs or other products or instruments in which the Company invests, including any private or public investment firm or broker dealer whose business strategy is based on or who engages in the trading, sales, investment or management of such securities, products or instruments and (iv) any entity or person engaged in the management or sale of single family residential real estate that is acquired as a result of foreclosure, short sale, deed-in-lieu or other actions undertaken by such entity or person in respect of investments made by such entity or person in Whole Loans.

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

(e) Disability. “Disability” shall mean the Executive’s inability for a period of six consecutive months, to render substantially the services provided for in this Agreement with or without a reasonable accommodation by reason of mental or physical disability, whether resulting from illness, accident or otherwise, other than by reason of chronic or persistent abuse of any substance (such as narcotics or alcohol), provided that a Disability for purposes of Section 5(a) shall qualify as a Disability under Section 409A of the Code to the extent required by Section 409A of the Code. Notwithstanding the foregoing, no circumstances or condition shall constitute a Disability to the extent that, if it were, a 20% tax would be imposed under Section 409A of the Code; provided that, in such a case, the event or condition shall continue to constitute a Disability to the maximum extent possible (e.g., if applicable, in respect of vesting without an acceleration of distribution) without causing the imposition of such 20% tax. In addition, nothing herein shall limit or restrict the payment of any amount subject to Section 409A of the Code upon an otherwise permitted payment event under Section 409A of the Code, including upon a separation from service.

(f) Good Reason. “Good Reason” shall mean:

- (i) a material diminution in the Executive's title, duties or responsibilities (other than in connection with the Executive's disability);
- (ii) relocation of the Executive's place of employment without his consent outside the New York City metropolitan area;
- (iii) the failure of MFA to pay within 60 business days any material payment or benefits due from MFA;
- (iv) the material failure by MFA to honor any of its material obligations to the Executive.

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

(g) Notice of Termination. "Notice of Termination" means the written notice of termination of the Executive's employment delivered by, as applicable, the Executive or MFA.

(h) Restricted Period. "Restricted Period" shall mean the period commencing on the Effective Date and ending on the first anniversary of the Executive's termination of employment for any reason.

7. Covenants.

(a) Confidentiality. During the Term of Employment, and at all times thereafter, the Executive shall maintain the confidentiality of all confidential or proprietary information of the Company, or of any other person or entity with which the Executive has been involved as a direct or indirect result of his employment by, or performance of consulting or other services (including, without limitation, as a director, officer, advisor, agent, consultant or other independent contractor) for, the Company ("Confidential Information"), and, except in furtherance of his employment by the Company or as specifically required by law or by court order or as permitted by Section 7(g) or in the course of carrying out his duties for the Company, he shall not directly or indirectly disclose any such information to any person or entity; nor shall he use Confidential Information for any purpose except for the benefit of the Company. For purposes of this Agreement, "Confidential Information" includes, without limitation: client or customer lists, identities, contacts, business and financial information; investment strategies; pricing information or policies, fees or commission arrangements of the Company; marketing plans, projections, presentations or strategies of the Company; financial and budget information of the Company; personnel information, personnel lists, resumes, personnel data, organizational structure, compensation and performance evaluations; information regarding the existence or terms of any agreement or relationship between the Company and any other party; and any other

information of whatever nature, which gives to the Company an opportunity to obtain an advantage over its competitors who or which do not have access to such information. This restriction shall apply regardless of whether such Confidential Information is in written, graphic, recorded, photographic, data or any machine readable form or is orally conveyed to, or memorized by, the Executive; provided, however, that this Section 7(a) shall not apply to Confidential Information that is or becomes publicly known through no act or omission on the Executive's part. Anything to the contrary notwithstanding, nothing in this Agreement shall prevent the Executive from retaining papers and other materials of a personal nature, including personal diaries, calendars and Rolodexes, information relating to his compensation or relating to reimbursement of expenses, and copies of plans, programs and agreements relating to his employment.

(b) Non-Competition and Non-Solicitation. The Executive acknowledges that during the Executive's employment with the Company prior to and after the Effective Date, (i) the Executive has had and will continue to have access to trade secrets and other Confidential Information of the Company, which, if disclosed, would unfairly and inappropriately assist in competition against the Company; (ii) in the course of the Executive's employment by a Competitor during the Restricted Period, the Executive would inevitably use or disclose such trade secrets and Confidential Information; (iii) the Company has substantial relationships with its customers and the Executive has had and will continue to have access to these customers; (iv) the Executive has generated and will continue to generate goodwill for the Company in the course of the Executive's employment and (v) the Executive's services are unique and irreplaceable. Therefore, in consideration of the Executive's continued employment with the Company, of the compensation and benefits provided to the Executive under this Agreement, of MFA's agreement to make severance benefits available pursuant to Section 5, and of the Executive's being granted access to the customers, trade secrets and other Confidential Information of the Company, the Executive agrees that the following restrictions on the Executive's activities during and after the Executive's employment are necessary, appropriate and reasonable to protect the goodwill, Confidential Information and other legitimate interests of the Company from unfair and inappropriate competition:

(i) During the Restricted Period, the Executive will not, without the prior written consent of MFA, within the United States, manage, operate, control or be connected as a stockholder (other than as a holder of shares publicly traded on a stock exchange or the NASDAQ National Market System, provided that the Executive shall not own more than five percent of the outstanding shares of any publicly traded company) or partner with, or serve as an officer, director, employee or consultant of, any Competitor.

(ii) During the Restricted Period, the Executive will not, without the prior written consent of MFA, directly or indirectly (individually, or through or on behalf of another entity as owner, partner, agent, employee, consultant, or in any other capacity), engage in any activity intentionally to interfere with, disrupt, diminish or damage the business of the Company, or its

relationship with any client, supplier or other business relationship of the Company.

(iii) During the Executive's employment with the Company and during the period commencing on the Executive's date of termination of employment for any reason and ending on the second anniversary of the Executive's termination of employment, the Executive will not, without the prior written consent of MFA, directly or indirectly (individually, or through or on behalf of another entity as owner, partner, agent, employee, consultant, or in any other capacity), (A) solicit, encourage, or engage in any activity to induce any employee of MFA or its affiliates to terminate employment with MFA or its affiliates, or to become employed by, or to enter into a business relationship with, any other person or entity; or (B) hire or retain any person who was an employee of MFA or its affiliates within the six month period preceding such action; provided that, (x) this Section 7(b)(iii) shall not apply to any administrative employee of MFA or its affiliates or any person who was an administrative employee of MFA or its affiliates and (y) any hiring or solicitation pursuant to a general solicitation conducted by an entity that has hired or agreed to hire the Executive and that does not directly or indirectly target current or former employees of MFA or its affiliates, or by a headhunter employed by such entity, which in either case does not involve the Executive, shall not be a violation of this Section 7(b)(iii).

(c) MFA Materials. The Executive acknowledges that all originals and copies of materials, records and documents generated by him or coming into his possession during his employment by MFA are the sole property of MFA ("MFA Materials"). During his employment, and at all times thereafter, the Executive shall not remove, or cause to be removed, from the premises of MFA, copies of any record, file, memorandum, document, computer related information or equipment, or any other item relating to the business of MFA, except in furtherance of his duties under this Agreement. When the Executive terminates his employment with MFA, or upon request of MFA at any time, the Executive shall promptly deliver to MFA all originals and copies of MFA Materials in his possession or control and shall not retain any originals or copies in any form. The Executive further agrees to delete or destroy any and all documents, files and/or backup files containing MFA Materials on any computer or storage device owned by and/or within the care, custody or control of the Executive.

(d) No Disparagement. Each of the Executive and MFA agrees that, except as required by applicable law or compelled by process of law or as otherwise permitted pursuant to Section 7(g), during and after the Term of Employment they shall not make any derogatory, disparaging or critical statement about the other party hereto or, further in the case of statements by the Executive about (i) MFA, its parent, affiliates, or subsidiaries, if any; (ii) any product or service provided by MFA and its parent, affiliates or subsidiaries, if any; or (iii) MFA's and its parent's, affiliates' or subsidiaries', if any, prospects for the future. Nothing in this Section 7(d) shall (A) prohibit either MFA or the Executive from testifying truthfully in any legal or administrative proceeding or from truthfully responding to any untrue statement by the other

party or (B) prohibit the Executive from making truthful statements in the course of carrying out his duties for MFA.

(e) Cooperation with Respect to Litigation. During the Term of Employment and at all times thereafter, the Executive agrees to give prompt written notice to MFA of any claim against the Company after becoming aware of such claim and (to the extent reasonably requested by MFA) to reasonably cooperate, in good faith and to the best of his ability, with MFA in connection with any and all pending, potential or future claims, investigations or actions which directly or indirectly relate to any action, event or activity about which the Executive may have knowledge in connection with or as a result of his employment by the Company. Such cooperation will include all assistance that MFA, its counsel or representatives may reasonably request, including reviewing documents, meeting with counsel, providing factual information and material, and appearing or testifying as a witness; provided, however, that MFA will promptly reimburse the Executive for all reasonable expenses, including travel, lodging and meals, incurred by him in fulfilling his obligations under this Section 7(e) and, except as may be required by law or by court order, should the Executive then be employed by an entity other than MFA, such cooperation will not materially interfere with the Executive's then current employment.

(f) Remedies.

i. The Executive agrees that these restraints are necessary for the reasonable and proper protection of the Company and its trade secrets and Confidential Information and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area, and that these restraints, individually or in the aggregate, will not prevent the Executive from obtaining other suitable employment during the period in which the Executive is bound by the restraints. The Executive agrees that, before providing services, whether as an employee or consultant, to any entity during the Restricted Period, the Executive will provide a copy of this Agreement to such entity, and such entity shall acknowledge to MFA in writing that it has read this Agreement. Notwithstanding the foregoing terms, nothing in this Section 7 shall otherwise restrict or limit the Executive from providing services following the termination of the Executive's employment that are not expressly prohibited by the restrictions herein.

ii. The Executive acknowledges that each of these covenants has a unique, very substantial and immeasurable value to the Company, that the Executive has sufficient assets and skills to provide a livelihood while such covenants remain in force and that, as a result of the foregoing, in the event that the Executive breaches such covenants, monetary damages would be an insufficient remedy for the Company and equitable enforcement of the covenant would be proper. The Executive therefore agrees that the Company, in addition to any other remedies available to it, will be entitled to preliminary and permanent injunctive relief against any breach by the

Executive of any of those covenants, without the necessity of showing actual monetary damages or the posting of a bond or other security. The Executive also agrees that, in addition to any other remedies available to the Company and notwithstanding any provision of this Agreement to the contrary, in the event Executive breaches in any material respect any of his obligations under this Section 7, the Company may immediately cease all payments under Sections 5(a), 5(b), 5(c), 5(d), or 5(g) as applicable, all equity-based awards granted under this Agreement may be immediately forfeited, and the Company may require that the Executive repay any after-tax amounts previously paid to the Executive under Sections 5(a), 5(b), 5(c) or 5(d), as applicable, and any stock delivered or other amounts paid (each on an after-tax basis) with respect to any equity-based awards granted under this Agreement.

iii. The Executive and MFA further agree that, in the event that any provision of this Section 7 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, that provision will be deemed to be modified to permit its enforcement to the maximum extent permitted by law. The Executive further covenants that the Executive will not challenge the reasonableness or enforceability of any of the covenants set forth in this Section 7, it being understood that the Executive shall not be considered to have challenged the enforceability of this Section 7 by arguing that his conduct did not, in fact, violate the terms of this Section 7. The Executive further covenants that he will reimburse MFA and its affiliates for all costs (including reasonable attorneys' fees) incurred in connection with any action to enforce any of the provisions of this Section 7 if either MFA and/or its affiliates prevails on any material issue involved in such dispute or if the Executive challenges the reasonability or enforceability of any of the provisions of this Section 7. It is also agreed that each of MFA's affiliates will have the right to enforce all of the Executive's obligations to that affiliate under this Agreement, including without limitation pursuant to this Section 7.

(g) Permitted Conduct.

i. Nothing in this Agreement, including the obligations set forth in this Section 7, restricts or prohibits the Executive from initiating communications directly with, responding to any inquiries from, providing testimony before, providing confidential information to, reporting possible violations of law or regulation to, or from filing a claim or assisting with an investigation directly with a self-regulatory authority or a government agency or entity, including the U.S. Equal Employment Opportunity Commission,

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

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

8. Indemnification. MFA shall indemnify the Executive to the fullest extent permitted by Maryland law as amended from time to time in connection with the Executive’s duties with MFA, against all costs, expenses, liabilities and losses (including, without limitation, attorneys’ fees, judgments, fines, penalties, ERISA excise taxes and amounts paid in settlement) actually and reasonably incurred by the Executive in connection with an action, suit or proceeding. While the Executive is an officer of MFA, and for six years thereafter, MFA (or any successor thereto) shall provide comprehensive coverage under its officers and directors insurance policy (or policies) on substantially the same terms and levels that it provides to its senior executive officers, at MFA’s sole cost.

9. Clawback Policy. The Executive agrees that all bonuses, equity compensation and other incentive compensation provided by the Company shall be subject to any applicable clawback policy implemented by the Board of Directors from time to time.

10. Assignability; Binding Nature. This Agreement shall inure to the benefit of MFA and the Executive and their respective successors, heirs (in the case of the Executive) and assigns. No rights or obligations of MFA under this Agreement may be assigned or transferred by MFA except that any such rights or obligations may be assigned or transferred pursuant to a merger or consolidation in which MFA is not the continuing entity, or the sale or liquidation of all or substantially all of the assets of MFA, provided that the assignee or transferee is the

successor to all or substantially all of the assets of MFA and such assignee or transferee assumes the liabilities, obligations and duties of MFA, as contained in this Agreement, either contractually or as a matter of law. This Agreement shall not be assignable by the Executive; provided however that, in the event of the Executive's death or a judicial determination of his incapacity, references to the Executive in this Agreement shall be deemed, as appropriate, to be references to his heirs, executor(s) or other legal representative(s).

11. Representation. MFA and the Executive each represent and warrant that it or he is fully authorized and empowered to enter into this Agreement and that its or his entering into this Agreement and the performance of its or his obligations under this Agreement will not violate any agreement to which it or he is a party.

12. Entire Agreement. This Agreement contains the entire agreement between MFA and the Executive concerning the subject matter hereof and upon the Effective Date supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between them with respect thereto, including without limitation, the Former Employment Agreement, except as otherwise provided in Section 3(b)(iii).

13. Amendment or Waiver. This Agreement can only be changed, modified or amended in a writing that is signed by both the Executive and MFA and that specifically identifies the provision(s) of this Agreement that are being changed, modified or amended. No waiver by either MFA or the Executive at any time of any breach by the other party of any condition or provision of this Agreement shall be deemed a waiver of a similar or dissimilar condition or provision at the same or at any prior or subsequent time. Any waiver must be in writing and signed by the Executive or the Board of Directors, as the case may be.

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

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

16. Survivorship. The respective rights and obligations of the parties hereunder shall survive any termination of this Agreement to the extent necessary to the intended preservation of such rights and obligations. For the avoidance of doubt, the covenants in Section 7 of this Agreement shall survive any termination or expiration of this Agreement and termination of the Executive's employment for any reason.

17. Governing Law. This Agreement, the rights and obligations of the parties hereto, and any claims or disputes relating thereto, shall be governed by and construed in accordance with the laws of the State of Maryland (without regard to its choice of law provisions). Each of the parties agrees that any dispute between the parties shall be resolved only in the courts of the

State of Maryland or the United States District Court for the District of Maryland and the appellate courts having jurisdiction of appeals in such courts. In that context, and without limiting the generality of the foregoing, each of the parties hereto irrevocably and unconditionally (a) submits for himself or itself in any proceeding relating to this Agreement or the Executive's employment by MFA or any affiliate, or for the recognition and enforcement of any judgment in respect thereof (a "Proceeding"), to the exclusive jurisdiction of the courts of the State of Maryland, the court of the United States of America for the District of Maryland, and appellate courts having jurisdiction of appeals from any of the foregoing, and agrees that all claims in respect of any such Proceeding shall be heard and determined in such Maryland State court or, to the extent permitted by law, in such federal court; (b) consents that any such Proceeding may and shall be brought in such courts and waives any objection that he or it may now or thereafter have to the venue or jurisdiction of any such Proceeding in any such court or that such Proceeding was brought in an inconvenient court and agrees not to plead or claim the same; (c) waives all right to trial by jury in any Proceeding (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the Executive's employment by MFA or any affiliate, or his or its performance under or the enforcement of this Agreement; (d) agrees that service of process in any such Proceeding may be effected by mailing a copy of such process by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such party at his or its address as provided in Section 19; and (e) agrees that nothing in this Agreement shall affect the right to effect service of process in any other manner permitted by the laws of the State of Maryland.

18. Legal Fees.

a. MFA shall pay directly all reasonable legal fees incurred by the Executive in connection with the negotiation, preparation and execution of this Agreement up to \$10,000.

b. Subject to Section 7(f), MFA shall reimburse the Executive (and his beneficiaries) any reasonable costs and expenses (including, without limitation, reasonable attorneys' fees and other reasonable costs of counsel) incurred by the Executive (or any of his beneficiaries) in resolving any controversy, dispute or claim arising out of or relating to this Agreement (including, for the avoidance of doubt, with respect to any equity grant described in this Agreement), if the Executive (or his beneficiaries) is the prevailing party with respect to at least one material issue asserting a material breach of such Agreement by the Company.

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

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

21. Counterparts. This Agreement may be executed in two or more counterparts. Signatures delivered by facsimile (including by “pdf”) shall be deemed effective for all purposes.

[Signature page follows. Remainder of page intentionally left blank.]

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

MFA FINANCIAL, INC.

By: /s/ George H. Krauss

Name: George H. Krauss

Title: Chairman of the Board

EXECUTIVE:

By: /s/ Craig L. Knutson

Name: Craig L. Knutson

Exhibit A

Annual Performance Bonus

The following summarizes the material terms of the annual bonus (“Annual Bonus”) set forth in Section 3(b) of the Agreement to which this Exhibit A is attached. Unless otherwise specified in this Exhibit A, all defined terms have the meanings set forth in the Agreement.

1. Performance Period. The Annual Bonus shall be payable for each of the 12-month performance periods beginning each December 1 during the Term of Employment (each, a “Performance Period”).

The Executive shall be eligible to receive the Annual Bonus only if the Executive remains employed by the Company through the date on which the Annual Bonus is paid, except as provided in the two next following sentences. The Executive shall receive any unpaid Annual Bonus for the Performance Period immediately preceding the Executive’s date of termination if the Executive’s employment is terminated by the Company without Cause or by the Executive for Good Reason, or if the Executive’s employment is terminated by death or Disability or due to an Eligible Retirement pursuant to Section 5(d) of the Agreement, subject to compliance with Section 5(k) of the Agreement (except in the event of death). In addition, in the event of the Executive’s Eligible Retirement pursuant to Section 5(d) of the Agreement or the Executive’s termination of employment in connection with a Change of Control pursuant to Section 5(g) of the Agreement, the Executive shall receive a pro-rated portion of the Annual Bonus for the partial Performance Period in which the date of termination occurs in an amount equal to the Target Bonus, multiplied by a fraction, the numerator of which is the number of completed calendar days during the applicable Performance Period that the Executive was actively employed by MFA, and the denominator of which is 365, subject to compliance with Section 5(k) of the Agreement.

Except as set forth in the immediately preceding sentence, any Annual Bonus shall be subject to achievement of the performance goals described herein. In no event shall the Executive receive any unpaid Annual Bonus in the event the Executive’s employment is terminated by the Company for Cause or by the Executive (other than for Good Reason as described above).

2. Target Bonus. For each Performance Period, the Executive’s target annual cash bonus (the “Target Bonus”) shall be \$2,000,000. The Compensation Committee may increase or decrease the Executive’s Target Bonus for a Performance Period; provided that, the Executive’s Target Bonus may only be decreased if such decrease is part of an overall Company reduction of executive target bonuses and the applicable decrease (on a percentage basis) is substantially equivalent to that applicable to other senior executives of MFA. The Executive is eligible to receive an Annual Bonus from zero to two times the Target Bonus for each Performance Period, based on performance goals established by the Compensation Committee for such Performance Period. The performance goals will be based on MFA’s return on average equity, the Executive’s individual performance and MFA performance and risk management, as described below, relative to target goals established by the Compensation Committee for the applicable Performance Period.

3. Performance Components. The Annual Bonus shall consist of two components:

75% of the Annual Bonus shall be payable based on MFA's return on average equity ("ROAE") and such portion of the Annual Bonus, the "ROAE Bonus").

25% of the Annual Bonus shall be payable based on the Executive's individual performance and on MFA performance and risk management (such portion of the Annual Bonus, the "IRM Bonus").

4. Definition of ROAE.

For purposes of the ROAE Bonus: "ROAE" means (i) MFA Return, divided by (ii) MFA Average Equity, for the 12 month Performance Period.

"MFA Return" means net income as determined in accordance with GAAP, but excluding non-cash expense items such as depreciation expense, amortization of goodwill, life-of-loan loss reserves recorded at acquisition under the Current Expected Credit Losses accounting standard (ASU 2016-13), write off of offering expenses incurred in connection with the redemption of equity and/or debt and other non-cash expense items as determined by the Compensation Committee in its sole discretion for the applicable Performance Period. If, for any portion of any Performance Period, (i) MFA does not use hedge accounting or (ii) its derivative hedging instruments or any portion thereof are otherwise deemed ineffective, which in either case, results in changes in the value of such hedging instruments being recorded in MFA's GAAP income statement, then any gains or losses from such hedging instruments will also be excluded from the calculation of MFA Return.

"MFA Average Equity" means the stockholders' equity of MFA as determined in accordance with GAAP, but excluding accumulated other comprehensive income or loss (which, among other things, reflects unrealized gains or losses in MFA's residential mortgage-backed securities portfolio), stockholders' equity attributable to preferred stock and other items as determined by the Compensation Committee in its sole discretion for the applicable Performance Period. For purposes of calculating ROAE, MFA Average Equity shall be determined based on the average of MFA's stockholders' equity calculated as described in the preceding sentence as of the last day of each month during the applicable Performance Period.

5. ROAE Bonus

For each Performance Period, the target amount of the ROAE Bonus will be equal to 75% of the Target Bonus, and the Executive shall be eligible to receive from zero to two times such target amount of ROAE Bonus based on the achievement of the threshold, target, and maximum ROAE performance goals established by the Compensation Committee for the Performance Period, which shall be established within ninety (90) days following commencement of the applicable Performance Period. If performance is between threshold and target goals or between target and maximum goals, the amount of the ROAE Bonus will be determined by straight line interpolation.

6. IRM Bonus

For each Performance Period, the target amount of the IRM Bonus will be equal to 25% of the Target Bonus, and the Executive shall be eligible to receive from zero to two times the target amount of such IRM Bonus. The amount of the IRM Bonus shall be determined by the Compensation Committee in its sole discretion, based upon any factors deemed relevant and appropriate by the Compensation Committee in its sole discretion, including without limitation:

MFA's leverage strategy relative to business plan and peers;

MFA's total stockholder return relative to the S&P financial index or other relevant indices;

MFA's total stockholder return relative to its peer group;

MFA's absolute total stockholder return;

MFA's other asset management activities; and

The Executive's individual performance.

7. Form of Payment

For each Performance Period, the sum of the ROAE Bonus and the IRM Bonus shall equal the Annual Bonus. The Annual Bonus shall be paid in cash between January 1 and March 15 following the end of the Performance Period.

8. Committee Determinations

All determinations with respect to the Annual Bonus, including the amount, if any, which is payable to the Executive for each Performance Period, shall be made by the Compensation Committee, in good faith and in compliance with this Exhibit A. Any such determinations shall be final and binding on the Executive and MFA.

Exhibit B

Summary of the Company's Long Term Incentive Program

The following summarizes certain material components of the Company's Long Term Incentive Program as applicable to grants under Section 3(c) of the Agreement to which this Exhibit B is attached. Notwithstanding any provision of the Agreement or this Exhibit B, all grants under Section 3(c) of the Agreement shall be subject to, and consistent with, the terms and conditions of the Equity Compensation Plan and the Award Agreements. Unless otherwise specified in this Exhibit B, all defined terms have the meanings set forth in the Agreement.

1. Annual Grants.

To the extent that the Executive is still employed by MFA on each applicable grant date, within the first five trading days of each calendar year during the Term of Employment, the Executive shall receive grants of restricted stock units subject to time vesting ("TRSUs") and restricted stock units which vest based on the achievement of performance goals ("PRSUs"). The TRSU and PRSU grants shall be subject to the terms of the applicable Award Agreements and the Equity Compensation Plan.

2. TRSUs

The annual grant of TRSUs will provide for a grant of TRSUs with respect to a number shares of MFA common stock equal to a specified dollar value (the "TRSU Grant Date Value") divided by the closing price of MFA common stock on the date of grant, rounded to the nearest whole share. The TRSU Grant Date Value shall be equal to \$1,040,000, provided that, the Committee may increase or decrease such amount for any annual grant of TRSUs made in 2022 and future years, upon reasonable notice and consultation with the Executive.

The TRSUs will become fully vested on the third December 31 following the date of grant, provided that the Executive remains employed for the entire vesting period and subject to vesting as set forth in the applicable Award Agreement, and as described in Sections 5(a), 5(b), 5(c), 5(d) and 5(g) of the Agreement. Any unvested TRSUs shall be forfeited as of the date of Executive's termination of employment, except as provided in the applicable Award Agreement, as described in Sections 5(a), 5(b), 5(c), 5(d) and 5(g) of the Agreement.

Upon the settlement date set forth in the applicable Award Agreement, the Executive will receive one share of common stock of MFA for each vested TRSU.

In the event that dividends are declared with respect to the common stock of MFA during the period in which the TRSUs are outstanding, the Executive shall be credited with an amount, per TRSU, equal to the amount of dividends declared and paid in respect of one share of common stock of MFA. Such credited amount will be credited in the form of additional TRSUs (such TRSUs, "DER TRSUs"), based on the fair market value of a share of common stock of MFA on the payment date of the cash dividend (rounded to the nearest whole share). The DER TRSUs will include the right to receive additional DER TRSUs with respect to any additional dividends

declared and will be subject to the same terms and conditions (including with respect to vesting and payment timing) applicable to the grant of the TRSUs with respect to which such DER TRSUs were credited, provided that the DER TRSUs shall be paid in cash (and not in shares), based on the fair market value of a share of common stock of MFA as of the date of vesting.

3. PRSUs

As further described below, 50% of each annual grant of PRSUs (the “Absolute TSR PRSUs”) will vest based on MFA’s average total shareholder return (“Average TSR”) for the three year performance period beginning on January 1 of the year of grant (the “TSR Performance Period”), and 50% of each annual grant of PRSUs (the “Relative TSR PRSUs”) will vest based on MFA’s TSR compared to the TSR of designated peer group companies, as set forth in the applicable Award Agreement, during the TSR Performance Period.

Each annual grant of PRSUs will provide for a target grant of Absolute TSR PRSUs (the “Absolute TSR Target Award”) and a target grant of Relative TSR PRSUs (the “Relative TSR Target Award”).

The Absolute TSR Target Award shall be a number of PRSUs equal to (a) divided by (b), where (a) is equal to 50% of the PRSU Grant Date Value and (b) is equal to the grant date fair value per unit of one Absolute TSR PRSU. The Relative TSR Target Award shall be a number of PRSUs equal to (a) divided by (b), where (a) is equal to 50% of the PRSU Grant Date Value and (b) is equal to the grant date fair value per unit of one Relative TSR PRSU. The PRSU Grant Date Value shall be equal to \$1,810,000, provided that, the Committee may increase or decrease such amount for any annual grant of PRSUs made in 2022 and future years, upon reasonable notice and consultation with the Executive.

Each TSR Performance Period shall be the three-year period beginning on January 1st of the calendar year in which the applicable grant of PRSUs is made.

The PRSUs will vest on the last day of the applicable TSR Performance Period, to the extent that the total shareholder return performance goals described below are achieved, provided that the Executive remains employed for the entire vesting period and subject to vesting as set forth in the applicable Award Agreement, as described in Sections 5(a), 5(b), 5(c), 5(d) and 5(g) of the Agreement. Any unvested PRSUs shall be forfeited as of the date of Executive’s termination of employment, except as provided in the applicable Award Agreement, as described in Sections 5(a), 5(b), 5(c), 5(d) and 5(g) of the Agreement.

Upon the settlement date set forth in the applicable Award Agreement, the Executive will receive one share of common stock of MFA for each vested PRSU. Notwithstanding anything to the contrary in this Exhibit B, the fair market value of the shares of MFA common stock delivered, measured as of the last day of the Performance Period (or, if earlier, the date on which the PRSUs are settled pursuant to terms of the applicable Award Agreement), shall not exceed 400% of the fair market value of the target amount of PRSUs measured on the grant date (the

“Maximum Cap”), and any and all amounts otherwise payable pursuant to the applicable Award Agreement in excess of the Maximum Cap shall be forfeited, provided that, payment with respect to the dividend equivalent rights described below for dividends declared and paid following the end of the Performance Period shall not count against the Maximum Cap.

For purposes of the PRSUs, TSR of MFA and each applicable peer group company for the vesting period shall be calculated as follows:

“TSR” is equal to (x) the Average Final Price minus the Average Initial Price, plus Dividends Paid on common stock in respect of the TSR Performance Period, divided by (y) the Average Initial Price.

The “Average Initial Price” is equal to the average of the daily closing price of common stock during the last 20 trading days immediately prior to the first day of the TSR Performance Period.

The “Average Final Price” is equal to the average of the daily closing price of common stock during the last 20 trading days in the TSR Performance Period.

The “Dividends Paid” shall equal the cumulative dividends (including any stock dividends) paid per share of common stock in respect of the TSR Performance Period. For this purpose, dividends declared, but not yet paid, on a share within the 45 day period preceding the applicable vesting date will be counted as Dividends Paid. Notwithstanding the foregoing, if any dividends were included in Dividends Paid for purposes of calculating TSR for the year prior to the year in which the TSR Performance Period commences, then such dividends will not be included in Dividends Paid for purposes of calculating TSR for any subsequent performance period.

Absolute TSR PRSUs

For purposes of the TSR PRSUs, the “Average TSR” for the Performance Period is the TSR, divided by 3, and the “Target TSR” is an 8% per annum simple cumulative return over the TSR Performance Period. MFA’s Average TSR will be compared to the Target TSR to determine whether and to what extent the Absolute TSR PRSUs will vest.

The number of Absolute TSR PRSUs that will vest at the end of the Performance Period shall be determined by comparing the MFA’s Average TSR to the Target TSR (8% per year), up to a maximum vesting of 200% of the Absolute TSR Target Award (subject to the Maximum Cap described above). Any Absolute TSR PRSUs that do not vest at the end of the TSR Performance Period shall be forfeited.

Example Calculations

Set forth below are examples addressing vesting of Absolute TSR PRSUs. The examples below are intended to be used purely for illustrative purposes and assume that the Absolute TSR Target Award for the applicable grant of Absolute TSR PRSUs is equal to 100,000, and assume that the Maximum Cap does not apply.

Example 1:

If MFA's Average TSR over the TSR Performance Period was 2%, then the portion of the Absolute TSR PRSUs that would be eligible to vest would be equal to: (2/8) of the Absolute TSR Target Award, or 25,000 PRSUs.

Example 2:

If MFA's Average TSR over the TSR Performance Period was 12%, then the portion of the Absolute TSR PRSUs that would be eligible to vest would be equal to: (12/8) of the Absolute TSR Target Award, or 150,000 PRSUs.

Example 3:

If MFA's Average TSR over the TSR Performance Period was 16%, then the portion of the Absolute TSR PRSUs that would be eligible to vest would be equal to (16/8) of the Absolute TSR Target Award, or 200,000 PRSUs (maximum vesting).

Relative TSR PRSUs

At the end of each TSR Performance Period, MFA's TSR and the TSR of each of the designated peer group companies will be ranked from highest to lowest, and the "Relative TSR Vesting Percentage" shall be determined based on MFA's TSR as compared to the TSR of the designated peer group companies for the TSR Performance Period as follows:

| MFA's TSR Rank | Relative TSR Vesting Percentage |
|--------------------------|--|
| 80th percentile or above | 200% |
| 50th percentile | 100% |
| 25th percentile or below | 0% |

If MFA's TSR Rank is between the 25th percentile and the 50th percentile, or between the 50th percentile and the 80th percentile, the Relative TSR Vesting Percentage will be interpolated.

Notwithstanding the provisions set forth above, in the event that the MFA's TSR is a negative number, the Relative TSR Vesting Percentage shall not exceed 100%.

The number of Relative TSR PRSUs that will vest for the TSR Performance Period shall be determined by multiplying the Relative TSR Target Award by the Relative TSR Vesting Percentage.

For the avoidance of doubt, in no event shall any Relative TSR PRSUs vest if MFA's TSR Rank is at or below the 25th percentile.

The Executive shall not be eligible to receive more than 200% of the Relative TSR Target Award based on MFA's TSR Rank.

Example Calculations

Set forth below are examples addressing vesting of Relative TSR PRSUs. The examples below are intended to be used purely for illustrative purposes and assume that the Relative TSR Target Award for the applicable grant of Relative TSR PRSUs is equal to 100,000, MFA's TSR is a positive number, and the Maximum Cap does not apply.

Example 1:

If MFA's TSR Rank at the end of the TSR Performance Period was 15 out of 18, MFA would be in the 17th percentile. Because MFA's TSR Rank would be below the 25th percentile, the Relative TSR Vesting Percentage would be equal to 0, so that none of the Relative TSR Target Award would become vested. 100% of the Relative TSR Target Award for that TSR Performance Period would be forfeited.

Example 2:

If MFA's TSR Rank at the end of the TSR Performance Period was nine out of 18, MFA would be in the 50th percentile. The Relative TSR Vesting Percentage would be equal to 100, so that 100% of the Relative TSR Target Award (100,000 PRSUs) would become vested.

Example 3:

If MFA's TSR Rank at the end of the TSR Performance Period was two out of 18, MFA would be in the 89th percentile. The Relative TSR Vesting Percentage would be equal to 200, so that 200% of the Relative TSR Target Award (200,000 PRSUs) would become vested.

Dividend Equivalent Rights on PRSUs

In the event that dividends are declared with respect to the common stock of MFA during the period beginning on the grant date of the PRSUs and ending on the last day of the Performance Period, or if earlier, the date on which the PRSUs are settled (such period, the "Dividend Period"), then an amount equal to the dividends that the Executive would have received if the Executive had owned a number of shares of MFA common stock equal to the number of outstanding PRSUs as of the date the dividend is declared shall be accrued in a bookkeeping account. Accrued dividend amounts shall only be payable, as described below, to the extent that the underlying PRSUs vest and are distributed.

When vested PRSUs (whether Absolute TSR PRSUs or Relative TSR PRSUs) are distributed to the Executive, the Executive shall receive additional shares of MFA stock equal in value to the accumulated dividends applicable to the shares distributed with respect to the vested PRSUs.

The number of shares to be distributed with respect to such accrued dividend amounts shall be calculated as follows: (i) the accumulated dividends declared per share of MFA common stock during the Dividend Period, multiplied by (ii) the number of shares of MFA stock distributed with respect to vested PRSUs, divided by (iii) the per share stock price of MFA common stock on the last day of the Performance Period, or if earlier, the date on which the PRSUs are settled, rounded down to the nearest whole share. Such additional shares shall be delivered on the same day as the vested PRSUs are distributed. In the event that dividends are declared with respect to the common stock of MFA during the period beginning on the date immediately following the end of the Performance Period and ending on the date on which the PRSUs are settled, then an amount equal to the dividends that the Executive would have received if the Executive had owned a number of shares of MFA common stock equal to the number of outstanding PRSUs as of the date the dividend is declared shall be paid to the Executive in cash on the date such dividend is paid to shareholders of MFA common stock.

4. Withholding Obligations

The parties hereto acknowledge and understand that MFA or the Executive may require or elect (as the case may be) that the Executive satisfy any federal, state or local tax withholding obligation with respect to TRSUs and PRSUs by withholding shares from the shares otherwise issuable to the Executive, provided that such shares shall not exceed the minimum applicable tax withholding required by law, or such higher amount that does not result in adverse accounting treatment for the Company, as approved in advance by the Compensation Committee.

5. Committee Determinations

All determinations with respect to the TRSUs and PRSUs shall be made by the Compensation Committee, in good faith and in compliance with this Exhibit B. Any such determinations shall be final and binding on the Executive and MFA.

Exhibit C
Form of TRSU Award Agreement

Exhibit D

Form of PRSU Award Agreement

Exhibit E

Release

This Release of Claims (this “Release”) is made as of _____, by and between MFA FINANCIAL, INC. (“MFA”) and _____ (the “Executive”).

(a) The Executive, on behalf of himself, his agents, heirs, successors, assigns, executors and administrators, in consideration for the termination payments and other consideration provided for under the Employment Agreement entered into by MFA and the Executive, as from time to time amended in accordance with its terms (the “Employment Agreement”), hereby forever releases and discharges MFA, and its successors, its affiliated entities, and, in such capacities, its past and present directors, employees, agents, attorneys, accountants, representatives, plan fiduciaries, successors and assigns from any and all known and unknown causes of action, actions, judgments, liens, indebtedness, damages, losses, claims, liabilities, and demands of whatsoever kind and character in any manner whatsoever arising on or prior to the date of this Release, including but not limited to (i) any claim for breach of contract, breach of implied covenant, breach of oral or written promise, wrongful termination, intentional infliction of emotional distress, defamation, interference with contract relations or prospective economic advantage, negligence, misrepresentation or employment discrimination, and including without limitation alleged violations of Title VII of the Civil Rights Act of 1964, as amended, prohibiting discrimination based on race, color, religion, sex or national origin; the Employee Retirement Income Security Act of 1974 (“ERISA”); the Family and Medical Leave Act; the Americans With Disabilities Act; the Age Discrimination in Employment Act; the Fair Labor Standards Act; the federal Worker Adjustment and Retraining Notification Act; the federal Equal Pay Act; any federal False Claims Act; the Occupational Safety and Health Act; the Fair Credit Reporting Act; the New York State Human Rights Law; the New York City Human Rights Law; the New York Labor Law; the New York Executive Law; New York Equal Pay Law; New York Civil Rights Law; the New York Worker Adjustment and Retraining Notification Act; and any other federal, state and local laws, ordinances and regulations; (ii) any and all liability that was or may have been alleged against or imputed to MFA by the Executive or by anyone acting on his behalf; (iii) all claims for monetary or equitable relief, employment or reemployment with MFA in any position, and any punitive, compensatory or liquidated damages; and (iv) all rights to and claims for attorneys’ fees and costs except as otherwise provided in the Employment Agreement. The only claims that are not being waived and released by the Executive under this Release are (i) claims for indemnification or D&O coverage or any claim arising under, or preserved by, Section 5 of the Employment Agreement, (ii) claims that, cannot be waived as a matter of law or public policy, (iii) claims based on any wrongful act or omission occurring after the date Executive signs this Release, (iv) claims to vested benefits under any compensation or benefit plan, program or arrangement in which the Executive was participating as of the date of termination of his employment, (v) claims seeking enforcement of this Release or the Employment Agreement, and (vi) claims challenging the legality of this Release in a legal proceeding pursuant to the Older Workers Benefit Protection Act and the Age Discrimination in Employment Act. The Executive acknowledges that the Executive has not made any claims or allegations related to discrimination, harassment or sexual abuse and none of

the termination payments and other consideration provided for under the Employment Agreement are related to discrimination, harassment or sexual abuse.

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

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

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

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

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

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

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

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

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

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

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

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

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

IN WITNESS WHEREOF, the parties have hereunto set their hands this _____ day of

_____.

By: _____

Name:

Title:

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “Agreement”) is entered into as of the 22nd day of February, 2021, and effective as of the first day of January, 2021 (the “Effective Date”), by and between MFA Financial, Inc. (“MFA”), and Gudmundur Kristjansson (the “Executive”).

WITNESSETH:

WHEREAS, MFA and the Executive entered into an employment agreement, effective as of January 1, 2020 (the “Former Employment Agreement”);

WHEREAS, MFA and the Executive desire to enter into an amended and restated employment agreement that supersedes and replaces the Former Employment Agreement in all respects as of the Effective Date and sets forth the terms of the Executive’s employment with MFA; and

WHEREAS, the Executive wishes to continue serving MFA, and MFA wishes to secure the continued exclusive services of the Executive, under the terms and conditions described in this Agreement, which will be legally binding on the date the Agreement is executed by the parties hereto.

NOW THEREFORE, in consideration of the foregoing premises and the mutual agreements herein contained, the parties hereto agree as follows:

1. Term of Employment.

(a) MFA hereby employs the Executive, and the Executive hereby accepts employment with MFA, in the positions and with the duties and responsibilities as set forth in Section 2 below for the Term of Employment, subject to the terms and conditions of this Agreement. Except as otherwise provided in Section 3(b)(iii) below, as of the Effective Date of this Agreement, the Former Employment Agreement is terminated.

(b) The term of employment (the “Term of Employment”) under this Agreement shall commence on the Effective Date and continue until December 31, 2021 (the “Initial Term”); provided that, the Term of Employment shall automatically renew for periods of one-year (each an “Extension Term”) unless either party gives the other party written notice at least 90 days prior to the end of the Initial Term or any Extension Term, as applicable, that the Term of Employment shall not be further extended. If the last day of the Initial Term or any Extension Term occurs during a Garden Leave period, the Term of Employment shall continue through the end of such Garden Leave. The Term of Employment may also be terminated in accordance with Section 5 hereof. The Company’s failure to renew the Term of Employment at the end of the Initial Term or any Extension Term, as applicable, shall constitute termination without Cause (as defined below). The Executive’s failure to renew the Term of Employment at

the end of the Initial Term or any Extension Term shall not, by itself, constitute a termination for Good Reason (as defined below).

2. Position; Duties and Responsibilities.

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

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

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

3. Compensation.

(a) Base Salary. During the Term of Employment, the Executive shall be entitled to receive an annualized base salary (the “Base Salary”) of not less than \$400,000. The Compensation Committee of the Board of Directors (the “Compensation Committee”) shall review the Executive’s Base Salary annually to determine whether increases or decreases are appropriate; provided that, the Executive’s Base Salary may only be decreased if such decrease is part of an overall Company reduction of executive base salaries and the applicable decrease (on a percentage basis) is substantially equivalent to that applicable to other senior executives of MFA.

(b) Performance Bonus.

(i) During the Term of Employment, the Executive shall be eligible to receive an annual bonus for the 12-month performance periods beginning each December 1 during the Term of Employment, according to the terms set forth on the attached Exhibit A. The Compensation Committee shall make all determinations with respect to the annual bonus in good faith and consistent with the attached Exhibit A.

(ii) The annual bonus shall be paid in cash as set forth on Exhibit A. The annual bonus that is payable for any performance period will be paid between January 1 and March 15 following the end of the performance period.

(iii) Any annual bonus for the 12-month period beginning on December 1, 2019 shall be determined and paid in accordance with the terms of the Former Employment Agreement, but in no event may such bonus be paid to the Executive later than March 15, 2021.

(c) Equity Compensation. To the extent that the Executive is still employed by MFA on each applicable grant date, within the first five trading days of each calendar year during the Term of Employment, the Company shall grant to the Executive a time-based RSU award and a performance-based RSU award, each of which shall be granted according to the terms set forth on the attached Exhibit B, the terms of the MFA Financial, Inc. Equity Compensation Plan or any successor thereto (the "Equity Compensation Plan") (which, for the avoidance of doubt, shall not be inconsistent with the terms set forth on Exhibit B), and the terms set forth in the form time-based RSU award agreement and the form performance-based RSU award agreement attached hereto as Exhibits C and D, respectively (the "Award Agreements"). In the event of any inconsistency between the terms of this Agreement and the Award Agreements, the terms of the Award Agreements shall govern.

(d) Stock Ownership Requirements. All shares of MFA stock distributed to the Executive by the Company under this Agreement or otherwise shall be subject to the stock ownership guidelines in effect for executives from time to time, as determined by the Board of Directors. Unless the stock ownership guidelines provide otherwise, vested shares of equity grants cannot be transferred or sold during the Executive's employment by the Company unless and until the value of the Executive's stock holdings in MFA (including shares of restricted stock and RSUs (with any RSUs that vest based on performance valued at target)) exceeds four times the Executive's Base Salary; and following the termination of Executive's employment with the Company, vested shares of equity grants may not be sold or transferred to the extent the value of the Executive's stock holdings does not exceed four times the Executive's Base Salary as of the date of the Executive's termination of employment (provided, however, that this sentence shall no longer apply following the six-month anniversary of the Executive's termination of employment). Notwithstanding the foregoing, the restrictions of this subsection (d) shall not prevent Executive from selling shares of MFA stock to satisfy income tax and employment tax obligations relating to the vesting and settlement of the equity grants to which the shares relate.

4. Employee Benefit Programs and Fringe Benefits. The Executive shall be entitled to at least 25 days in the aggregate of vacation and paid time off for each calendar year during the Term of Employment and shall be entitled to participate in all executive incentive and employee benefit programs of MFA now or hereafter made available to MFA's senior executives or salaried employees generally, as such programs may be in effect from time to time. The Executive shall be entitled to sick leave in accordance with applicable law and MFA policies. MFA shall reimburse the Executive for any and all necessary, customary and usual business

expenses incurred by Executive in connection with his employment in accordance with applicable MFA policies.

5. Termination of Employment.

(a) Termination Due to Disability. If the Executive's employment is terminated during the Term of Employment by reason of the Executive's Disability, the Executive's Term of Employment shall terminate automatically without further obligations to the Executive under this Agreement except as provided in this Section 5(a) and Section 5(g) below. In addition, and if the requirements of Section 5(j) are met:

(i) The Executive shall receive cash payments in an aggregate amount equal to the sum of (A) Executive's then current Base Salary and (B) the median of the annual bonuses paid to the Executive for the three calendar years preceding such termination (the "Median Bonus"), with such amount to be paid in cash in equal ratable installments in accordance with applicable MFA payroll practices over the 12 month period following such termination. Such installment payments shall commence as soon as possible (without undue delay), but in any event within 60 days following the date of termination on account Disability, and the first payment shall include any unpaid installments for the period prior to commencement. Notwithstanding the foregoing, in the event that the Executive's employment is terminated on account of Disability and such termination occurs within 12 months following a Change of Control (as defined below), in lieu of payment in the form of installments, the sum of the amounts set forth in the preceding clauses (A) and (B) shall be paid in a lump sum cash payment as soon as possible (without undue delay), but in any event within 60 days following the date of termination on account of Disability.

(ii) The Executive shall receive any unpaid Annual Bonus (as defined in Exhibit A) for the Performance Period (as defined in Exhibit A) immediately preceding the Executive's date of termination, which shall be paid at the time set forth in Exhibit A.

(iii) The Company shall reimburse the Executive for 100% of the COBRA premiums incurred by the Executive for the Executive and his eligible dependents under the Company's health care plan during the 18 month period following the Executive's termination of employment. Such reimbursement shall be provided on the payroll date immediately following the date on which the Executive remits the applicable premium payment and shall commence within 60 days after the termination date; provided that the first payment shall include any reimbursements that would have otherwise been payable during the period beginning on the Executive's termination date and ending on the date of the first reimbursement payment. Reimbursement payments shall be treated as taxable compensation to the Executive to the extent required by law.

(iv) All of the Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares, RSUs and stock options) shall be treated in accordance with the following and paid at the time set forth in the applicable Award Agreement:

A. Except as otherwise provided in (C) below, all unvested awards shall immediately vest.

B. All vested options shall remain exercisable until the earlier of (x) 90 days following the date of such termination or (y) the date on which each such option would have expired had the Executive's employment not terminated.

C. Any equity award that is subject to vesting based on the achievement of performance goals shall vest in accordance with the terms and conditions applicable to such award, determined as though the Executive remained actively employed through the end of the applicable performance period, provided that if the Executive's date of termination occurs within 12 months following a Change of Control, such award shall become immediately vested with respect to the target number of shares subject to such award.

(b) Termination Due to Death. If the Executive's employment is terminated during the Term of Employment by reason of the Executive's death, the Executive's Term of Employment shall terminate automatically without further obligations to the Executive, his legal representative or his estate, as the case may be, under this Agreement except as provided in this Section 5(b) and Section 5(g) below. In addition:

(i) The Executive's legal representative or his estate, as the case may be, shall receive a lump sum cash payment equal to the sum of (A) Executive's then current Base Salary and (B) the Median Bonus. Such payment shall be made as soon as possible (without undue delay), but in any event within 60 days following the date of the Executive's death.

(ii) The Executive shall receive any unpaid Annual Bonus (as defined in Exhibit A) for the Performance Period (as defined in Exhibit A) immediately preceding the Executive's date of termination, which shall be paid at the time set forth in Exhibit A.

(iii) All of the Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares, RSUs and stock options) shall be treated in accordance with the following and paid at the time set forth in the applicable Award Agreement:

A. Except as otherwise provided in (C) below, all unvested awards shall immediately vest.

B. All vested options shall remain exercisable until the earlier of (x) 90 days following the date of such termination or (y) the date on which each such option would have expired had the Executive's employment not terminated.

C. Any equity award that is subject to vesting based on the achievement of performance goals shall vest in accordance with the terms and conditions applicable to such award, determined as though the Executive remained actively employed through the end of the applicable performance period, provided that if the Executive's date of termination occurs within 12 months following a Change of Control, such award shall become immediately vested with respect to the target number of shares subject to such award.

(c) Termination By MFA Without Cause or By the Executive for Good Reason. In the event the Executive's employment is terminated during the Term of Employment by the Company without Cause or by the Executive for Good Reason (other than for Disability, as described in Section 5(a)), the Executive's Term of Employment shall terminate without further obligations to the Executive under this Agreement, except as provided in this Section 5(c) and Section 5(g) below. In addition and if the requirements of Section 5(j) are met:

(i) The Executive shall be entitled to an amount (the "Severance Amount") equal to one and one-half times the sum of (x) his then current Base Salary, and (y) the Median Bonus, with such amount to be paid in cash in equal ratable installments in accordance with applicable MFA payroll practices over the 18 month period following such termination (the "Severance Period"). The severance payments shall commence within 60 days following the date of termination, and the first payment shall include any unpaid installments for the period prior to commencement.

(ii) The Executive shall receive any unpaid Annual Bonus for the Performance Period immediately preceding the Executive's date of termination, which shall be paid at the time set forth in Exhibit A.

(iii) All of the Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares, RSUs and stock options) shall be treated in accordance with the following and paid at the time set forth in the applicable Award Agreement:

A. Except as otherwise provided in (C) below, any such awards that would otherwise have vested within 12 months following such termination had the Executive continued in employment shall immediately vest.

B. All vested options shall remain exercisable until the earlier of (x) 90 days following the date of such termination or (y) the date on

which each such option would have expired had the Executive's employment not terminated.

C. Any equity award that is subject to vesting based on the achievement of performance goals shall vest in accordance with the terms and conditions applicable to such award; provided that the equity award shall vest no less favorably than the following: the Executive shall vest in a pro-rata portion of the amount determined based on achievement of the performance goals as of the end of the applicable performance period. The pro-rata portion shall be equal to the product of (I) the number of shares subject to such award that would have vested if the Executive had remained employed through the end of the applicable performance period (if any) based on the achievement of the performance goals, and (II) a fraction, the numerator of which is the number of days during the performance period that would have elapsed as of the anniversary of the date of grant of such award next following the Executive's date of termination (but not beyond the end of the applicable performance period), and the denominator of which is the number of days in the performance period. For the avoidance of doubt, nothing in this Section 5(c)(iii)(C) requires vesting of any equity award if and to the extent that the applicable performance goals are not achieved as of the end of the applicable performance period.

The parties agree that a termination of the Executive's employment pursuant to this Section 5(c), Section 5(d), Section 5(f) or Section 5(k) below shall not be a breach of this Agreement and does not relieve either party of its/his other obligations hereunder.

(d) Termination by the Company for Cause or Voluntary Termination by the Executive. In the event the Executive's employment is terminated during the Term of Employment (i) by the Company for Cause, (ii) by the Executive on his own initiative for other than a Good Reason and other than due to the Executive's Disability, or (iii) due to the Executive's failure to renew this Agreement at the end of the Initial Term or any Extension Term, the Executive shall be entitled only to the amounts set forth in Section 5(g) below. For the avoidance of doubt, to the extent that the Executive is no longer legally permitted to work in the United States, the parties acknowledge and agree that the Executive's employment with MFA shall be terminated, and such termination of employment shall be a voluntary termination of employment by the Executive for other than a Good Reason.

(e) Garden Leave. The Executive shall provide a Notice of Termination to the Company no less than 90 days prior to any termination of the Executive's employment (whether for Good Reason or without Good Reason) during the Term of Employment, other than a termination during the period described in Section 5(f), and the Company shall provide a Notice of Termination to the Executive no less than 90 days prior to any termination of the Executive's employment without Cause during the Term of Employment, other than a termination during the period described in Section 5(f). During this 90-day notice period (the "Garden Leave"), the

Executive shall (i) continue to be an employee of MFA and shall make himself available to provide such services directed by the Company that are reasonably consistent with the Executive's status as a senior executive of the Company and (ii) continue to be paid his Base Salary and to be eligible to participate in the Company's benefits programs, but shall not be eligible to earn any annual bonus with respect to a performance period that ends after the commencement of the Garden Leave. During the Garden Leave, the Company may require the Executive to resign from any position with the Company and/or remove any or all of the Executive's duties or responsibilities, which shall not constitute Good Reason or otherwise be a violation of this Agreement. The Executive agrees that he will not commence employment with any entity during or in connection with the commencement of the Garden Leave. During the Garden Leave, the Executive shall take all steps reasonably requested by the Company to effect a successful transition of client and customer relationships to the person or persons designated by the Company.

(f) Termination Related to Change of Control. In the event of the termination of the Executive's employment during the Term of Employment by the Company other than for Cause (and other than for Disability, as described in Section 5(a)) or by the Executive for Good Reason, in either case within 12 months following a Change of Control, or within three months prior to a Change of Control if such termination is initiated by, at the request or suggestion of, or with the agreement of, the counterparty to the Change of Control, the Executive's Term of Employment shall terminate without further obligations to the Executive under this Agreement, except as provided in Section 5(g) below. In addition and if the requirements of Section 5(j) are met:

(i) MFA shall immediately pay to Executive in a lump sum, but in all events within 60 days following the date of termination, an amount in cash equal to one and one-half times the sum of (A) the Executive's then current Base Salary and (B) the Executive's Median Bonus;

(ii) (A) All of the Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares, RSUs and stock options) shall immediately vest in full (in the case of any such award which is subject to vesting based on the achievement of performance goals, such award shall become vested with respect to the target number of shares subject to such award) and shall be paid at the time set forth in the applicable Award Agreement; and (B) any such options shall remain exercisable until the earlier of (I) 90 days following the date of such termination or (II) the date on which each such option would have expired had the Executive's employment not terminated;

(iii) The Company shall reimburse the Executive for 100% of the COBRA premiums incurred by the Executive for the Executive and his eligible dependents under the Company's health care plan during the 18 month period following the Executive's termination of employment. Such reimbursement shall be provided on the payroll date immediately following the date on which the Executive remits the applicable premium payment and

shall commence within 60 days after the termination date; provided that, the first payment shall include any reimbursements that would have otherwise been payable during the period beginning on the Executive's termination date and ending on the date of the first reimbursement payment. Reimbursement payments shall be treated as taxable compensation to the Executive to the extent required by law;

(iv) MFA shall immediately pay to Executive in a lump sum, but in all events within 60 days following the date of termination, an amount in cash equal to the Target Bonus, multiplied by a fraction, the numerator of which is the number of completed calendar days during the applicable Performance Period (as defined on Exhibit A) that the Executive was actively employed by MFA, and the denominator of which is 365; and

(v) The Executive shall receive any unpaid Annual Bonus for the Performance Period immediately preceding the Executive's date of termination, which shall be paid at the time set forth in Exhibit A.

For the avoidance of doubt, if the Executive is eligible to receive payments and benefits pursuant to this Section 5(f), he shall not be eligible to receive any payments and benefits pursuant to Section 5(a), 5(b) or 5(c).

(g) Other Payments. Upon the termination of the Executive's employment during the Term of Employment, in addition to the amounts payable under any Section above and any accrued but unpaid Base Salary, the Executive shall be entitled to receive the following:

i. any vested deferred compensation (including any interest accrued on or appreciation in value of such deferred amounts) in accordance with the applicable plan documents;

ii. reimbursement for reasonable business expenses incurred but not yet reimbursed by the Company; and

iii. any other benefits to which the Executive or his legal representative may be entitled under all applicable plans and programs of the Company, as provided in Section 4 above.

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

i. This Agreement and all payments hereunder (including payments pursuant to this Section 5) are intended to comply with or be exempt from Section 409A of the Code and applicable Treasury regulations thereunder; provided that, MFA shall have no liability for any taxes or penalties incurred by the Executive pursuant to Section 409A. Notwithstanding anything herein to the contrary, the Executive shall not be entitled to any payment pursuant to

this Section 5 prior to the earliest date permitted under Section 409A of the Code, and applicable Treasury regulations thereunder. To the extent any payment pursuant to this Section 5 is required to be delayed six months pursuant to the special rules of Section 409A of the Code related to “specified employees,” each affected payment shall be delayed until six months after the Executive’s termination of employment, and, unless provided otherwise, with the first such payment being a lump sum equal to the aggregate payments the Executive would have received during such six-month period if no payment delay had been imposed. Any payments or distributions delayed in accordance with the prior sentence shall be paid to the Executive on the first day of the seventh month following the Executive’s termination of employment. If the Executive dies during the postponement period prior to payment, the amounts delayed shall be paid within 60 days after the date of the Executive’s death.

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

iii. With respect to the lump sum amounts payable in connection with a Change of Control set forth in Section 5(a)(i) and Section 5(f)(i), such amounts shall be paid in installments as described in Section 5(a)(i) and Section 5(c)(i) as though a Change of Control had not occurred, if such Change of Control does not constitute a “change in control event” for purposes of Section 409A of the Code or if otherwise required by Section 409A of the Code.

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

v. Notwithstanding anything herein to the contrary, in the event that the reimbursements provided pursuant to Section 5(a)(iii) or Section 5(f)(iii) would subject the Executive or the Company to adverse tax consequences under Section 105(h) of the Code or any tax penalties, then the parties shall enter into an economically consistent arrangement that does not cause either party to incur such adverse tax consequences or penalties.

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

(j) Release. The Company's obligation to make any payment or provide any benefit pursuant to this Section 5 (other than pursuant to Sections 5(b) and 5(g) above) shall be contingent upon, and is the consideration for, (i) the Executive executing and delivering to the Company, within 60 days after termination of his employment, a general release (the "Release"), substantially in the form annexed hereto as Exhibit E (with any revisions necessary to comply with applicable law as reasonably determined by counsel to MFA and provided in writing to the Executive within five business days after the date of the termination of his employment), and (ii) such release becoming irrevocable in accordance with its terms within 60 days after termination of employment. In the event that any payment or benefit is subject to Section 409A of the Code and the 60-day period referred to in the immediately preceding sentence spans two calendar years, any such payments or benefits required to be made hereunder during such 60-day period shall be made in the second calendar year, the first payment of which shall include all payments that would otherwise have been made prior thereto.

(k) Change in Status following an Externalization Event. Notwithstanding anything in this Section 5 to the contrary, in the event that the circumstances described in clauses (i) or (ii) below occur, then for purposes of this Agreement, the Executive's termination of employment shall not constitute a termination by the Company without Cause or a termination by the Executive for Good Reason, and the Executive shall only be entitled to the amounts set forth in Section 5(g). For the avoidance of doubt, in the event that the circumstances described in clauses (i) or (ii) below occur, the Executive shall not be eligible to receive the payments and benefits described in Section 5(c) or Section 5(f).

i. In connection with the Executive's termination of employment, MFA is managed by an external manager pursuant to a management and advisory contract and such external manager has provided the Executive with an offer of employment (x) on economic terms that are at least substantially equivalent in form and economic substance (and not in the aggregate) to those provided to the Executive immediately prior to such termination of employment, and (y) on other terms that would not be deemed to trigger "Good Reason" under the definition provided herein (an offer of employment that meets the requirements of (x) and (y), a "Qualifying Offer"); or

ii. A Change of Control occurs and immediately following such Change of Control, MFA is managed by an external manager pursuant to a management and advisory contract and such external manager has provided the Executive with a Qualifying Offer.

(l) Parachute Payments.

i. Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the “Payments”), would constitute an “excess parachute payment” within the meaning of Section 280G of the Code (after taking into consideration any mitigating factors such as the value of any non-competition restrictions or similar factors), the Company shall reduce (but not below zero) the aggregate present value of the Payments under the Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide the Executive with a greater net after-tax amount than would be the case if no such reduction was made (for clarity, if not reducing the Payments will provide the Executive with a greater net after-tax amount, then no reduction shall occur). The Payments shall be reduced as described in the preceding sentence only if (A) the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local income and payroll taxes on the reduced Payments), is greater than or equal to (B) the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local income and payroll taxes on the Payments and the amount of Excise Tax (as defined below) to which the Executive would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be reduced pursuant to this Section 5(l), and any reduction shall be made in accordance with Section 409A of the Code.

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

iii. All determinations to be made under this Section 5(l) shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to a change of control, which shall provide its determinations and any supporting calculations both to the Company and the Executive within ten days of the change of control. Any such determination by such firm shall be binding upon the Company and the Executive. All fees and expenses of the accounting or consulting firm in performing the determinations referred to in this Section 5(l) shall be borne solely by the Company.

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

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

a. Cause. "Cause" shall mean the Executive's (i) commission of a felony, a crime of moral turpitude or any crime committed against MFA, other than traffic violations; (ii) engagement in willful misconduct, willful or gross negligence, or fraud, embezzlement or misappropriation relating to significant amounts, in each case in connection with the performance of his duties under this Agreement; (iii) failure to adhere to the lawful directions of the Board of Directors or the CEO that are reasonably consistent with his duties and position provided for herein; (iv) breach in any material respect of any of the provisions of Section 7 of this Agreement; (v) material violation of the Company's Code of Conduct or any other material written policy of the Company, including without limitation, the Company's nondiscrimination and harassment policy; or (vi) breach in any material respect of the terms and provisions of this Agreement resulting in material and demonstrable economic injury to MFA. Notwithstanding the foregoing, (i) the Executive shall be given written notice of any action or failure to act that is alleged to constitute Cause (a "Default"), and if curable, an opportunity for 20 business days from the date of such notice in which to cure such Default, such period to be subject to extension in the discretion of the CEO and (ii) regardless of whether the Executive is able to cure any Default, the Executive shall not be deemed to have been terminated for Cause without (A) reasonable prior written notice to the Executive setting forth the reasons for the decision to terminate the Executive for Cause, (B) an opportunity for the Executive, together with his counsel, to be heard by the CEO and (C) delivery to the Executive of a Notice of Termination approved by the CEO, stating his good faith opinion that the Executive has engaged in actions or conduct described in the preceding sentence, which notice specifies the particulars of such action or conduct in reasonable detail; provided, however, MFA may suspend the Executive with pay until such time as his right to appear before the CEO, as the case may be, has been exercised, so long as such appearance is within two weeks of the date of suspension. For avoidance of doubt and notwithstanding the Executive's cure rights, if any, if MFA reasonably determines that it is necessary to place the Executive on administrative leave, or to relieve the Executive of some or all of the Executive's duties so that MFA may investigate any potential wrongdoing or misconduct, or pending resolution of any act, event or omission giving rise to Cause during any applicable cure period, MFA's doing so shall not be deemed to be either a breach by MFA of any provision of this Agreement or a termination by MFA of the Executive's employment without Cause nor shall such action constitute a basis for the Executive to terminate the Executive's employment for Good Reason.

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

i. any “person,” as such term is used in Sections 13(d) and 14(d) of the Act (other than MFA, any of its affiliates or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of MFA or any of its affiliates, and other than the Executive) together with all “affiliates” and “associates” (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the “beneficial owner” (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of MFA representing 30% or more of either (A) the combined voting power of MFA’s then outstanding securities having the right to vote in an election of the Board of Directors (“voting securities”), or (B) the then outstanding shares of common stock of MFA (“Shares”) (in either such case other than as a result of an acquisition of securities directly from MFA); or

ii. persons who, as of the Effective Date of this Agreement, constitute MFA’s Board of Directors (the “Incumbent Directors”) cease for any reason, including, without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board of Directors, provided that any person becoming a Director of MFA subsequent to the Effective Date whose election or nomination for election was approved and/or ratified by a vote of at least a majority of the Incumbent Directors shall, for purposes of this Agreement, be considered an Incumbent Director; or

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

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

(c) Competitor. “Competitor” shall mean any entity or person that is engaged in a business that is conducted by the Company during the Executive’s employment, or that is under consideration by the Board of Directors during the 12 months prior to the Executive’s termination of employment, including, without limitation, (i) any mortgage REIT, (ii) any entity or person engaged in any element of acquiring mortgage backed securities (“MBS”), single family residential mortgage loans (“Whole Loans”), credit risk transfer securities (“CRTs”) or other products or instruments in which the Company invests, including any private or public investment firm or broker dealer whose business strategy is based on or who engages in the trading, sales, investment or management of such securities, products or instruments, (iii) any entity that manages or advises (including any external advisor) either (A) a mortgage REIT or (B) an entity or person engaged in any element of acquiring MBS, Whole Loans, CRTs or other products or instruments in which the Company invests, including any private or public investment firm or broker dealer whose business strategy is based on or who engages in the trading, sales, investment or management of such securities, products or instruments and (iv) any entity or person engaged in the management or sale of single family residential real estate that is acquired as a result of foreclosure, short sale, deed-in-lieu or other actions undertaken by such entity or person in respect of investments made by such entity or person in Whole Loans.

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

(e) Disability. “Disability” shall mean the Executive’s inability for a period of six consecutive months, to render substantially the services provided for in this Agreement with or without a reasonable accommodation by reason of mental or physical disability, whether resulting from illness, accident or otherwise, other than by reason of chronic or persistent abuse of any substance (such as narcotics or alcohol), provided that a Disability for purposes of Section 5(a) shall qualify as a Disability under Section 409A of the Code to the extent required by Section 409A of the Code. Notwithstanding the foregoing, no circumstances or condition shall constitute a Disability to the extent that, if it were, a 20% tax would be imposed under Section 409A of the Code; provided that, in such a case, the event or condition shall continue to constitute a Disability to the maximum extent possible (e.g., if applicable, in respect of vesting without an acceleration of distribution) without causing the imposition of such 20% tax. In addition, nothing herein shall limit or restrict the payment of any amount subject to Section 409A of the Code upon an otherwise permitted payment event under Section 409A of the Code, including upon a separation from service.

(f) Good Reason. “Good Reason” shall mean:

- i. a material diminution in the Executive’s title, duties or responsibilities (other than in connection with the Executive’s disability);
- ii. relocation of the Executive’s place of employment without his consent outside the New York City metropolitan area;
- iii. the failure of MFA to pay within 60 business days any material payment or benefits due from MFA;

iv. the material failure by MFA to honor any of its material obligations to the Executive.

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

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

(h) Restricted Period. “Restricted Period” shall mean the period commencing on the Effective Date and ending on the date that is nine months following the Executive’s termination of employment for any reason; provided that, if the Executive’s employment is terminated pursuant to Section 5(d) because the Executive is no longer legally permitted to work in the United States, then “Restricted Period” shall mean the period commencing on the Effective Date and ending on the date of the Executive’s termination of employment.

7. Covenants.

a. Confidentiality. During the Term of Employment, and at all times thereafter, the Executive shall maintain the confidentiality of all confidential or proprietary information of the Company, or of any other person or entity with which the Executive has been involved as a direct or indirect result of his employment by, or performance of consulting or other services (including, without limitation, as a director, officer, advisor, agent, consultant or other independent contractor) for, the Company (“Confidential Information”), and, except in furtherance of his employment by the Company or as specifically required by law or by court order or as permitted by Section 7(g) or in the course of carrying out his duties for the Company, he shall not directly or indirectly disclose any such information to any person or entity; nor shall he use Confidential Information for any purpose except for the benefit of the Company. For purposes of this Agreement, “Confidential Information” includes, without limitation: client or customer lists, identities, contacts, business and financial information; investment strategies; pricing information or policies, fees or commission arrangements of the Company; marketing plans, projections, presentations or strategies of the Company; financial and budget information of the Company; personnel information, personnel lists, resumes, personnel data, organizational structure, compensation and performance evaluations; information regarding the existence or terms of any agreement or relationship between the Company and any other party; and any other information of whatever nature, which gives to the Company an opportunity to obtain an advantage over its competitors who or which do not have access to such information. This restriction shall apply regardless of whether such Confidential Information is in written, graphic, recorded, photographic, data or any machine readable form or is orally conveyed to, or memorized by, the Executive; provided, however, that this Section 7(a) shall not apply to Confidential Information that is or becomes publicly known through no act or omission on the Executive’s part. Anything to the contrary notwithstanding, nothing in this Agreement shall

prevent the Executive from retaining papers and other materials of a personal nature, including personal diaries, calendars and Rolodexes, information relating to his compensation or relating to reimbursement of expenses, and copies of plans, programs and agreements relating to his employment.

b. Non-Competition and Non-Solicitation. The Executive acknowledges that during the Executive's employment with the Company prior to and after the Effective Date, (i) the Executive has had and will continue to have access to trade secrets and other Confidential Information of the Company, which, if disclosed, would unfairly and inappropriately assist in competition against the Company; (ii) in the course of the Executive's employment by a Competitor during the Restricted Period, the Executive would inevitably use or disclose such trade secrets and Confidential Information; (iii) the Company has substantial relationships with its customers and the Executive has had and will continue to have access to these customers; (iv) the Executive has generated and will continue to generate goodwill for the Company in the course of the Executive's employment and (v) the Executive's services are unique and irreplaceable. Therefore, in consideration of the Executive's continued employment with the Company, of the compensation and benefits provided to the Executive under this Agreement, of MFA's agreement to make severance benefits available pursuant to Section 5, and of the Executive's being granted access to the customers, trade secrets and other Confidential Information of the Company, the Executive agrees that the following restrictions on the Executive's activities during and after the Executive's employment are necessary, appropriate and reasonable to protect the goodwill, Confidential Information and other legitimate interests of the Company from unfair and inappropriate competition:

i. During the Restricted Period, the Executive will not, without the prior written consent of MFA, within the United States, manage, operate, control or be connected as a stockholder (other than as a holder of shares publicly traded on a stock exchange or the NASDAQ National Market System, provided that the Executive shall not own more than five percent of the outstanding shares of any publicly traded company) or partner with, or serve as an officer, director, employee or consultant of, any Competitor.

ii. During the Restricted Period, the Executive will not, without the prior written consent of MFA, directly or indirectly (individually, or through or on behalf of another entity as owner, partner, agent, employee, consultant, or in any other capacity), engage in any activity intentionally to interfere with, disrupt, diminish or damage the business of the Company, or its relationship with any client, supplier or other business relationship of the Company.

iii. During the Executive's employment with the Company and during the period commencing on the Executive's date of termination of employment for any reason and ending on the second anniversary of the Executive's termination of employment, the Executive will not, without the prior written consent of MFA, directly or indirectly (individually, or through

or on behalf of another entity as owner, partner, agent, employee, consultant, or in any other capacity), (A) solicit, encourage, or engage in any activity to induce any employee of MFA or its affiliates to terminate employment with MFA or its affiliates, or to become employed by, or to enter into a business relationship with, any other person or entity; or (B) hire or retain any person who was an employee of MFA or its affiliates within the six month period preceding such action; provided that, (x) this Section 7(b)(iii) shall not apply to any administrative employee of MFA or its affiliates or any person who was an administrative employee of MFA or its affiliates and (y) any hiring or solicitation pursuant to a general solicitation conducted by an entity that has hired or agreed to hire the Executive and that does not directly or indirectly target current or former employees of MFA or its affiliates, or by a headhunter employed by such entity, which in either case does not involve the Executive, shall not be a violation of this Section 7(b)(iii).

(c) MFA Materials. The Executive acknowledges that all originals and copies of materials, records and documents generated by him or coming into his possession during his employment by MFA are the sole property of MFA (“MFA Materials”). During his employment, and at all times thereafter, the Executive shall not remove, or cause to be removed, from the premises of MFA, copies of any record, file, memorandum, document, computer related information or equipment, or any other item relating to the business of MFA, except in furtherance of his duties under this Agreement. When the Executive terminates his employment with MFA, or upon request of MFA at any time, the Executive shall promptly deliver to MFA all originals and copies of MFA Materials in his possession or control and shall not retain any originals or copies in any form. The Executive further agrees to delete or destroy any and all documents, files and/or backup files containing MFA Materials on any computer or storage device owned by and/or within the care, custody or control of the Executive.

(d) No Disparagement. Each of the Executive and MFA agrees that, except as required by applicable law or compelled by process of law or as otherwise permitted pursuant to Section 7(g), during and after the Term of Employment they shall not make any derogatory, disparaging or critical statement about the other party hereto or, further in the case of statements by the Executive about (i) MFA, its parent, affiliates, or subsidiaries, if any; (ii) any product or service provided by MFA and its parent, affiliates or subsidiaries, if any; or (iii) MFA’s and its parent’s, affiliates’ or subsidiaries’, if any, prospects for the future. Nothing in this Section 7(d) shall (A) prohibit either MFA or the Executive from testifying truthfully in any legal or administrative proceeding or from truthfully responding to any untrue statement by the other party or (B) prohibit the Executive from making truthful statements in the course of carrying out his duties for MFA.

(e) Cooperation with Respect to Litigation. During the Term of Employment and at all times thereafter, the Executive agrees to give prompt written notice to MFA of any claim against the Company after becoming aware of such claim and (to the extent reasonably requested by MFA) to reasonably cooperate, in good faith and to the best of his ability, with MFA in connection with any and all pending, potential or future claims, investigations or actions which

directly or indirectly relate to any action, event or activity about which the Executive may have knowledge in connection with or as a result of his employment by the Company. Such cooperation will include all assistance that MFA, its counsel or representatives may reasonably request, including reviewing documents, meeting with counsel, providing factual information and material, and appearing or testifying as a witness; provided, however, that MFA will promptly reimburse the Executive for all reasonable expenses, including travel, lodging and meals, incurred by him in fulfilling his obligations under this Section 7(e) and, except as may be required by law or by court order, should the Executive then be employed by an entity other than MFA, such cooperation will not materially interfere with the Executive's then current employment.

(f) Remedies.

i. The Executive agrees that these restraints are necessary for the reasonable and proper protection of the Company and its trade secrets and Confidential Information and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area, and that these restraints, individually or in the aggregate, will not prevent the Executive from obtaining other suitable employment during the period in which the Executive is bound by the restraints. The Executive agrees that, before providing services, whether as an employee or consultant, to any entity during the Restricted Period, the Executive will provide a copy of this Agreement to such entity, and such entity shall acknowledge to MFA in writing that it has read this Agreement. Notwithstanding the foregoing terms, nothing in this Section 7 shall otherwise restrict or limit the Executive from providing services following the termination of the Executive's employment that are not expressly prohibited by the restrictions herein.

ii. The Executive acknowledges that each of these covenants has a unique, very substantial and immeasurable value to the Company, that the Executive has sufficient assets and skills to provide a livelihood while such covenants remain in force and that, as a result of the foregoing, in the event that the Executive breaches such covenants, monetary damages would be an insufficient remedy for the Company and equitable enforcement of the covenant would be proper. The Executive therefore agrees that the Company, in addition to any other remedies available to it, will be entitled to preliminary and permanent injunctive relief against any breach by the Executive of any of those covenants, without the necessity of showing actual monetary damages or the posting of a bond or other security. The Executive also agrees that, in addition to any other remedies available to the Company and notwithstanding any provision of this Agreement to the contrary, in the event Executive breaches in any material respect any of his obligations under this Section 7, the Company may immediately cease all payments under Sections 5(a), 5(b), 5(c) or 5(f) as applicable, all equity-based awards granted under this Agreement may be immediately forfeited, and the Company may

require that the Executive repay any after-tax amounts previously paid to the Executive under Sections 5(a), 5(b) or 5(c), as applicable, and any stock delivered or other amounts paid (each on an after-tax basis) with respect to any equity-based awards granted under this Agreement.

iii. The Executive and MFA further agree that, in the event that any provision of this Section 7 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, that provision will be deemed to be modified to permit its enforcement to the maximum extent permitted by law. The Executive further covenants that the Executive will not challenge the reasonableness or enforceability of any of the covenants set forth in this Section 7, it being understood that the Executive shall not be considered to have challenged the enforceability of this Section 7 by arguing that his conduct did not, in fact, violate the terms of this Section 7. The Executive further covenants that he will reimburse MFA and its affiliates for all costs (including reasonable attorneys' fees) incurred in connection with any action to enforce any of the provisions of this Section 7 if either MFA and/or its affiliates prevails on any material issue involved in such dispute or if the Executive challenges the reasonableness or enforceability of any of the provisions of this Section 7. It is also agreed that each of MFA's affiliates will have the right to enforce all of the Executive's obligations to that affiliate under this Agreement, including without limitation pursuant to this Section 7.

(g) Permitted Conduct.

i. Nothing in this Agreement, including the obligations set forth in this Section 7, restricts or prohibits the Executive from initiating communications directly with, responding to any inquiries from, providing testimony before, providing confidential information to, reporting possible violations of law or regulation to, or from filing a claim or assisting with an investigation directly with a self-regulatory authority or a government agency or entity, including the U.S. Equal Employment Opportunity Commission, the Department of Labor, the National Labor Relations Board, the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General (collectively, the "Regulators"), or from making other disclosures that are protected under the whistleblower provisions of state or federal law or regulation. The Executive does not need the prior authorization of the Company to engage in such communications with the Regulators, respond to such inquiries from the Regulators, provide confidential information or documents to the Regulators, or make any such reports or disclosures to the Regulators. The Executive is not required to notify the Company that he has engaged in such communications with the Regulators.

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

8. Indemnification. MFA shall indemnify the Executive to the fullest extent permitted by Maryland law as amended from time to time in connection with the Executive's duties with MFA, against all costs, expenses, liabilities and losses (including, without limitation, attorneys' fees, judgments, fines, penalties, ERISA excise taxes and amounts paid in settlement) actually and reasonably incurred by the Executive in connection with an action, suit or proceeding. While the Executive is an officer of MFA, and for six years thereafter, MFA (or any successor thereto) shall provide comprehensive coverage under its officers and directors insurance policy (or policies) on substantially the same terms and levels that it provides to its senior executive officers, at MFA's sole cost.

9. Clawback Policy. The Executive agrees that all bonuses, equity compensation and other incentive compensation provided by the Company shall be subject to any applicable clawback policy implemented by the Board of Directors from time to time.

10. Assignability; Binding Nature. This Agreement shall inure to the benefit of MFA and the Executive and their respective successors, heirs (in the case of the Executive) and assigns. No rights or obligations of MFA under this Agreement may be assigned or transferred by MFA except that any such rights or obligations may be assigned or transferred pursuant to a merger or consolidation in which MFA is not the continuing entity, or the sale or liquidation of all or substantially all of the assets of MFA, provided that the assignee or transferee is the successor to all or substantially all of the assets of MFA and such assignee or transferee assumes the liabilities, obligations and duties of MFA, as contained in this Agreement, either contractually or as a matter of law. This Agreement shall not be assignable by the Executive; provided however that, in the event of the Executive's death or a judicial determination of his incapacity, references to the Executive in this Agreement shall be deemed, as appropriate, to be references to his heirs, executor(s) or other legal representative(s).

11. Representation. MFA and the Executive each represent and warrant that it or he is fully authorized and empowered to enter into this Agreement and that its or his entering into this Agreement and the performance of its or his obligations under this Agreement will not violate any agreement to which it or he is a party.

12. Entire Agreement. This Agreement contains the entire agreement between MFA and the Executive concerning the subject matter hereof and upon the Effective Date supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written

or oral, between them with respect thereto, including without limitation, the Former Employment Agreement, except as otherwise provided in Section 3(b)(iii).

13. Amendment or Waiver. This Agreement can only be changed, modified or amended in a writing that is signed by both the Executive and MFA and that specifically identifies the provision(s) of this Agreement that are being changed, modified or amended. No waiver by either MFA or the Executive at any time of any breach by the other party of any condition or provision of this Agreement shall be deemed a waiver of a similar or dissimilar condition or provision at the same or at any prior or subsequent time. Any waiver must be in writing and signed by the Executive or the Board of Directors, as the case may be.

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

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

16. Survivorship. The respective rights and obligations of the parties hereunder shall survive any termination of this Agreement to the extent necessary to the intended preservation of such rights and obligations. For the avoidance of doubt, the covenants in Section 7 of this Agreement shall survive any termination or expiration of this Agreement and termination of the Executive's employment for any reason.

17. Governing Law. This Agreement, the rights and obligations of the parties hereto, and any claims or disputes relating thereto, shall be governed by and construed in accordance with the laws of the State of Maryland (without regard to its choice of law provisions). Each of the parties agrees that any dispute between the parties shall be resolved only in the courts of the State of Maryland or the United States District Court for the District of Maryland and the appellate courts having jurisdiction of appeals in such courts. In that context, and without limiting the generality of the foregoing, each of the parties hereto irrevocably and unconditionally (a) submits for himself or itself in any proceeding relating to this Agreement or the Executive's employment by MFA or any affiliate, or for the recognition and enforcement of any judgment in respect thereof (a "Proceeding"), to the exclusive jurisdiction of the courts of the State of Maryland, the court of the United States of America for the District of Maryland, and appellate courts having jurisdiction of appeals from any of the foregoing, and agrees that all claims in respect of any such Proceeding shall be heard and determined in such Maryland State court or, to the extent permitted by law, in such federal court; (b) consents that any such Proceeding may and shall be brought in such courts and waives any objection that he or it may now or thereafter have to the venue or jurisdiction of any such Proceeding in any such court or that such Proceeding was brought in an inconvenient court and agrees not to plead or claim the same; (c) waives all right to trial by jury in any Proceeding (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the Executive's employment by MFA

or any affiliate, or his or its performance under or the enforcement of this Agreement; (d) agrees that service of process in any such Proceeding may be effected by mailing a copy of such process by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such party at his or its address as provided in Section 19; and (e) agrees that nothing in this Agreement shall affect the right to effect service of process in any other manner permitted by the laws of the State of Maryland.

18. Legal Fees.

a. MFA shall pay directly all reasonable legal fees incurred by the Executive in connection with the negotiation, preparation and execution of this Agreement up to \$10,000.

b. Subject to Section 7(f), MFA shall reimburse the Executive (and his beneficiaries) any reasonable costs and expenses (including, without limitation, reasonable attorneys' fees and other reasonable costs of counsel) incurred by the Executive (or any of his beneficiaries) in resolving any controversy, dispute or claim arising out of or relating to this Agreement (including, for the avoidance of doubt, with respect to any equity grant described in this Agreement), if the Executive (or his beneficiaries) is the prevailing party with respect to at least one material issue asserting a material breach of such Agreement by the Company.

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

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

21. Counterparts. This Agreement may be executed in two or more counterparts. Signatures delivered by facsimile (including by "pdf") shall be deemed effective for all purposes.

[Signature page follows. Remainder of page intentionally left blank.]

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

MFA FINANCIAL, INC.

By: /s/ Craig L. Knutson

Name: Craig L. Knutson

Title: Chief Executive Officer

EXECUTIVE:

By: /s/ Gudmundur Kristjansson

Name: Gudmundur Kristjansson

Exhibit A

Annual Performance Bonus

The following summarizes the material terms of the annual bonus (“Annual Bonus”) set forth in Section 3(b) of the Agreement to which this Exhibit A is attached. Unless otherwise specified in this Exhibit A, all defined terms have the meanings set forth in the Agreement.

1. Performance Period. The Annual Bonus shall be payable for each of the 12-month performance periods beginning each December 1 during the Term of Employment (each, a “Performance Period”).

The Executive shall be eligible to receive the Annual Bonus only if the Executive remains employed by the Company through the date on which the Annual Bonus is paid, except as provided in the two next following sentences. The Executive shall receive any unpaid Annual Bonus for the Performance Period immediately preceding the Executive’s date of termination if the Executive’s employment is terminated by the Company without Cause or by the Executive for Good Reason, or if the Executive’s employment is terminated by death or Disability, subject to compliance with Section 5(j) of the Agreement (except in the event of death). In addition, in the event of the Executive’s termination of employment in connection with a Change of Control pursuant to Section 5(f) of the Agreement, the Executive shall receive a pro-rated portion of the Annual Bonus for the partial Performance Period in which the date of termination occurs in an amount equal to the Target Bonus, multiplied by a fraction, the numerator of which is the number of completed calendar days during the applicable Performance Period that the Executive was actively employed by MFA, and the denominator of which is 365, subject to compliance with Section 5(j) of the Agreement.

Except as set forth in the immediately preceding sentence, any Annual Bonus shall be subject to achievement of the performance goals described herein. In no event shall the Executive receive any unpaid Annual Bonus in the event the Executive’s employment is terminated by the Company for Cause or by the Executive (other than for Good Reason as described above).

2. Target Bonus. For each Performance Period, the Executive’s target annual cash bonus (the “Target Bonus”) shall be \$950,000. The Compensation Committee may increase or decrease the Executive’s Target Bonus for a Performance Period; provided that, the Executive’s Target Bonus may only be decreased if such decrease is part of an overall Company reduction of executive target bonuses and the applicable decrease (on a percentage basis) is substantially equivalent to that applicable to other senior executives of MFA. The Executive is eligible to receive an Annual Bonus from zero to two times the Target Bonus for each Performance Period, based on performance goals established by the Compensation Committee for such Performance Period. The performance goals will be based on MFA’s return on average equity, the Executive’s individual performance and MFA performance and risk management, as described below, relative to target goals established by the Compensation Committee for the applicable Performance Period.

3. Performance Components. The Annual Bonus shall consist of two components:

75% of the Annual Bonus shall be payable based on MFA's return on average equity ("ROAE" and such portion of the Annual Bonus, the "ROAE Bonus").

25% of the Annual Bonus shall be payable based on the Executive's individual performance and on MFA performance and risk management (such portion of the Annual Bonus, the "IRM Bonus").

4. Definition of ROAE.

For purposes of the ROAE Bonus: "ROAE" means (i) MFA Return, divided by (ii) MFA Average Equity, for the 12 month Performance Period.

"MFA Return" means net income as determined in accordance with GAAP, but excluding non-cash expense items such as depreciation expense, amortization of goodwill, life-of-loan loss reserves recorded at acquisition under the Current Expected Credit Losses accounting standard (ASU 2016-13), write off of offering expenses incurred in connection with the redemption of equity and/or debt and other non-cash expense items as determined by the Compensation Committee in its sole discretion for the applicable Performance Period. If, for any portion of any Performance Period, (i) MFA does not use hedge accounting or (ii) its derivative hedging instruments or any portion thereof are otherwise deemed ineffective, which in either case, results in changes in the value of such hedging instruments being recorded in MFA's GAAP income statement, then any gains or losses from such hedging instruments will also be excluded from the calculation of MFA Return.

"MFA Average Equity" means the stockholders' equity of MFA as determined in accordance with GAAP, but excluding accumulated other comprehensive income or loss (which, among other things, reflects unrealized gains or losses in MFA's residential mortgage-backed securities portfolio), stockholders' equity attributable to preferred stock and other items as determined by the Compensation Committee in its sole discretion for the applicable Performance Period. For purposes of calculating ROAE, MFA Average Equity shall be determined based on the average of MFA's stockholders' equity calculated as described in the preceding sentence as of the last day of each month during the applicable Performance Period.

5. ROAE Bonus

For each Performance Period, the target amount of the ROAE Bonus will be equal to 75% of the Target Bonus, and the Executive shall be eligible to receive from zero to two times such target amount of ROAE Bonus based on the achievement of the threshold, target, and maximum ROAE performance goals established by the Compensation Committee for the Performance Period, which shall be established within ninety (90) days following commencement of the applicable Performance Period. If performance is between threshold and target goals or between target and maximum goals, the amount of the ROAE Bonus will be determined by straight line interpolation.

6. IRM Bonus

For each Performance Period, the target amount of the IRM Bonus will be equal to 25% of the Target Bonus, and the Executive shall be eligible to receive from zero to two times the target amount of such IRM Bonus. The amount of the IRM Bonus shall be determined by the Compensation Committee in its sole discretion, based upon any factors deemed relevant and appropriate by the Compensation Committee in its sole discretion, including without limitation:

MFA's leverage strategy relative to business plan and peers;

MFA's total stockholder return relative to the S&P financial index or other relevant indices;

MFA's total stockholder return relative to its peer group;

MFA's absolute total stockholder return;

MFA's other asset management activities; and

The Executive's individual performance.

7. Form of Payment

For each Performance Period, the sum of the ROAE Bonus and the IRM Bonus shall equal the Annual Bonus. The Annual Bonus shall be paid in cash between January 1 and March 15 following the end of the Performance Period.

8. Committee Determinations

All determinations with respect to the Annual Bonus, including the amount, if any, which is payable to the Executive for each Performance Period, shall be made by the Compensation Committee, in good faith and in compliance with this Exhibit A. Any such determinations shall be final and binding on the Executive and MFA.

Exhibit B

Summary of the Company's Long Term Incentive Program

The following summarizes certain material components of the Company's Long Term Incentive Program as applicable to grants under Section 3(c) of the Agreement to which this Exhibit B is attached. Notwithstanding any provision of the Agreement or this Exhibit B, all grants under Section 3(c) of the Agreement shall be subject to, and consistent with, the terms and conditions of the Equity Compensation Plan and the Award Agreements. Unless otherwise specified in this Exhibit B, all defined terms have the meanings set forth in the Agreement.

1. Annual Grants.

To the extent that the Executive is still employed by MFA on each applicable grant date, within the first five trading days of each calendar year during the Term of Employment, the Executive shall receive grants of restricted stock units subject to time vesting ("TRSUs") and restricted stock units which vest based on the achievement of performance goals ("PRSUs"). The TRSU and PRSU grants shall be subject to the terms of the applicable Award Agreements and the Equity Compensation Plan.

2. TRSUs

The annual grant of TRSUs will provide for a grant of TRSUs with respect to a number shares of MFA common stock equal to a specified dollar value (the "TRSU Grant Date Value") divided by the closing price of MFA common stock on the date of grant, rounded to the nearest whole share. The TRSU Grant Date Value shall be equal to \$320,000, provided that, the Committee may increase or decrease such amount for any annual grant of TRSUs made in 2022 and future years, upon reasonable notice and consultation with the Executive.

The TRSUs will become fully vested on the third December 31 following the date of grant, provided that the Executive remains employed for the entire vesting period and subject to vesting as set forth in the applicable Award Agreement, and as described in Sections 5(a), 5(b), 5(c) and 5(f) of the Agreement. Any unvested TRSUs shall be forfeited as of the date of Executive's termination of employment, except as provided in the applicable Award Agreement, as described in Sections 5(a), 5(b), 5(c) and 5(f) of the Agreement.

Upon the settlement date set forth in the applicable Award Agreement, the Executive will receive one share of common stock of MFA for each vested TRSU.

In the event that dividends are declared with respect to the common stock of MFA during the period in which the TRSUs are outstanding, the Executive shall be credited with an amount, per TRSU, equal to the amount of dividends declared and paid in respect of one share of common stock of MFA. Such credited amount will be credited in the form of additional TRSUs (such TRSUs, "DER TRSUs"), based on the fair market value of a share of common stock of MFA on the payment date of the cash dividend (rounded to the nearest whole share). The DER TRSUs will include the right to receive additional DER TRSUs with respect to any additional dividends

declared and will be subject to the same terms and conditions (including with respect to vesting and payment timing) applicable to the grant of the TRSUs with respect to which such DER TRSUs were credited, provided that the DER TRSUs shall be paid in cash (and not in shares), based on the fair market value of a share of common stock of MFA as of the date of vesting.

3. PRSUs

As further described below, 50% of each annual grant of PRSUs (the “Absolute TSR PRSUs”) will vest based on MFA’s average total shareholder return (“Average TSR”) for the three year performance period beginning on January 1 of the year of grant (the “TSR Performance Period”), and 50% of each annual grant of PRSUs (the “Relative TSR PRSUs”) will vest based on MFA’s TSR compared to the TSR of designated peer group companies, as set forth in the applicable Award Agreement, during the TSR Performance Period.

Each annual grant of PRSUs will provide for a target grant of Absolute TSR PRSUs (the “Absolute TSR Target Award”) and a target grant of Relative TSR PRSUs (the “Relative TSR Target Award”).

The Absolute TSR Target Award shall be a number of PRSUs equal to (a) divided by (b), where (a) is equal to 50% of the PRSU Grant Date Value and (b) is equal to the grant date fair value per unit of one Absolute TSR PRSU. The Relative TSR Target Award shall be a number of PRSUs equal to (a) divided by (b), where (a) is equal to 50% of the PRSU Grant Date Value and (b) is equal to the grant date fair value per unit of one Relative TSR PRSU. The PRSU Grant Date Value shall be equal to \$480,000, provided that, the Committee may increase or decrease such amount for any annual grant of PRSUs made in 2022 and future years, upon reasonable notice and consultation with the Executive.

Each TSR Performance Period shall be the three-year period beginning on January 1st of the calendar year in which the applicable grant of PRSUs is made.

The PRSUs will vest on the last day of the applicable TSR Performance Period, to the extent that the total shareholder return performance goals described below are achieved, provided that the Executive remains employed for the entire vesting period and subject to vesting as set forth in the applicable Award Agreement, as described in Sections 5(a), 5(b), 5(c) and 5(f) of the Agreement. Any unvested PRSUs shall be forfeited as of the date of Executive’s termination of employment, except as provided in the applicable Award Agreement, as described in Sections 5(a), 5(b), 5(c) and 5(f) of the Agreement.

Upon the settlement date set forth in the applicable Award Agreement, the Executive will receive one share of common stock of MFA for each vested PRSU. Notwithstanding anything to the contrary in this Exhibit B, the fair market value of the shares of MFA common stock delivered, measured as of the last day of the Performance Period (or, if earlier, the date on which the PRSUs are settled pursuant to terms of the applicable Award Agreement), shall not exceed 400% of the fair market value of the target amount of PRSUs measured on the grant date (the “Maximum Cap”), and any and all amounts otherwise payable pursuant to the applicable Award Agreement in excess of the Maximum Cap shall be forfeited, provided that, payment with

respect to the dividend equivalent rights described below for dividends declared and paid following the end of the Performance Period shall not count against the Maximum Cap.

For purposes of the PRSUs, TSR of MFA and each applicable peer group company for the vesting period shall be calculated as follows:

“TSR” is equal to (x) the Average Final Price minus the Average Initial Price, plus Dividends Paid on common stock in respect of the TSR Performance Period, divided by (y) the Average Initial Price.

The “Average Initial Price” is equal to the average of the daily closing price of common stock during the last 20 trading days immediately prior to the first day of the TSR Performance Period.

The “Average Final Price” is equal to the average of the daily closing price of common stock during the last 20 trading days in the TSR Performance Period.

The “Dividends Paid” shall equal the cumulative dividends (including any stock dividends) paid per share of common stock in respect of the TSR Performance Period. For this purpose, dividends declared, but not yet paid, on a share within the 45 day period preceding the applicable vesting date will be counted as Dividends Paid. Notwithstanding the foregoing, if any dividends were included in Dividends Paid for purposes of calculating TSR for the year prior to the year in which the TSR Performance Period commences, then such dividends will not be included in Dividends Paid for purposes of calculating TSR for any subsequent performance period.

Absolute TSR PRSUs

For purposes of the TSR PRSUs, the “Average TSR” for the Performance Period is the TSR, divided by 3, and the “Target TSR” is an 8% per annum simple cumulative return over the TSR Performance Period. MFA’s Average TSR will be compared to the Target TSR to determine whether and to what extent the Absolute TSR PRSUs will vest.

The number of Absolute TSR PRSUs that will vest at the end of the Performance Period shall be determined by comparing the MFA’s Average TSR to the Target TSR (8% per year), up to a maximum vesting of 200% of the Absolute TSR Target Award (subject to the Maximum Cap described above). Any Absolute TSR PRSUs that do not vest at the end of the TSR Performance Period shall be forfeited.

Example Calculations

Set forth below are examples addressing vesting of Absolute TSR PRSUs. The examples below are intended to be used purely for illustrative purposes and assume that the Absolute

TSR Target Award for the applicable grant of Absolute TSR PRSUs is equal to 50,000, and assume that the Maximum Cap does not apply.

Example 1:

If MFA's Average TSR over the TSR Performance Period was 2%, then the portion of the Absolute TSR PRSUs that would be eligible to vest would be equal to: (2/8) of the Absolute TSR Target Award, or 12,500 PRSUs.

Example 2:

If MFA's Average TSR over the TSR Performance Period was 12%, then the portion of the Absolute TSR PRSUs that would be eligible to vest would be equal to: (12/8) of the Absolute TSR Target Award, or 75,000 PRSUs.

Example 3:

If MFA's Average TSR over the TSR Performance Period was 16%, then the portion of the Absolute TSR PRSUs that would be eligible to vest would be equal to (16/8) of the Absolute TSR Target Award, or 100,000 PRSUs (maximum vesting).

Relative TSR PRSUs

At the end of each TSR Performance Period, MFA's TSR and the TSR of each of the designated peer group companies will be ranked from highest to lowest, and the "Relative TSR Vesting Percentage" shall be determined based on MFA's TSR as compared to the TSR of the designated peer group companies for the TSR Performance Period as follows:

| MFA's TSR Rank | Relative TSR Vesting Percentage |
|--------------------------|--|
| 80th percentile or above | 200% |
| 50th percentile | 100% |
| 25th percentile or below | 0% |

If MFA's TSR Rank is between the 25th percentile and the 50th percentile, or between the 50th percentile and the 80th percentile, the Relative TSR Vesting Percentage will be interpolated.

Notwithstanding the provisions set forth above, in the event that the MFA's TSR is a negative number, the Relative TSR Vesting Percentage shall not exceed 100%.

The number of Relative TSR PRSUs that will vest for the TSR Performance Period shall be determined by multiplying the Relative TSR Target Award by the Relative TSR Vesting Percentage.

For the avoidance of doubt, in no event shall any Relative TSR PRSUs vest if MFA's TSR Rank is at or below the 25th percentile.

The Executive shall not be eligible to receive more than 200% of the Relative TSR Target Award based on MFA's TSR Rank.

Example Calculations

Set forth below are examples addressing vesting of Relative TSR PRSUs. The examples below are intended to be used purely for illustrative purposes and assume that the Relative TSR Target Award for the applicable grant of Relative TSR PRSUs is equal to 50,000, MFA's TSR is a positive number, and the Maximum Cap does not apply.

Example 1:

If MFA's TSR Rank at the end of the TSR Performance Period was 15 out of 18, MFA would be in the 17th percentile. Because MFA's TSR Rank would be below the 25th percentile, the Relative TSR Vesting Percentage would be equal to 0, so that none of the Relative TSR Target Award would become vested. 100% of the Relative TSR Target Award for that TSR Performance Period would be forfeited.

Example 2:

If MFA's TSR Rank at the end of the TSR Performance Period was nine out of 18, MFA would be in the 50th percentile. The Relative TSR Vesting Percentage would be equal to 100, so that 100% of the Relative TSR Target Award (50,000 PRSUs) would become vested.

Example 3:

If MFA's TSR Rank at the end of the TSR Performance Period was two out of 18, MFA would be in the 89th percentile. The Relative TSR Vesting Percentage would be equal to 200, so that 200% of the Relative TSR Target Award (100,000 PRSUs) would become vested.

Dividend Equivalent Rights on PRSUs

In the event that dividends are declared with respect to the common stock of MFA during the period beginning on the grant date of the PRSUs and ending on the last day of the Performance Period, or if earlier, the date on which the PRSUs are settled (such period, the "Dividend Period"), then an amount equal to the dividends that the Executive would have received if the Executive had owned a number of shares of MFA common stock equal to the number of outstanding PRSUs as of the date the dividend is declared shall be accrued in a bookkeeping account. Accrued dividend amounts shall only be payable, as described below, to the extent that the underlying PRSUs vest and are distributed.

When vested PRSUs (whether Absolute TSR PRSUs or Relative TSR PRSUs) are distributed to the Executive, the Executive shall receive additional shares of MFA stock equal in value to the accumulated dividends applicable to the shares distributed with respect to the vested PRSUs. The number of shares to be distributed with respect to such accrued dividend amounts shall be calculated as follows: (i) the accumulated dividends declared per share of MFA common stock during the Dividend Period, multiplied by (ii) the number of shares of MFA stock distributed

with respect to vested PRSUs, divided by (iii) the per share stock price of MFA common stock on the last day of the Performance Period, or if earlier, the date on which the PRSUs are settled, rounded down to the nearest whole share. Such additional shares shall be delivered on the same day as the vested PRSUs are distributed. In the event that dividends are declared with respect to the common stock of MFA during the period beginning on the date immediately following the end of the Performance Period and ending on the date on which the PRSUs are settled, then an amount equal to the dividends that the Executive would have received if the Executive had owned a number of shares of MFA common stock equal to the number of outstanding PRSUs as of the date the dividend is declared shall be paid to the Executive in cash on the date such dividend is paid to shareholders of MFA common stock.

4. Withholding Obligations

The parties hereto acknowledge and understand that MFA or the Executive may require or elect (as the case may be) that the Executive satisfy any federal, state or local tax withholding obligation with respect to TRSUs and PRSUs by withholding shares from the shares otherwise issuable to the Executive, provided that such shares shall not exceed the minimum applicable tax withholding required by law, or such higher amount that does not result in adverse accounting treatment for the Company, as approved in advance by the Compensation Committee.

5. Committee Determinations

All determinations with respect to the TRSUs and PRSUs shall be made by the Compensation Committee, in good faith and in compliance with this Exhibit B. Any such determinations shall be final and binding on the Executive and MFA.

Exhibit C

Form of TRSU Award Agreement

Exhibit D

Form of PRSU Award Agreement

Exhibit E

Release

This Release of Claims (this “Release”) is made as of _____, by and between MFA FINANCIAL, INC. (“MFA”) and _____ (the “Executive”).

(a) The Executive, on behalf of himself, his agents, heirs, successors, assigns, executors and administrators, in consideration for the termination payments and other consideration provided for under the Employment Agreement entered into by MFA and the Executive, as from time to time amended in accordance with its terms (the “Employment Agreement”), hereby forever releases and discharges MFA, and its successors, its affiliated entities, and, in such capacities, its past and present directors, employees, agents, attorneys, accountants, representatives, plan fiduciaries, successors and assigns from any and all known and unknown causes of action, actions, judgments, liens, indebtedness, damages, losses, claims, liabilities, and demands of whatsoever kind and character in any manner whatsoever arising on or prior to the date of this Release, including but not limited to (i) any claim for breach of contract, breach of implied covenant, breach of oral or written promise, wrongful termination, intentional infliction of emotional distress, defamation, interference with contract relations or prospective economic advantage, negligence, misrepresentation or employment discrimination, and including without limitation alleged violations of Title VII of the Civil Rights Act of 1964, as amended, prohibiting discrimination based on race, color, religion, sex or national origin; the Employee Retirement Income Security Act of 1974 (“ERISA”); the Family and Medical Leave Act; the Americans With Disabilities Act; the Age Discrimination in Employment Act; the Fair Labor Standards Act; the federal Worker Adjustment and Retraining Notification Act; the federal Equal Pay Act; any federal False Claims Act; the Occupational Safety and Health Act; the Fair Credit Reporting Act; the New York State Human Rights Law; the New York City Human Rights Law; the New York Labor Law; the New York Executive Law; New York Equal Pay Law; New York Civil Rights Law; the New York Worker Adjustment and Retraining Notification Act; and any other federal, state and local laws, ordinances and regulations; (ii) any and all liability that was or may have been alleged against or imputed to MFA by the Executive or by anyone acting on his behalf; (iii) all claims for monetary or equitable relief, employment or reemployment with MFA in any position, and any punitive, compensatory or liquidated damages; and (iv) all rights to and claims for attorneys’ fees and costs except as otherwise provided in the Employment Agreement. The only claims that are not being waived and released by the Executive under this Release are (i) claims for indemnification or D&O coverage or any claim arising under, or preserved by, Section 5 of the Employment Agreement, (ii) claims that, cannot be waived as a matter of law or public policy, (iii) claims based on any wrongful act or omission occurring after the date Executive signs this Release, (iv) claims to vested benefits under any compensation or benefit plan, program or arrangement in which the Executive was participating as of the date of termination of his employment, (v) claims seeking enforcement of this Release or the Employment Agreement, and (vi) claims challenging the legality of this Release in a legal proceeding pursuant to the Older Workers Benefit Protection Act and the Age Discrimination in Employment Act. The Executive acknowledges that the Executive has not made any claims or allegations related to discrimination, harassment or sexual abuse and none of

the termination payments and other consideration provided for under the Employment Agreement are related to discrimination, harassment or sexual abuse.

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

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

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

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

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

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

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

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

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

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

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

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

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

IN WITNESS WHEREOF, the parties have hereunto set their hands this _____ day of

_____.

By: _____

Name:

Title:

AMENDED AND RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this “Agreement”) is entered into as of the 22nd day of February, 2021, and effective as of the first day of January, 2021 (the “Effective Date”), by and between MFA Financial, Inc. (“MFA”), and Bryan Wulfsohn (the “Executive”).

WITNESSETH:

WHEREAS, MFA and the Executive entered into an employment agreement, effective as of January 1, 2020 (the “Former Employment Agreement”);

WHEREAS, MFA and the Executive desire to enter into an amended and restated employment agreement that supersedes and replaces the Former Employment Agreement in all respects as of the Effective Date and sets forth the terms of the Executive’s employment with MFA; and

WHEREAS, the Executive wishes to continue serving MFA, and MFA wishes to secure the continued exclusive services of the Executive, under the terms and conditions described in this Agreement, which will be legally binding on the date the Agreement is executed by the parties hereto.

NOW THEREFORE, in consideration of the foregoing premises and the mutual agreements herein contained, the parties hereto agree as follows:

1. Term of Employment.

(a) MFA hereby employs the Executive, and the Executive hereby accepts employment with MFA, in the positions and with the duties and responsibilities as set forth in Section 2 below for the Term of Employment, subject to the terms and conditions of this Agreement. Except as otherwise provided in Section 3(b)(iii) below, as of the Effective Date of this Agreement, the Former Employment Agreement is terminated.

(b) The term of employment (the “Term of Employment”) under this Agreement shall commence on the Effective Date and continue until December 31, 2021 (the “Initial Term”); provided that, the Term of Employment shall automatically renew for periods of one-year (each an “Extension Term”) unless either party gives the other party written notice at least 90 days prior to the end of the Initial Term or any Extension Term, as applicable, that the Term of Employment shall not be further extended. If the last day of the Initial Term or any Extension Term occurs during a Garden Leave period, the Term of Employment shall continue through the end of such Garden Leave. The Term of Employment may also be terminated in accordance with Section 5 hereof. The Company’s failure to renew the Term of Employment at the end of the Initial Term or any Extension Term, as applicable, shall constitute termination without Cause (as defined below). The Executive’s failure to renew the Term of Employment at

the end of the Initial Term or any Extension Term shall not, by itself, constitute a termination for Good Reason (as defined below).

2. Position; Duties and Responsibilities.

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

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

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

3. Compensation.

(a) Base Salary. During the Term of Employment, the Executive shall be entitled to receive an annualized base salary (the “Base Salary”) of not less than \$400,000. The Compensation Committee of the Board of Directors (the “Compensation Committee”) shall review the Executive’s Base Salary annually to determine whether increases or decreases are appropriate; provided that, the Executive’s Base Salary may only be decreased if such decrease is part of an overall Company reduction of executive base salaries and the applicable decrease (on a percentage basis) is substantially equivalent to that applicable to other senior executives of MFA.

(b) Performance Bonus.

(i) During the Term of Employment, the Executive shall be eligible to receive an annual bonus for the 12-month performance periods beginning each December 1 during the Term of Employment, according to the terms set forth on the attached Exhibit A. The Compensation Committee shall make all determinations with respect to the annual bonus in good faith and consistent with the attached Exhibit A.

(ii) The annual bonus shall be paid in cash as set forth on Exhibit A. The annual bonus that is payable for any performance period will be paid between January 1 and March 15 following the end of the performance period.

(iii) Any annual bonus for the 12-month period beginning on December 1, 2019 shall be determined and paid in accordance with the terms of the Former Employment Agreement, but in no event may such bonus be paid to the Executive later than March 15, 2021.

(c) Equity Compensation. To the extent that the Executive is still employed by MFA on each applicable grant date, within the first five trading days of each calendar year during the Term of Employment, the Company shall grant to the Executive a time-based RSU award and a performance-based RSU award, each of which shall be granted according to the terms set forth on the attached Exhibit B, the terms of the MFA Financial, Inc. Equity Compensation Plan or any successor thereto (the "Equity Compensation Plan") (which, for the avoidance of doubt, shall not be inconsistent with the terms set forth on Exhibit B), and the terms set forth in the form time-based RSU award agreement and the form performance-based RSU award agreement attached hereto as Exhibits C and D, respectively (the "Award Agreements"). In the event of any inconsistency between the terms of this Agreement and the Award Agreements, the terms of the Award Agreements shall govern.

(d) Stock Ownership Requirements. All shares of MFA stock distributed to the Executive by the Company under this Agreement or otherwise shall be subject to the stock ownership guidelines in effect for executives from time to time, as determined by the Board of Directors. Unless the stock ownership guidelines provide otherwise, vested shares of equity grants cannot be transferred or sold during the Executive's employment by the Company unless and until the value of the Executive's stock holdings in MFA (including shares of restricted stock and RSUs (with any RSUs that vest based on performance valued at target)) exceeds four times the Executive's Base Salary; and following the termination of Executive's employment with the Company, vested shares of equity grants may not be sold or transferred to the extent the value of the Executive's stock holdings does not exceed four times the Executive's Base Salary as of the date of the Executive's termination of employment (provided, however, that this sentence shall no longer apply following the six-month anniversary of the Executive's termination of employment). Notwithstanding the foregoing, the restrictions of this subsection (d) shall not prevent Executive from selling shares of MFA stock to satisfy income tax and employment tax obligations relating to the vesting and settlement of the equity grants to which the shares relate.

4. Employee Benefit Programs and Fringe Benefits. The Executive shall be entitled to at least 25 days in the aggregate of vacation and paid time off for each calendar year during the Term of Employment and shall be entitled to participate in all executive incentive and employee benefit programs of MFA now or hereafter made available to MFA's senior executives or salaried employees generally, as such programs may be in effect from time to time. The Executive shall be entitled to sick leave in accordance with applicable law and MFA policies. MFA shall reimburse the Executive for any and all necessary, customary and usual business

expenses incurred by Executive in connection with his employment in accordance with applicable MFA policies.

5. Termination of Employment.

(a) Termination Due to Disability. If the Executive's employment is terminated during the Term of Employment by reason of the Executive's Disability, the Executive's Term of Employment shall terminate automatically without further obligations to the Executive under this Agreement except as provided in this Section 5(a) and Section 5(g) below. In addition, and if the requirements of Section 5(j) are met:

(i) The Executive shall receive cash payments in an aggregate amount equal to the sum of (A) Executive's then current Base Salary and (B) the median of the annual bonuses paid to the Executive for the three calendar years preceding such termination (the "Median Bonus"), with such amount to be paid in cash in equal ratable installments in accordance with applicable MFA payroll practices over the 12 month period following such termination. Such installment payments shall commence as soon as possible (without undue delay), but in any event within 60 days following the date of termination on account Disability, and the first payment shall include any unpaid installments for the period prior to commencement. Notwithstanding the foregoing, in the event that the Executive's employment is terminated on account of Disability and such termination occurs within 12 months following a Change of Control (as defined below), in lieu of payment in the form of installments, the sum of the amounts set forth in the preceding clauses (A) and (B) shall be paid in a lump sum cash payment as soon as possible (without undue delay), but in any event within 60 days following the date of termination on account of Disability.

(ii) The Executive shall receive any unpaid Annual Bonus (as defined in Exhibit A) for the Performance Period (as defined in Exhibit A) immediately preceding the Executive's date of termination, which shall be paid at the time set forth in Exhibit A.

(iii) The Company shall reimburse the Executive for 100% of the COBRA premiums incurred by the Executive for the Executive and his eligible dependents under the Company's health care plan during the 18 month period following the Executive's termination of employment. Such reimbursement shall be provided on the payroll date immediately following the date on which the Executive remits the applicable premium payment and shall commence within 60 days after the termination date; provided that the first payment shall include any reimbursements that would have otherwise been payable during the period beginning on the Executive's termination date and ending on the date of the first reimbursement payment. Reimbursement payments shall be treated as taxable compensation to the Executive to the extent required by law.

(iv) All of the Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares, RSUs and stock options) shall be treated in accordance with the following and paid at the time set forth in the applicable Award Agreement:

A. Except as otherwise provided in (C) below, all unvested awards shall immediately vest.

B. All vested options shall remain exercisable until the earlier of (x) 90 days following the date of such termination or (y) the date on which each such option would have expired had the Executive's employment not terminated.

C. Any equity award that is subject to vesting based on the achievement of performance goals shall vest in accordance with the terms and conditions applicable to such award, determined as though the Executive remained actively employed through the end of the applicable performance period, provided that if the Executive's date of termination occurs within 12 months following a Change of Control, such award shall become immediately vested with respect to the target number of shares subject to such award.

(b) Termination Due to Death. If the Executive's employment is terminated during the Term of Employment by reason of the Executive's death, the Executive's Term of Employment shall terminate automatically without further obligations to the Executive, his legal representative or his estate, as the case may be, under this Agreement except as provided in this Section 5(b) and Section 5(g) below. In addition:

(i) The Executive's legal representative or his estate, as the case may be, shall receive a lump sum cash payment equal to the sum of (A) Executive's then current Base Salary and (B) the Median Bonus. Such payment shall be made as soon as possible (without undue delay), but in any event within 60 days following the date of the Executive's death.

(ii) The Executive shall receive any unpaid Annual Bonus (as defined in Exhibit A) for the Performance Period (as defined in Exhibit A) immediately preceding the Executive's date of termination, which shall be paid at the time set forth in Exhibit A.

(iii) All of the Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares, RSUs and stock options) shall be treated in accordance with the following and paid at the time set forth in the applicable Award Agreement:

A. Except as otherwise provided in (C) below, all unvested awards shall immediately vest.

B. All vested options shall remain exercisable until the earlier of (x) 90 days following the date of such termination or (y) the date on which each such option would have expired had the Executive's employment not terminated.

C. Any equity award that is subject to vesting based on the achievement of performance goals shall vest in accordance with the terms and conditions applicable to such award, determined as though the Executive remained actively employed through the end of the applicable performance period, provided that if the Executive's date of termination occurs within 12 months following a Change of Control, such award shall become immediately vested with respect to the target number of shares subject to such award.

(c) Termination By MFA Without Cause or By the Executive for Good Reason. In the event the Executive's employment is terminated during the Term of Employment by the Company without Cause or by the Executive for Good Reason (other than for Disability, as described in Section 5(a)), the Executive's Term of Employment shall terminate without further obligations to the Executive under this Agreement, except as provided in this Section 5(c) and Section 5(g) below. In addition and if the requirements of Section 5(j) are met:

(i) The Executive shall be entitled to an amount (the "Severance Amount") equal to one and one-half times the sum of (x) his then current Base Salary, and (y) the Median Bonus, with such amount to be paid in cash in equal ratable installments in accordance with applicable MFA payroll practices over the 18 month period following such termination (the "Severance Period"). The severance payments shall commence within 60 days following the date of termination, and the first payment shall include any unpaid installments for the period prior to commencement.

(ii) The Executive shall receive any unpaid Annual Bonus for the Performance Period immediately preceding the Executive's date of termination, which shall be paid at the time set forth in Exhibit A.

(iii) All of the Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares, RSUs and stock options) shall be treated in accordance with the following and paid at the time set forth in the applicable Award Agreement:

A. Except as otherwise provided in (C) below, any such awards that would otherwise have vested within 12 months following such termination had the Executive continued in employment shall immediately vest.

B. All vested options shall remain exercisable until the earlier of (x) 90 days following the date of such termination or (y) the date on

which each such option would have expired had the Executive's employment not terminated.

C. Any equity award that is subject to vesting based on the achievement of performance goals shall vest in accordance with the terms and conditions applicable to such award; provided that the equity award shall vest no less favorably than the following: the Executive shall vest in a pro-rata portion of the amount determined based on achievement of the performance goals as of the end of the applicable performance period. The pro-rata portion shall be equal to the product of (I) the number of shares subject to such award that would have vested if the Executive had remained employed through the end of the applicable performance period (if any) based on the achievement of the performance goals, and (II) a fraction, the numerator of which is the number of days during the performance period that would have elapsed as of the anniversary of the date of grant of such award next following the Executive's date of termination (but not beyond the end of the applicable performance period), and the denominator of which is the number of days in the performance period. For the avoidance of doubt, nothing in this Section 5(c)(iii)(C) requires vesting of any equity award if and to the extent that the applicable performance goals are not achieved as of the end of the applicable performance period.

The parties agree that a termination of the Executive's employment pursuant to this Section 5(c), Section 5(d), Section 5(f) or Section 5(k) below shall not be a breach of this Agreement and does not relieve either party of its/his other obligations hereunder.

(d) Termination by the Company for Cause or Voluntary Termination by the Executive. In the event the Executive's employment is terminated during the Term of Employment (i) by the Company for Cause, (ii) by the Executive on his own initiative for other than a Good Reason and other than due to the Executive's Disability, or (iii) due to the Executive's failure to renew this Agreement at the end of the Initial Term or any Extension Term, the Executive shall be entitled only to the amounts set forth in Section 5(g) below.

(e) Garden Leave. The Executive shall provide a Notice of Termination to the Company no less than 90 days prior to any termination of the Executive's employment (whether for Good Reason or without Good Reason) during the Term of Employment, other than a termination during the period described in Section 5(f), and the Company shall provide a Notice of Termination to the Executive no less than 90 days prior to any termination of the Executive's employment without Cause during the Term of Employment, other than a termination during the period described in Section 5(f). During this 90-day notice period (the "Garden Leave"), the Executive shall (i) continue to be an employee of MFA and shall make himself available to provide such services directed by the Company that are reasonably consistent with the Executive's status as a senior executive of the Company and (ii) continue to be paid his Base Salary and to be eligible to participate in the Company's benefits programs, but shall not be

eligible to earn any annual bonus with respect to a performance period that ends after the commencement of the Garden Leave. During the Garden Leave, the Company may require the Executive to resign from any position with the Company and/or remove any or all of the Executive's duties or responsibilities, which shall not constitute Good Reason or otherwise be a violation of this Agreement. The Executive agrees that he will not commence employment with any entity during or in connection with the commencement of the Garden Leave. During the Garden Leave, the Executive shall take all steps reasonably requested by the Company to effect a successful transition of client and customer relationships to the person or persons designated by the Company.

(f) **Termination Related to Change of Control.** In the event of the termination of the Executive's employment during the Term of Employment by the Company other than for Cause (and other than for Disability, as described in Section 5(a)) or by the Executive for Good Reason, in either case within 12 months following a Change of Control, or within three months prior to a Change of Control if such termination is initiated by, at the request or suggestion of, or with the agreement of, the counterparty to the Change of Control, the Executive's Term of Employment shall terminate without further obligations to the Executive under this Agreement, except as provided in Section 5(g) below. In addition and if the requirements of Section 5(j) are met:

(i) MFA shall immediately pay to Executive in a lump sum, but in all events within 60 days following the date of termination, an amount in cash equal to one and one-half times the sum of (A) the Executive's then current Base Salary and (B) the Executive's Median Bonus;

(ii) (A) All of the Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares, RSUs and stock options) shall immediately vest in full (in the case of any such award which is subject to vesting based on the achievement of performance goals, such award shall become vested with respect to the target number of shares subject to such award) and shall be paid at the time set forth in the applicable Award Agreement; and (B) any such options shall remain exercisable until the earlier of (I) 90 days following the date of such termination or (II) the date on which each such option would have expired had the Executive's employment not terminated;

(iii) The Company shall reimburse the Executive for 100% of the COBRA premiums incurred by the Executive for the Executive and his eligible dependents under the Company's health care plan during the 18 month period following the Executive's termination of employment. Such reimbursement shall be provided on the payroll date immediately following the date on which the Executive remits the applicable premium payment and shall commence within 60 days after the termination date; provided that, the first payment shall include any reimbursements that would have otherwise been payable during the period beginning on the Executive's termination date and ending on the date of the first reimbursement payment. Reimbursement

payments shall be treated as taxable compensation to the Executive to the extent required by law;

(iv) MFA shall immediately pay to Executive in a lump sum, but in all events within 60 days following the date of termination, an amount in cash equal to the Target Bonus, multiplied by a fraction, the numerator of which is the number of completed calendar days during the applicable Performance Period (as defined on Exhibit A) that the Executive was actively employed by MFA, and the denominator of which is 365; and

(v) The Executive shall receive any unpaid Annual Bonus for the Performance Period immediately preceding the Executive's date of termination, which shall be paid at the time set forth in Exhibit A.

For the avoidance of doubt, if the Executive is eligible to receive payments and benefits pursuant to this Section 5(f), he shall not be eligible to receive any payments and benefits pursuant to Section 5(a), 5(b) or 5(c).

(g) Other Payments. Upon the termination of the Executive's employment during the Term of Employment, in addition to the amounts payable under any Section above and any accrued but unpaid Base Salary, the Executive shall be entitled to receive the following:

- i. any vested deferred compensation (including any interest accrued on or appreciation in value of such deferred amounts) in accordance with the applicable plan documents;
- ii. reimbursement for reasonable business expenses incurred but not yet reimbursed by the Company; and
- iii. any other benefits to which the Executive or his legal representative may be entitled under all applicable plans and programs of the Company, as provided in Section 4 above.

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

i. This Agreement and all payments hereunder (including payments pursuant to this Section 5) are intended to comply with or be exempt from Section 409A of the Code and applicable Treasury regulations thereunder; provided that, MFA shall have no liability for any taxes or penalties incurred by the Executive pursuant to Section 409A. Notwithstanding anything herein to the contrary, the Executive shall not be entitled to any payment pursuant to this Section 5 prior to the earliest date permitted under Section 409A of the Code, and applicable Treasury regulations thereunder. To the extent any payment pursuant to this Section 5 is required to be delayed six months pursuant to the special rules of Section 409A of the Code related to "specified employees," each affected payment shall be delayed until six

months after the Executive's termination of employment, and, unless provided otherwise, with the first such payment being a lump sum equal to the aggregate payments the Executive would have received during such six-month period if no payment delay had been imposed. Any payments or distributions delayed in accordance with the prior sentence shall be paid to the Executive on the first day of the seventh month following the Executive's termination of employment. If the Executive dies during the postponement period prior to payment, the amounts delayed shall be paid within 60 days after the date of the Executive's death.

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

iii. With respect to the lump sum amounts payable in connection with a Change of Control set forth in Section 5(a)(i) and Section 5(f)(i), such amounts shall be paid in installments as described in Section 5(a)(i) and Section 5(c)(i) as though a Change of Control had not occurred, if such Change of Control does not constitute a "change in control event" for purposes of Section 409A of the Code or if otherwise required by Section 409A of the Code.

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

v. Notwithstanding anything herein to the contrary, in the event that the reimbursements provided pursuant to Section 5(a)(iii) or Section 5(f)(iii) would subject the Executive or the Company to adverse tax consequences under Section 105(h) of the Code or any tax penalties, then the parties shall enter into an economically consistent arrangement that does not cause either party to incur such adverse tax consequences or penalties.

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

(j) Release. The Company's obligation to make any payment or provide any benefit pursuant to this Section 5 (other than pursuant to Sections 5(b) and 5(g) above) shall be contingent upon, and is the consideration for, (i) the Executive executing and delivering to the Company, within 60 days after termination of his employment, a general release (the "Release"), substantially in the form annexed hereto as Exhibit E (with any revisions necessary to comply with applicable law as reasonably determined by counsel to MFA and provided in writing to the Executive within five business days after the date of the termination of his employment), and (ii) such release becoming irrevocable in accordance with its terms within 60 days after termination of employment. In the event that any payment or benefit is subject to Section 409A of the Code and the 60-day period referred to in the immediately preceding sentence spans two calendar years, any such payments or benefits required to be made hereunder during such 60-day period shall be made in the second calendar year, the first payment of which shall include all payments that would otherwise have been made prior thereto.

(k) Change in Status following an Externalization Event. Notwithstanding anything in this Section 5 to the contrary, in the event that the circumstances described in clauses (i) or (ii) below occur, then for purposes of this Agreement, the Executive's termination of employment shall not constitute a termination by the Company without Cause or a termination by the Executive for Good Reason, and the Executive shall only be entitled to the amounts set forth in Section 5(g). For the avoidance of doubt, in the event that the circumstances described in clauses (i) or (ii) below occur, the Executive shall not be eligible to receive the payments and benefits described in Section 5(c) or Section 5(f).

i. In connection with the Executive's termination of employment, MFA is managed by an external manager pursuant to a management and advisory contract and such external manager has provided the Executive with an offer of employment (x) on economic terms that are at least substantially equivalent in form and economic substance (and not in the aggregate) to those provided to the Executive immediately prior to such termination of employment, and (y) on other terms that would not be deemed to trigger "Good Reason" under the definition provided herein (an offer of employment that meets the requirements of (x) and (y), a "Qualifying Offer"); or

ii. A Change of Control occurs and immediately following such Change of Control, MFA is managed by an external manager pursuant to a management and advisory contract and such external manager has provided the Executive with a Qualifying Offer.

(l) Parachute Payments.

i. Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Payments"), would constitute an "excess

parachute payment” within the meaning of Section 280G of the Code (after taking into consideration any mitigating factors such as the value of any non-competition restrictions or similar factors), the Company shall reduce (but not below zero) the aggregate present value of the Payments under the Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide the Executive with a greater net after-tax amount than would be the case if no such reduction was made (for clarity, if not reducing the Payments will provide the Executive with a greater net after-tax amount, then no reduction shall occur). The Payments shall be reduced as described in the preceding sentence only if (A) the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local income and payroll taxes on the reduced Payments), is greater than or equal to (B) the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local income and payroll taxes on the Payments and the amount of Excise Tax (as defined below) to which the Executive would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be reduced pursuant to this Section 5(l), and any reduction shall be made in accordance with Section 409A of the Code.

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

iii. All determinations to be made under this Section 5(l) shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to a change of control, which shall provide its determinations and any supporting calculations both to the Company and the Executive within ten days of the change of control. Any such determination by such firm shall be binding upon the Company and the Executive. All fees and expenses of the accounting or consulting firm in performing the determinations referred to in this Section 5(l) shall be borne solely by the Company.

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

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

a. Cause. “Cause” shall mean the Executive’s (i) commission of a felony, a crime of moral turpitude or any crime committed against MFA, other than traffic violations; (ii) engagement in willful misconduct, willful or gross negligence, or fraud, embezzlement or misappropriation relating to significant amounts, in each case in connection with the performance of his duties under this Agreement; (iii) failure to adhere to the lawful directions of the Board of Directors or the CEO that are reasonably consistent with his duties and position provided for herein; (iv) breach in any material respect of any of the provisions of Section 7 of this Agreement; (v) material violation of the Company’s Code of Conduct or any other material written policy of the Company, including without limitation, the Company’s nondiscrimination and harassment policy; or (vi) breach in any material respect of the terms and provisions of this Agreement resulting in material and demonstrable economic injury to MFA. Notwithstanding the foregoing, (i) the Executive shall be given written notice of any action or failure to act that is alleged to constitute Cause (a “Default”), and if curable, an opportunity for 20 business days from the date of such notice in which to cure such Default, such period to be subject to extension in the discretion of the CEO and (ii) regardless of whether the Executive is able to cure any Default, the Executive shall not be deemed to have been terminated for Cause without (A) reasonable prior written notice to the Executive setting forth the reasons for the decision to terminate the Executive for Cause, (B) an opportunity for the Executive, together with his counsel, to be heard by the CEO and (C) delivery to the Executive of a Notice of Termination approved by the CEO, stating his good faith opinion that the Executive has engaged in actions or conduct described in the preceding sentence, which notice specifies the particulars of such action or conduct in reasonable detail; provided, however, MFA may suspend the Executive with pay until such time as his right to appear before the CEO, as the case may be, has been exercised, so long as such appearance is within two weeks of the date of suspension. For avoidance of doubt and notwithstanding the Executive’s cure rights, if any, if MFA reasonably determines that it is necessary to place the Executive on administrative leave, or to relieve the Executive of some or all of the Executive’s duties so that MFA may investigate any potential wrongdoing or misconduct, or pending resolution of any act, event or omission giving rise to Cause during any applicable cure period, MFA’s doing so shall not be deemed to be either a breach by MFA of any provision of this Agreement or a termination by MFA of the Executive’s employment without Cause nor shall such action constitute a basis for the Executive to terminate the Executive’s employment for Good Reason.

b. Change of Control. A “Change of Control” shall mean the occurrence of any one of the following events:

i. any “person,” as such term is used in Sections 13(d) and 14(d) of the Act (other than MFA, any of its affiliates or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of MFA or any of its affiliates, and other than the Executive) together with all “affiliates” and “associates” (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the “beneficial owner” (as such term is

defined in Rule 13d-3 under the Act), directly or indirectly, of securities of MFA representing 30% or more of either (A) the combined voting power of MFA's then outstanding securities having the right to vote in an election of the Board of Directors ("voting securities"), or (B) the then outstanding shares of common stock of MFA ("Shares") (in either such case other than as a result of an acquisition of securities directly from MFA); or

ii. persons who, as of the Effective Date of this Agreement, constitute MFA's Board of Directors (the "Incumbent Directors") cease for any reason, including, without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board of Directors, provided that any person becoming a Director of MFA subsequent to the Effective Date whose election or nomination for election was approved and/or ratified by a vote of at least a majority of the Incumbent Directors shall, for purposes of this Agreement, be considered an Incumbent Director; or

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

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

(c) Competitor. "Competitor" shall mean any entity or person that is engaged in a business that is conducted by the Company during the Executive's employment, or that is under consideration by the Board of Directors during the 12 months prior to the Executive's termination of employment, including, without limitation, (i) any mortgage REIT, (ii) any entity or person engaged in any element of acquiring mortgage backed securities ("MBS"), single

family residential mortgage loans (“Whole Loans”), credit risk transfer securities (“CRTs”) or other products or instruments in which the Company invests, including any private or public investment firm or broker dealer whose business strategy is based on or who engages in the trading, sales, investment or management of such securities, products or instruments, (iii) any entity that manages or advises (including any external advisor) either (A) a mortgage REIT or (B) an entity or person engaged in any element of acquiring MBS, Whole Loans, CRTs or other products or instruments in which the Company invests, including any private or public investment firm or broker dealer whose business strategy is based on or who engages in the trading, sales, investment or management of such securities, products or instruments and (iv) any entity or person engaged in the management or sale of single family residential real estate that is acquired as a result of foreclosure, short sale, deed-in-lieu or other actions undertaken by such entity or person in respect of investments made by such entity or person in Whole Loans.

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

(e) Disability. “Disability” shall mean the Executive’s inability for a period of six consecutive months, to render substantially the services provided for in this Agreement with or without a reasonable accommodation by reason of mental or physical disability, whether resulting from illness, accident or otherwise, other than by reason of chronic or persistent abuse of any substance (such as narcotics or alcohol), provided that a Disability for purposes of Section 5(a) shall qualify as a Disability under Section 409A of the Code to the extent required by Section 409A of the Code. Notwithstanding the foregoing, no circumstances or condition shall constitute a Disability to the extent that, if it were, a 20% tax would be imposed under Section 409A of the Code; provided that, in such a case, the event or condition shall continue to constitute a Disability to the maximum extent possible (e.g., if applicable, in respect of vesting without an acceleration of distribution) without causing the imposition of such 20% tax. In addition, nothing herein shall limit or restrict the payment of any amount subject to Section 409A of the Code upon an otherwise permitted payment event under Section 409A of the Code, including upon a separation from service.

(f) Good Reason. “Good Reason” shall mean:

- i. a material diminution in the Executive’s title, duties or responsibilities (other than in connection with the Executive’s disability);
- ii. relocation of the Executive’s place of employment without his consent outside the New York City metropolitan area;
- iii. the failure of MFA to pay within 60 business days any material payment or benefits due from MFA;
- iv. the material failure by MFA to honor any of its material obligations to the Executive.

For Good Reason to exist, the Executive must provide written notice of an event purportedly constituting Good Reason within 90 days of its occurrence, MFA must have failed to cure such

event within 15 days of such notice and the Executive must provide written notice of his decision to terminate employment, such notice to be provided within 15 days of the expiration of such cure period. The effective date of such termination shall be the end of the period of Garden Leave.

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

(h) Restricted Period. “Restricted Period” shall mean the period commencing on the Effective Date and ending on the date that is nine months following the Executive’s termination of employment for any reason.

7. Covenants.

a. Confidentiality. During the Term of Employment, and at all times thereafter, the Executive shall maintain the confidentiality of all confidential or proprietary information of the Company, or of any other person or entity with which the Executive has been involved as a direct or indirect result of his employment by, or performance of consulting or other services (including, without limitation, as a director, officer, advisor, agent, consultant or other independent contractor) for, the Company (“Confidential Information”), and, except in furtherance of his employment by the Company or as specifically required by law or by court order or as permitted by Section 7(g) or in the course of carrying out his duties for the Company, he shall not directly or indirectly disclose any such information to any person or entity; nor shall he use Confidential Information for any purpose except for the benefit of the Company. For purposes of this Agreement, “Confidential Information” includes, without limitation: client or customer lists, identities, contacts, business and financial information; investment strategies; pricing information or policies, fees or commission arrangements of the Company; marketing plans, projections, presentations or strategies of the Company; financial and budget information of the Company; personnel information, personnel lists, resumes, personnel data, organizational structure, compensation and performance evaluations; information regarding the existence or terms of any agreement or relationship between the Company and any other party; and any other information of whatever nature, which gives to the Company an opportunity to obtain an advantage over its competitors who or which do not have access to such information. This restriction shall apply regardless of whether such Confidential Information is in written, graphic, recorded, photographic, data or any machine readable form or is orally conveyed to, or memorized by, the Executive; provided, however, that this Section 7(a) shall not apply to Confidential Information that is or becomes publicly known through no act or omission on the Executive’s part. Anything to the contrary notwithstanding, nothing in this Agreement shall prevent the Executive from retaining papers and other materials of a personal nature, including personal diaries, calendars and Rolodexes, information relating to his compensation or relating to reimbursement of expenses, and copies of plans, programs and agreements relating to his employment.

b. Non-Competition and Non-Solicitation. The Executive acknowledges that during the Executive’s employment with the Company prior to and after the Effective Date, (i) the Executive has had and will continue to have access to trade secrets and other Confidential

Information of the Company, which, if disclosed, would unfairly and inappropriately assist in competition against the Company; (ii) in the course of the Executive's employment by a Competitor during the Restricted Period, the Executive would inevitably use or disclose such trade secrets and Confidential Information; (iii) the Company has substantial relationships with its customers and the Executive has had and will continue to have access to these customers; (iv) the Executive has generated and will continue to generate goodwill for the Company in the course of the Executive's employment and (v) the Executive's services are unique and irreplaceable. Therefore, in consideration of the Executive's continued employment with the Company, of the compensation and benefits provided to the Executive under this Agreement, of MFA's agreement to make severance benefits available pursuant to Section 5, and of the Executive's being granted access to the customers, trade secrets and other Confidential Information of the Company, the Executive agrees that the following restrictions on the Executive's activities during and after the Executive's employment are necessary, appropriate and reasonable to protect the goodwill, Confidential Information and other legitimate interests of the Company from unfair and inappropriate competition:

i. During the Restricted Period, the Executive will not, without the prior written consent of MFA, within the United States, manage, operate, control or be connected as a stockholder (other than as a holder of shares publicly traded on a stock exchange or the NASDAQ National Market System, provided that the Executive shall not own more than five percent of the outstanding shares of any publicly traded company) or partner with, or serve as an officer, director, employee or consultant of, any Competitor.

ii. During the Restricted Period, the Executive will not, without the prior written consent of MFA, directly or indirectly (individually, or through or on behalf of another entity as owner, partner, agent, employee, consultant, or in any other capacity), engage in any activity intentionally to interfere with, disrupt, diminish or damage the business of the Company, or its relationship with any client, supplier or other business relationship of the Company.

iii. During the Executive's employment with the Company and during the period commencing on the Executive's date of termination of employment for any reason and ending on the second anniversary of the Executive's termination of employment, the Executive will not, without the prior written consent of MFA, directly or indirectly (individually, or through or on behalf of another entity as owner, partner, agent, employee, consultant, or in any other capacity), (A) solicit, encourage, or engage in any activity to induce any employee of MFA or its affiliates to terminate employment with MFA or its affiliates, or to become employed by, or to enter into a business relationship with, any other person or entity; or (B) hire or retain any person who was an employee of MFA or its affiliates within the six month period preceding such action; provided that, (x) this Section 7(b)(iii) shall not apply to any administrative employee of MFA or its affiliates or any person who

was an administrative employee of MFA or its affiliates and (y) any hiring or solicitation pursuant to a general solicitation conducted by an entity that has hired or agreed to hire the Executive and that does not directly or indirectly target current or former employees of MFA or its affiliates, or by a headhunter employed by such entity, which in either case does not involve the Executive, shall not be a violation of this Section 7(b)(iii).

(c) MFA Materials. The Executive acknowledges that all originals and copies of materials, records and documents generated by him or coming into his possession during his employment by MFA are the sole property of MFA (“MFA Materials”). During his employment, and at all times thereafter, the Executive shall not remove, or cause to be removed, from the premises of MFA, copies of any record, file, memorandum, document, computer related information or equipment, or any other item relating to the business of MFA, except in furtherance of his duties under this Agreement. When the Executive terminates his employment with MFA, or upon request of MFA at any time, the Executive shall promptly deliver to MFA all originals and copies of MFA Materials in his possession or control and shall not retain any originals or copies in any form. The Executive further agrees to delete or destroy any and all documents, files and/or backup files containing MFA Materials on any computer or storage device owned by and/or within the care, custody or control of the Executive.

(d) No Disparagement. Each of the Executive and MFA agrees that, except as required by applicable law or compelled by process of law or as otherwise permitted pursuant to Section 7(g), during and after the Term of Employment they shall not make any derogatory, disparaging or critical statement about the other party hereto or, further in the case of statements by the Executive about (i) MFA, its parent, affiliates, or subsidiaries, if any; (ii) any product or service provided by MFA and its parent, affiliates or subsidiaries, if any; or (iii) MFA’s and its parent’s, affiliates’ or subsidiaries’, if any, prospects for the future. Nothing in this Section 7(d) shall (A) prohibit either MFA or the Executive from testifying truthfully in any legal or administrative proceeding or from truthfully responding to any untrue statement by the other party or (B) prohibit the Executive from making truthful statements in the course of carrying out his duties for MFA.

(e) Cooperation with Respect to Litigation. During the Term of Employment and at all times thereafter, the Executive agrees to give prompt written notice to MFA of any claim against the Company after becoming aware of such claim and (to the extent reasonably requested by MFA) to reasonably cooperate, in good faith and to the best of his ability, with MFA in connection with any and all pending, potential or future claims, investigations or actions which directly or indirectly relate to any action, event or activity about which the Executive may have knowledge in connection with or as a result of his employment by the Company. Such cooperation will include all assistance that MFA, its counsel or representatives may reasonably request, including reviewing documents, meeting with counsel, providing factual information and material, and appearing or testifying as a witness; provided, however, that MFA will promptly reimburse the Executive for all reasonable expenses, including travel, lodging and meals, incurred by him in fulfilling his obligations under this Section 7(e) and, except as may be required by law or by court order, should the Executive then be employed by an entity other than

MFA, such cooperation will not materially interfere with the Executive's then current employment.

(f) Remedies.

i. The Executive agrees that these restraints are necessary for the reasonable and proper protection of the Company and its trade secrets and Confidential Information and that each and every one of the restraints is reasonable in respect to subject matter, length of time and geographic area, and that these restraints, individually or in the aggregate, will not prevent the Executive from obtaining other suitable employment during the period in which the Executive is bound by the restraints. The Executive agrees that, before providing services, whether as an employee or consultant, to any entity during the Restricted Period, the Executive will provide a copy of this Agreement to such entity, and such entity shall acknowledge to MFA in writing that it has read this Agreement. Notwithstanding the foregoing terms, nothing in this Section 7 shall otherwise restrict or limit the Executive from providing services following the termination of the Executive's employment that are not expressly prohibited by the restrictions herein.

ii. The Executive acknowledges that each of these covenants has a unique, very substantial and immeasurable value to the Company, that the Executive has sufficient assets and skills to provide a livelihood while such covenants remain in force and that, as a result of the foregoing, in the event that the Executive breaches such covenants, monetary damages would be an insufficient remedy for the Company and equitable enforcement of the covenant would be proper. The Executive therefore agrees that the Company, in addition to any other remedies available to it, will be entitled to preliminary and permanent injunctive relief against any breach by the Executive of any of those covenants, without the necessity of showing actual monetary damages or the posting of a bond or other security. The Executive also agrees that, in addition to any other remedies available to the Company and notwithstanding any provision of this Agreement to the contrary, in the event Executive breaches in any material respect any of his obligations under this Section 7, the Company may immediately cease all payments under Sections 5(a), 5(b), 5(c) or 5(f) as applicable, all equity-based awards granted under this Agreement may be immediately forfeited, and the Company may require that the Executive repay any after-tax amounts previously paid to the Executive under Sections 5(a), 5(b) or 5(c), as applicable, and any stock delivered or other amounts paid (each on an after-tax basis) with respect to any equity-based awards granted under this Agreement.

iii. The Executive and MFA further agree that, in the event that any provision of this Section 7 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too

great a time, too large a geographic area or too great a range of activities, that provision will be deemed to be modified to permit its enforcement to the maximum extent permitted by law. The Executive further covenants that the Executive will not challenge the reasonableness or enforceability of any of the covenants set forth in this Section 7, it being understood that the Executive shall not be considered to have challenged the enforceability of this Section 7 by arguing that his conduct did not, in fact, violate the terms of this Section 7. The Executive further covenants that he will reimburse MFA and its affiliates for all costs (including reasonable attorneys' fees) incurred in connection with any action to enforce any of the provisions of this Section 7 if either MFA and/or its affiliates prevails on any material issue involved in such dispute or if the Executive challenges the reasonability or enforceability of any of the provisions of this Section 7. It is also agreed that each of MFA's affiliates will have the right to enforce all of the Executive's obligations to that affiliate under this Agreement, including without limitation pursuant to this Section 7.

(g) Permitted Conduct.

i. Nothing in this Agreement, including the obligations set forth in this Section 7, restricts or prohibits the Executive from initiating communications directly with, responding to any inquiries from, providing testimony before, providing confidential information to, reporting possible violations of law or regulation to, or from filing a claim or assisting with an investigation directly with a self-regulatory authority or a government agency or entity, including the U.S. Equal Employment Opportunity Commission, the Department of Labor, the National Labor Relations Board, the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General (collectively, the "Regulators"), or from making other disclosures that are protected under the whistleblower provisions of state or federal law or regulation. The Executive does not need the prior authorization of the Company to engage in such communications with the Regulators, respond to such inquiries from the Regulators, provide confidential information or documents to the Regulators, or make any such reports or disclosures to the Regulators. The Executive is not required to notify the Company that he has engaged in such communications with the Regulators.

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

of the law. Nothing in this Agreement is intended to limit any rights under such federal law.

8. Indemnification. MFA shall indemnify the Executive to the fullest extent permitted by Maryland law as amended from time to time in connection with the Executive's duties with MFA, against all costs, expenses, liabilities and losses (including, without limitation, attorneys' fees, judgments, fines, penalties, ERISA excise taxes and amounts paid in settlement) actually and reasonably incurred by the Executive in connection with an action, suit or proceeding. While the Executive is an officer of MFA, and for six years thereafter, MFA (or any successor thereto) shall provide comprehensive coverage under its officers and directors insurance policy (or policies) on substantially the same terms and levels that it provides to its senior executive officers, at MFA's sole cost.

9. Clawback Policy. The Executive agrees that all bonuses, equity compensation and other incentive compensation provided by the Company shall be subject to any applicable clawback policy implemented by the Board of Directors from time to time.

10. Assignability; Binding Nature. This Agreement shall inure to the benefit of MFA and the Executive and their respective successors, heirs (in the case of the Executive) and assigns. No rights or obligations of MFA under this Agreement may be assigned or transferred by MFA except that any such rights or obligations may be assigned or transferred pursuant to a merger or consolidation in which MFA is not the continuing entity, or the sale or liquidation of all or substantially all of the assets of MFA, provided that the assignee or transferee is the successor to all or substantially all of the assets of MFA and such assignee or transferee assumes the liabilities, obligations and duties of MFA, as contained in this Agreement, either contractually or as a matter of law. This Agreement shall not be assignable by the Executive; provided however that, in the event of the Executive's death or a judicial determination of his incapacity, references to the Executive in this Agreement shall be deemed, as appropriate, to be references to his heirs, executor(s) or other legal representative(s).

11. Representation. MFA and the Executive each represent and warrant that it or he is fully authorized and empowered to enter into this Agreement and that its or his entering into this Agreement and the performance of its or his obligations under this Agreement will not violate any agreement to which it or he is a party.

12. Entire Agreement. This Agreement contains the entire agreement between MFA and the Executive concerning the subject matter hereof and upon the Effective Date supersedes all prior agreements, understandings, discussions, negotiations and undertakings, whether written or oral, between them with respect thereto, including without limitation, the Former Employment Agreement, except as otherwise provided in Section 3(b)(iii).

13. Amendment or Waiver. This Agreement can only be changed, modified or amended in a writing that is signed by both the Executive and MFA and that specifically identifies the provision(s) of this Agreement that are being changed, modified or amended. No waiver by either MFA or the Executive at any time of any breach by the other party of any condition or provision of this Agreement shall be deemed a waiver of a similar or dissimilar

condition or provision at the same or at any prior or subsequent time. Any waiver must be in writing and signed by the Executive or the Board of Directors, as the case may be.

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

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

16. Survivorship. The respective rights and obligations of the parties hereunder shall survive any termination of this Agreement to the extent necessary to the intended preservation of such rights and obligations. For the avoidance of doubt, the covenants in Section 7 of this Agreement shall survive any termination or expiration of this Agreement and termination of the Executive's employment for any reason.

17. Governing Law. This Agreement, the rights and obligations of the parties hereto, and any claims or disputes relating thereto, shall be governed by and construed in accordance with the laws of the State of Maryland (without regard to its choice of law provisions). Each of the parties agrees that any dispute between the parties shall be resolved only in the courts of the State of Maryland or the United States District Court for the District of Maryland and the appellate courts having jurisdiction of appeals in such courts. In that context, and without limiting the generality of the foregoing, each of the parties hereto irrevocably and unconditionally (a) submits for himself or itself in any proceeding relating to this Agreement or the Executive's employment by MFA or any affiliate, or for the recognition and enforcement of any judgment in respect thereof (a "Proceeding"), to the exclusive jurisdiction of the courts of the State of Maryland, the court of the United States of America for the District of Maryland, and appellate courts having jurisdiction of appeals from any of the foregoing, and agrees that all claims in respect of any such Proceeding shall be heard and determined in such Maryland State court or, to the extent permitted by law, in such federal court; (b) consents that any such Proceeding may and shall be brought in such courts and waives any objection that he or it may now or thereafter have to the venue or jurisdiction of any such Proceeding in any such court or that such Proceeding was brought in an inconvenient court and agrees not to plead or claim the same; (c) waives all right to trial by jury in any Proceeding (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the Executive's employment by MFA or any affiliate, or his or its performance under or the enforcement of this Agreement; (d) agrees that service of process in any such Proceeding may be effected by mailing a copy of such process by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such party at his or its address as provided in Section 19; and (e) agrees that nothing in this Agreement shall affect the right to effect service of process in any other manner permitted by the laws of the State of Maryland.

18. Legal Fees.

a. MFA shall pay directly all reasonable legal fees incurred by the Executive in connection with the negotiation, preparation and execution of this Agreement up to \$10,000.

b. Subject to Section 7(f), MFA shall reimburse the Executive (and his beneficiaries) any reasonable costs and expenses (including, without limitation, reasonable attorneys' fees and other reasonable costs of counsel) incurred by the Executive (or any of his beneficiaries) in resolving any controversy, dispute or claim arising out of or relating to this Agreement (including, for the avoidance of doubt, with respect to any equity grant described in this Agreement), if the Executive (or his beneficiaries) is the prevailing party with respect to at least one material issue asserting a material breach of such Agreement by the Company.

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

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

21. Counterparts. This Agreement may be executed in two or more counterparts. Signatures delivered by facsimile (including by "pdf") shall be deemed effective for all purposes.

[Signature page follows. Remainder of page intentionally left blank.]

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

MFA FINANCIAL, INC.

By: /s/ Craig L. Knutson

Name: Craig L. Knutson

Title: Chief Executive Officer

EXECUTIVE:

By: /s/ Bryan Wulfsohn

Name: Bryan Wulfsohn

Exhibit A

Annual Performance Bonus

The following summarizes the material terms of the annual bonus (“Annual Bonus”) set forth in Section 3(b) of the Agreement to which this Exhibit A is attached. Unless otherwise specified in this Exhibit A, all defined terms have the meanings set forth in the Agreement.

1. Performance Period. The Annual Bonus shall be payable for each of the 12-month performance periods beginning each December 1 during the Term of Employment (each, a “Performance Period”).

The Executive shall be eligible to receive the Annual Bonus only if the Executive remains employed by the Company through the date on which the Annual Bonus is paid, except as provided in the two next following sentences. The Executive shall receive any unpaid Annual Bonus for the Performance Period immediately preceding the Executive’s date of termination if the Executive’s employment is terminated by the Company without Cause or by the Executive for Good Reason, or if the Executive’s employment is terminated by death or Disability, subject to compliance with Section 5(j) of the Agreement (except in the event of death). In addition, in the event of the Executive’s termination of employment in connection with a Change of Control pursuant to Section 5(f) of the Agreement, the Executive shall receive a pro-rated portion of the Annual Bonus for the partial Performance Period in which the date of termination occurs in an amount equal to the Target Bonus, multiplied by a fraction, the numerator of which is the number of completed calendar days during the applicable Performance Period that the Executive was actively employed by MFA, and the denominator of which is 365, subject to compliance with Section 5(j) of the Agreement.

Except as set forth in the immediately preceding sentence, any Annual Bonus shall be subject to achievement of the performance goals described herein. In no event shall the Executive receive any unpaid Annual Bonus in the event the Executive’s employment is terminated by the Company for Cause or by the Executive (other than for Good Reason as described above).

2. Target Bonus. For each Performance Period, the Executive’s target annual cash bonus (the “Target Bonus”) shall be \$950,000. The Compensation Committee may increase or decrease the Executive’s Target Bonus for a Performance Period; provided that, the Executive’s Target Bonus may only be decreased if such decrease is part of an overall Company reduction of executive target bonuses and the applicable decrease (on a percentage basis) is substantially equivalent to that applicable to other senior executives of MFA. The Executive is eligible to receive an Annual Bonus from zero to two times the Target Bonus for each Performance Period, based on performance goals established by the Compensation Committee for such Performance Period. The performance goals will be based on MFA’s return on average equity, the Executive’s individual performance and MFA performance and risk management, as described below, relative to target goals established by the Compensation Committee for the applicable Performance Period.

3. Performance Components. The Annual Bonus shall consist of two components:

75% of the Annual Bonus shall be payable based on MFA's return on average equity ("ROAE" and such portion of the Annual Bonus, the "ROAE Bonus").

25% of the Annual Bonus shall be payable based on the Executive's individual performance and on MFA performance and risk management (such portion of the Annual Bonus, the "IRM Bonus").

4. Definition of ROAE.

For purposes of the ROAE Bonus: "ROAE" means (i) MFA Return, divided by (ii) MFA Average Equity, for the 12 month Performance Period.

"MFA Return" means net income as determined in accordance with GAAP, but excluding non-cash expense items such as depreciation expense, amortization of goodwill, life-of-loan loss reserves recorded at acquisition under the Current Expected Credit Losses accounting standard (ASU 2016-13), write off of offering expenses incurred in connection with the redemption of equity and/or debt and other non-cash expense items as determined by the Compensation Committee in its sole discretion for the applicable Performance Period. If, for any portion of any Performance Period, (i) MFA does not use hedge accounting or (ii) its derivative hedging instruments or any portion thereof are otherwise deemed ineffective, which in either case, results in changes in the value of such hedging instruments being recorded in MFA's GAAP income statement, then any gains or losses from such hedging instruments will also be excluded from the calculation of MFA Return.

"MFA Average Equity" means the stockholders' equity of MFA as determined in accordance with GAAP, but excluding accumulated other comprehensive income or loss (which, among other things, reflects unrealized gains or losses in MFA's residential mortgage-backed securities portfolio), stockholders' equity attributable to preferred stock and other items as determined by the Compensation Committee in its sole discretion for the applicable Performance Period. For purposes of calculating ROAE, MFA Average Equity shall be determined based on the average of MFA's stockholders' equity calculated as described in the preceding sentence as of the last day of each month during the applicable Performance Period.

5. ROAE Bonus

For each Performance Period, the target amount of the ROAE Bonus will be equal to 75% of the Target Bonus, and the Executive shall be eligible to receive from zero to two times such target amount of ROAE Bonus based on the achievement of the threshold, target, and maximum ROAE performance goals established by the Compensation Committee for the Performance Period, which shall be established within ninety (90) days following commencement of the applicable Performance Period. If performance is between threshold and target goals or between target and maximum goals, the amount of the ROAE Bonus will be determined by straight line interpolation.

6. IRM Bonus

For each Performance Period, the target amount of the IRM Bonus will be equal to 25% of the Target Bonus, and the Executive shall be eligible to receive from zero to two times the target amount of such IRM Bonus. The amount of the IRM Bonus shall be determined by the Compensation Committee in its sole discretion, based upon any factors deemed relevant and appropriate by the Compensation Committee in its sole discretion, including without limitation:

MFA's leverage strategy relative to business plan and peers;

MFA's total stockholder return relative to the S&P financial index or other relevant indices;

MFA's total stockholder return relative to its peer group;

MFA's absolute total stockholder return;

MFA's other asset management activities; and

The Executive's individual performance.

7. Form of Payment

For each Performance Period, the sum of the ROAE Bonus and the IRM Bonus shall equal the Annual Bonus. The Annual Bonus shall be paid in cash between January 1 and March 15 following the end of the Performance Period.

8. Committee Determinations

All determinations with respect to the Annual Bonus, including the amount, if any, which is payable to the Executive for each Performance Period, shall be made by the Compensation Committee, in good faith and in compliance with this Exhibit A. Any such determinations shall be final and binding on the Executive and MFA.

Exhibit B

Summary of the Company's Long Term Incentive Program

The following summarizes certain material components of the Company's Long Term Incentive Program as applicable to grants under Section 3(c) of the Agreement to which this Exhibit B is attached. Notwithstanding any provision of the Agreement or this Exhibit B, all grants under Section 3(c) of the Agreement shall be subject to, and consistent with, the terms and conditions of the Equity Compensation Plan and the Award Agreements. Unless otherwise specified in this Exhibit B, all defined terms have the meanings set forth in the Agreement.

1. Annual Grants.

To the extent that the Executive is still employed by MFA on each applicable grant date, within the first five trading days of each calendar year during the Term of Employment, the Executive shall receive grants of restricted stock units subject to time vesting ("TRSUs") and restricted stock units which vest based on the achievement of performance goals ("PRSUs"). The TRSU and PRSU grants shall be subject to the terms of the applicable Award Agreements and the Equity Compensation Plan.

2. TRSUs

The annual grant of TRSUs will provide for a grant of TRSUs with respect to a number shares of MFA common stock equal to a specified dollar value (the "TRSU Grant Date Value") divided by the closing price of MFA common stock on the date of grant, rounded to the nearest whole share. The TRSU Grant Date Value shall be equal to \$320,000, provided that, the Committee may increase or decrease such amount for any annual grant of TRSUs made in 2022 and future years, upon reasonable notice and consultation with the Executive.

The TRSUs will become fully vested on the third December 31 following the date of grant, provided that the Executive remains employed for the entire vesting period and subject to vesting as set forth in the applicable Award Agreement, and as described in Sections 5(a), 5(b), 5(c) and 5(f) of the Agreement. Any unvested TRSUs shall be forfeited as of the date of Executive's termination of employment, except as provided in the applicable Award Agreement, as described in Sections 5(a), 5(b), 5(c) and 5(f) of the Agreement.

Upon the settlement date set forth in the applicable Award Agreement, the Executive will receive one share of common stock of MFA for each vested TRSU.

In the event that dividends are declared with respect to the common stock of MFA during the period in which the TRSUs are outstanding, the Executive shall be credited with an amount, per TRSU, equal to the amount of dividends declared and paid in respect of one share of common stock of MFA. Such credited amount will be credited in the form of additional TRSUs (such TRSUs, "DER TRSUs"), based on the fair market value of a share of common stock of MFA on the payment date of the cash dividend (rounded to the nearest whole share). The DER TRSUs will include the right to receive additional DER TRSUs with respect to any additional dividends

declared and will be subject to the same terms and conditions (including with respect to vesting and payment timing) applicable to the grant of the TRSUs with respect to which such DER TRSUs were credited, provided that the DER TRSUs shall be paid in cash (and not in shares), based on the fair market value of a share of common stock of MFA as of the date of vesting.

3. PRSUs

As further described below, 50% of each annual grant of PRSUs (the “Absolute TSR PRSUs”) will vest based on MFA’s average total shareholder return (“Average TSR”) for the three year performance period beginning on January 1 of the year of grant (the “TSR Performance Period”), and 50% of each annual grant of PRSUs (the “Relative TSR PRSUs”) will vest based on MFA’s TSR compared to the TSR of designated peer group companies, as set forth in the applicable Award Agreement, during the TSR Performance Period.

Each annual grant of PRSUs will provide for a target grant of Absolute TSR PRSUs (the “Absolute TSR Target Award”) and a target grant of Relative TSR PRSUs (the “Relative TSR Target Award”).

The Absolute TSR Target Award shall be a number of PRSUs equal to (a) divided by (b), where (a) is equal to 50% of the PRSU Grant Date Value and (b) is equal to the grant date fair value per unit of one Absolute TSR PRSU. The Relative TSR Target Award shall be a number of PRSUs equal to (a) divided by (b), where (a) is equal to 50% of the PRSU Grant Date Value and (b) is equal to the grant date fair value per unit of one Relative TSR PRSU. The PRSU Grant Date Value shall be equal to \$480,000, provided that, the Committee may increase or decrease such amount for any annual grant of PRSUs made in 2022 and future years, upon reasonable notice and consultation with the Executive.

Each TSR Performance Period shall be the three-year period beginning on January 1st of the calendar year in which the applicable grant of PRSUs is made.

The PRSUs will vest on the last day of the applicable TSR Performance Period, to the extent that the total shareholder return performance goals described below are achieved, provided that the Executive remains employed for the entire vesting period and subject to vesting as set forth in the applicable Award Agreement, as described in Sections 5(a), 5(b), 5(c) and 5(f) of the Agreement. Any unvested PRSUs shall be forfeited as of the date of Executive’s termination of employment, except as provided in the applicable Award Agreement, as described in Sections 5(a), 5(b), 5(c) and 5(f) of the Agreement.

Upon the settlement date set forth in the applicable Award Agreement, the Executive will receive one share of common stock of MFA for each vested PRSU. Notwithstanding anything to the contrary in this Exhibit B, the fair market value of the shares of MFA common stock delivered, measured as of the last day of the Performance Period (or, if earlier, the date on which the PRSUs are settled pursuant to terms of the applicable Award Agreement), shall not exceed 400% of the fair market value of the target amount of PRSUs measured on the grant date (the “Maximum Cap”), and any and all amounts otherwise payable pursuant to the applicable Award Agreement in excess of the Maximum Cap shall be forfeited, provided that, payment with

respect to the dividend equivalent rights described below for dividends declared and paid following the end of the Performance Period shall not count against the Maximum Cap.

For purposes of the PRSUs, TSR of MFA and each applicable peer group company for the vesting period shall be calculated as follows:

“TSR” is equal to (x) the Average Final Price minus the Average Initial Price, plus Dividends Paid on common stock in respect of the TSR Performance Period, divided by (y) the Average Initial Price.

The “Average Initial Price” is equal to the average of the daily closing price of common stock during the last 20 trading days immediately prior to the first day of the TSR Performance Period.

The “Average Final Price” is equal to the average of the daily closing price of common stock during the last 20 trading days in the TSR Performance Period.

The “Dividends Paid” shall equal the cumulative dividends (including any stock dividends) paid per share of common stock in respect of the TSR Performance Period. For this purpose, dividends declared, but not yet paid, on a share within the 45 day period preceding the applicable vesting date will be counted as Dividends Paid. Notwithstanding the foregoing, if any dividends were included in Dividends Paid for purposes of calculating TSR for the year prior to the year in which the TSR Performance Period commences, then such dividends will not be included in Dividends Paid for purposes of calculating TSR for any subsequent performance period.

Absolute TSR PRSUs

For purposes of the TSR PRSUs, the “Average TSR” for the Performance Period is the TSR, divided by 3, and the “Target TSR” is an 8% per annum simple cumulative return over the TSR Performance Period. MFA’s Average TSR will be compared to the Target TSR to determine whether and to what extent the Absolute TSR PRSUs will vest.

The number of Absolute TSR PRSUs that will vest at the end of the Performance Period shall be determined by comparing the MFA’s Average TSR to the Target TSR (8% per year), up to a maximum vesting of 200% of the Absolute TSR Target Award (subject to the Maximum Cap described above). Any Absolute TSR PRSUs that do not vest at the end of the TSR Performance Period shall be forfeited.

Example Calculations

Set forth below are examples addressing vesting of Absolute TSR PRSUs. The examples below are intended to be used purely for illustrative purposes and assume that the Absolute

TSR Target Award for the applicable grant of Absolute TSR PRSUs is equal to 50,000, and assume that the Maximum Cap does not apply.

Example 1:

If MFA's Average TSR over the TSR Performance Period was 2%, then the portion of the Absolute TSR PRSUs that would be eligible to vest would be equal to: (2/8) of the Absolute TSR Target Award, or 12,500 PRSUs.

Example 2:

If MFA's Average TSR over the TSR Performance Period was 12%, then the portion of the Absolute TSR PRSUs that would be eligible to vest would be equal to: (12/8) of the Absolute TSR Target Award, or 75,000 PRSUs.

Example 3:

If MFA's Average TSR over the TSR Performance Period was 16%, then the portion of the Absolute TSR PRSUs that would be eligible to vest would be equal to (16/8) of the Absolute TSR Target Award, or 100,000 PRSUs (maximum vesting).

Relative TSR PRSUs

At the end of each TSR Performance Period, MFA's TSR and the TSR of each of the designated peer group companies will be ranked from highest to lowest, and the "Relative TSR Vesting Percentage" shall be determined based on MFA's TSR as compared to the TSR of the designated peer group companies for the TSR Performance Period as follows:

| MFA's TSR Rank | Relative TSR Vesting Percentage |
|--------------------------|--|
| 80th percentile or above | 200% |
| 50th percentile | 100% |
| 25th percentile or below | 0% |

If MFA's TSR Rank is between the 25th percentile and the 50th percentile, or between the 50th percentile and the 80th percentile, the Relative TSR Vesting Percentage will be interpolated.

Notwithstanding the provisions set forth above, in the event that the MFA's TSR is a negative number, the Relative TSR Vesting Percentage shall not exceed 100%.

The number of Relative TSR PRSUs that will vest for the TSR Performance Period shall be determined by multiplying the Relative TSR Target Award by the Relative TSR Vesting Percentage.

For the avoidance of doubt, in no event shall any Relative TSR PRSUs vest if MFA's TSR Rank is at or below the 25th percentile.

The Executive shall not be eligible to receive more than 200% of the Relative TSR Target Award based on MFA's TSR Rank.

Example Calculations

Set forth below are examples addressing vesting of Relative TSR PRSUs. The examples below are intended to be used purely for illustrative purposes and assume that the Relative TSR Target Award for the applicable grant of Relative TSR PRSUs is equal to 50,000, MFA's TSR is a positive number, and the Maximum Cap does not apply.

Example 1:

If MFA's TSR Rank at the end of the TSR Performance Period was 15 out of 18, MFA would be in the 17th percentile. Because MFA's TSR Rank would be below the 25th percentile, the Relative TSR Vesting Percentage would be equal to 0, so that none of the Relative TSR Target Award would become vested. 100% of the Relative TSR Target Award for that TSR Performance Period would be forfeited.

Example 2:

If MFA's TSR Rank at the end of the TSR Performance Period was nine out of 18, MFA would be in the 50th percentile. The Relative TSR Vesting Percentage would be equal to 100, so that 100% of the Relative TSR Target Award (50,000 PRSUs) would become vested.

Example 3:

If MFA's TSR Rank at the end of the TSR Performance Period was two out of 18, MFA would be in the 89th percentile. The Relative TSR Vesting Percentage would be equal to 200, so that 200% of the Relative TSR Target Award (100,000 PRSUs) would become vested.

Dividend Equivalent Rights on PRSUs

In the event that dividends are declared with respect to the common stock of MFA during the period beginning on the grant date of the PRSUs and ending on the last day of the Performance Period, or if earlier, the date on which the PRSUs are settled (such period, the "Dividend Period"), then an amount equal to the dividends that the Executive would have received if the Executive had owned a number of shares of MFA common stock equal to the number of outstanding PRSUs as of the date the dividend is declared shall be accrued in a bookkeeping account. Accrued dividend amounts shall only be payable, as described below, to the extent that the underlying PRSUs vest and are distributed.

When vested PRSUs (whether Absolute TSR PRSUs or Relative TSR PRSUs) are distributed to the Executive, the Executive shall receive additional shares of MFA stock equal in value to the accumulated dividends applicable to the shares distributed with respect to the vested PRSUs. The number of shares to be distributed with respect to such accrued dividend amounts shall be calculated as follows: (i) the accumulated dividends declared per share of MFA common stock during the Dividend Period, multiplied by (ii) the number of shares of MFA stock distributed

with respect to vested PRSUs, divided by (iii) the per share stock price of MFA common stock on the last day of the Performance Period, or if earlier, the date on which the PRSUs are settled, rounded down to the nearest whole share. Such additional shares shall be delivered on the same day as the vested PRSUs are distributed. In the event that dividends are declared with respect to the common stock of MFA during the period beginning on the date immediately following the end of the Performance Period and ending on the date on which the PRSUs are settled, then an amount equal to the dividends that the Executive would have received if the Executive had owned a number of shares of MFA common stock equal to the number of outstanding PRSUs as of the date the dividend is declared shall be paid to the Executive in cash on the date such dividend is paid to shareholders of MFA common stock.

4. Withholding Obligations

The parties hereto acknowledge and understand that MFA or the Executive may require or elect (as the case may be) that the Executive satisfy any federal, state or local tax withholding obligation with respect to TRSUs and PRSUs by withholding shares from the shares otherwise issuable to the Executive, provided that such shares shall not exceed the minimum applicable tax withholding required by law, or such higher amount that does not result in adverse accounting treatment for the Company, as approved in advance by the Compensation Committee.

5. Committee Determinations

All determinations with respect to the TRSUs and PRSUs shall be made by the Compensation Committee, in good faith and in compliance with this Exhibit B. Any such determinations shall be final and binding on the Executive and MFA.

Exhibit C

Form of TRSU Award Agreement

Exhibit D

Form of PRSU Award Agreement

Exhibit E

Release

This Release of Claims (this “Release”) is made as of _____, by and between MFA FINANCIAL, INC. (“MFA”) and _____ (the “Executive”).

(a) The Executive, on behalf of himself, his agents, heirs, successors, assigns, executors and administrators, in consideration for the termination payments and other consideration provided for under the Employment Agreement entered into by MFA and the Executive, as from time to time amended in accordance with its terms (the “Employment Agreement”), hereby forever releases and discharges MFA, and its successors, its affiliated entities, and, in such capacities, its past and present directors, employees, agents, attorneys, accountants, representatives, plan fiduciaries, successors and assigns from any and all known and unknown causes of action, actions, judgments, liens, indebtedness, damages, losses, claims, liabilities, and demands of whatsoever kind and character in any manner whatsoever arising on or prior to the date of this Release, including but not limited to (i) any claim for breach of contract, breach of implied covenant, breach of oral or written promise, wrongful termination, intentional infliction of emotional distress, defamation, interference with contract relations or prospective economic advantage, negligence, misrepresentation or employment discrimination, and including without limitation alleged violations of Title VII of the Civil Rights Act of 1964, as amended, prohibiting discrimination based on race, color, religion, sex or national origin; the Employee Retirement Income Security Act of 1974 (“ERISA”); the Family and Medical Leave Act; the Americans With Disabilities Act; the Age Discrimination in Employment Act; the Fair Labor Standards Act; the federal Worker Adjustment and Retraining Notification Act; the federal Equal Pay Act; any federal False Claims Act; the Occupational Safety and Health Act; the Fair Credit Reporting Act; the New York State Human Rights Law; the New York City Human Rights Law; the New York Labor Law; the New York Executive Law; New York Equal Pay Law; New York Civil Rights Law; the New York Worker Adjustment and Retraining Notification Act; and any other federal, state and local laws, ordinances and regulations; (ii) any and all liability that was or may have been alleged against or imputed to MFA by the Executive or by anyone acting on his behalf; (iii) all claims for monetary or equitable relief, employment or reemployment with MFA in any position, and any punitive, compensatory or liquidated damages; and (iv) all rights to and claims for attorneys’ fees and costs except as otherwise provided in the Employment Agreement. The only claims that are not being waived and released by the Executive under this Release are (i) claims for indemnification or D&O coverage or any claim arising under, or preserved by, Section 5 of the Employment Agreement, (ii) claims that, cannot be waived as a matter of law or public policy, (iii) claims based on any wrongful act or omission occurring after the date Executive signs this Release, (iv) claims to vested benefits under any compensation or benefit plan, program or arrangement in which the Executive was participating as of the date of termination of his employment, (v) claims seeking enforcement of this Release or the Employment Agreement, and (vi) claims challenging the legality of this Release in a legal proceeding pursuant to the Older Workers Benefit Protection Act and the Age Discrimination in Employment Act. The Executive acknowledges that the Executive has not made any claims or allegations related to discrimination, harassment or sexual abuse and none of

the termination payments and other consideration provided for under the Employment Agreement are related to discrimination, harassment or sexual abuse.

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

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

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

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

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

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

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

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

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

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

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

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

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

IN WITNESS WHEREOF, the parties have hereunto set their hands this _____ day of

_____.

By: _____

Name:

Title:

AGREEMENT

THIS AGREEMENT (this "Agreement") is entered into this 6th day of May, 2020 (the "Effective Date"), by and between Harold E. Schwartz ("Executive") and MFA Financial, Inc. ("MFA" or the "Company").

WHEREAS, the Company and Executive desire to enter into an agreement to reflect their understanding with respect to termination benefits to be provided in the event of a qualifying termination of Executive's employment as set forth herein.

WHEREAS, Executive has agreed to certain confidentiality and non-solicitation covenants contained herein in consideration of the additional benefits provided to Executive under this Agreement.

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

1. Term of Agreement. The term of this Agreement shall commence as of the Effective Date and shall continue in effect until December 31, 2021 (the "Expiration Date") or, if earlier, the date on which Executive's employment terminates in accordance with Section 2 below. For the avoidance of doubt, if Executive does not experience a qualifying termination of employment in accordance with Section 2 below prior to the Expiration Date, this Agreement shall terminate, and neither Executive nor the Company shall have any further rights under this Agreement.

2. Qualifying Termination of Employment.

(a) Termination by the Company Without Cause or by Executive for Good Reason. In the event Executive's employment with the Company is terminated by the Company without Cause or by Executive for Good Reason (and not, for the avoidance of doubt, in connection with a termination of employment on account of death or disability), in either case prior to the Expiration Date, Executive shall be entitled to receive the severance benefits described below, subject to Section 2(e):

(i) Executive shall receive a lump sum cash payment of an amount equal to the sum of (i) Executive's annual base salary in effect immediately before the Termination Date (as defined in Section 3) without regard to any adjustments constituting Good Reason, if applicable, and (ii) the average of the annual bonuses paid to the Executive for the three calendar years preceding the Termination Date. Such payment shall be made as soon as practicable following the effective date of the Release (as defined below) but no later than the 60th day after the Termination Date.

(ii) The Company shall reimburse Executive for 100% of the COBRA premiums incurred by Executive for Executive and his eligible dependents under the Company's health care plan during the 12 month period following the Termination Date. Such reimbursements shall be provided on the payroll date immediately following the date on which Executive remits the applicable premium payment and shall commence within 60 days after the Termination Date; provided that the first payment shall include any reimbursements that would have otherwise been payable during the period beginning on the Termination Date and ending on the date of the first reimbursement payment. Reimbursement payments shall be treated as taxable compensation to Executive to the extent required by law.

(iii) All of Executive's outstanding equity-based awards (e.g., restricted stock, phantom shares and restricted stock units) shall be treated in accordance with the following:

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

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

C. Notwithstanding the provisions of this Section 2(a)(iii), to the extent that any award agreement governing any of Executive's equity awards outstanding as of the Termination Date contains provisions more favorable than those set forth in this Section 2(a)(iii), then such provisions shall apply to Executive if Executive's employment terminates under the applicable circumstances set forth in such award agreement.

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

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

i. Notwithstanding anything herein to the contrary, Executive shall not be entitled to any payment pursuant to this Section 2 prior to the earliest date permitted under Section 409A of the Code, and applicable Treasury regulations thereunder. To the extent any payment pursuant to this Section 2 is required to be delayed six months pursuant to the special rules of Section 409A of the Code related to “specified employees,” each affected payment shall be delayed until six months after Executive’s termination of employment, and, unless provided otherwise, with the first such payment being a lump sum equal to the aggregate payments Executive would have received during such six-month period if no payment delay had been imposed. Any payments or distributions delayed in accordance with the prior sentence shall be paid to Executive on the first day of the seventh month following Executive’s termination of employment. If Executive dies during the postponement period prior to payment, the amounts delayed shall be paid within 60 days after the date of Executive’s death.

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

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

iv. Notwithstanding anything herein to the contrary, in the event that the reimbursements provided pursuant to Section 2(a)(ii) would subject Executive or the Company to adverse tax consequences under Section 105(h) of the Code or any tax penalties, then the parties shall enter into an economically consistent arrangement that does not cause either party to incur such adverse tax consequences or penalties.

(d) No Mitigation; No Offset. In the event of any termination of Executive’s employment under this Agreement, Executive shall be under no obligation to seek other employment or otherwise in any way to mitigate the amount of any payment provided for in this Section 2, and there shall be no offset against amounts due Executive under this Agreement on account of any remuneration attributable to any subsequent employment that Executive may obtain.

(e) Release. The Company's obligation to make any payment or provide any benefit pursuant to this Section 2 shall be contingent upon, and is the consideration for, (i) Executive executing and delivering to the Company, within 50 days after termination of his employment, a general release (the "Release"), substantially in the form annexed hereto as Exhibit A (with any revisions necessary to comply with applicable law as reasonably determined by counsel to MFA and provided in writing to Executive within five business days after the Termination Date), and (ii) such release becoming irrevocable in accordance with its terms. Notwithstanding any provision of Section 2(a), in the event that the 60-day period following the Termination Date spans two calendar years, any such payments or benefits required to be made hereunder during such 60-day period shall be made in the second calendar year, the first payment of which shall include all payments that would otherwise have been made prior thereto.

(f) Parachute Payments.

(i) Notwithstanding any other provisions of this Agreement to the contrary, in the event that it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Payments"), would constitute an "excess parachute payment" within the meaning of Section 280G of the Code (after taking into consideration any mitigating factors such as the value of any non-competition restrictions or similar factors), the Company shall reduce (but not below zero) the aggregate present value of the Payments under the Agreement to the Reduced Amount (as defined below), if reducing the Payments under this Agreement will provide Executive with a greater net after-tax amount than would be the case if no such reduction was made. The Payments shall be reduced as described in the preceding sentence only if (A) the net amount of the Payments, as so reduced (and after subtracting the net amount of federal, state and local income and payroll taxes on the reduced Payments), is greater than or equal to (B) the net amount of the Payments without such reduction (but after subtracting the net amount of federal, state and local income and payroll taxes on the Payments and the amount of Excise Tax (as defined below) to which Executive would be subject with respect to the unreduced Payments). Only amounts payable under this Agreement shall be reduced pursuant to this Section 2(f), and any reduction shall be made in accordance with Section 409A of the Code.

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

(iii) All determinations to be made under this Section 2(f) shall be made by an independent registered public accounting firm or consulting firm selected by the Company immediately prior to a change of control, which shall provide its determinations and any supporting calculations both to the Company and Executive within ten days of the change of control. Any such determination by such firm shall be binding upon the Company and Executive. All fees and expenses of the accounting or consulting firm in performing the determinations referred to in this Section 2(f) shall be borne solely by the Company.

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

3. Definitions. For purposes of this Agreement, the following terms shall have the meanings specified in this Section 3:

a. "Cause" shall mean Executive's (i) commission of a felony, a crime of moral turpitude or any crime committed against MFA, other than traffic violations; (ii) engagement in willful misconduct, willful or gross negligence, or fraud, embezzlement or misappropriation relating to significant amounts, in each case in connection with the performance of his employment duties; (iii) failure to adhere to the lawful directions of the Board of Directors of MFA or the Chief Executive Officer of MFA (the "CEO") that are reasonably consistent with Executive's duties and position; (iv) breach in any material respect of any of the provisions of Section 5 of this Agreement; or (v) breach in any material respect of the terms and provisions of this Agreement resulting in material and demonstrable economic injury to MFA. Notwithstanding the foregoing, (A) Executive shall be given written notice of any action or failure to act that is alleged to constitute Cause (a "Default"), and if curable, an opportunity for 20 business days from the date of such notice in which to cure such Default, such period to be subject to extension in the discretion of the CEO and (B) regardless of whether Executive is able to cure any Default, Executive shall not be deemed to have been terminated for Cause without (I) reasonable prior written notice to Executive setting forth the reasons for the decision to terminate Executive for Cause, (II) an opportunity for Executive, together with his counsel, to be heard by the CEO and (III) delivery to Executive of a Notice of Termination approved by the CEO, stating his good faith opinion that Executive has engaged in actions or conduct described in the preceding sentence, which notice specifies the particulars of such action or conduct in reasonable detail; provided, however, MFA may suspend Executive with pay until such time as his right to appear before the CEO, as the case may be, has been exercised, so long as such appearance is within two weeks of the date of suspension.

b. "Code" shall mean the Internal Revenue Code of 1986, as amended.

c. "Good Reason" shall mean (i) a material diminution in Executive's title, duties or responsibilities (other than in connection with Executive's disability); (ii) relocation of

Executive's place of employment without his consent outside the New York City metropolitan area; (iii) the failure of MFA to pay within 60 business days any material payment or benefits due from MFA; or (iv) the material failure by MFA to honor any of its material obligations to Executive.

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

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

(e) "Termination Date" shall mean the effective date of the termination of Executive's employment relationship with the Company.

4. Notice of Termination. Any termination of Executive's employment shall be communicated by a written notice of termination to the other party hereto given in accordance with Section 6. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon and (ii) specify the Termination Date in accordance with the requirements of this Agreement.

5. Covenants.

(a) Confidentiality. During the term of Executive's employment with the Company, and at all times thereafter, Executive shall maintain the confidentiality of all confidential or proprietary information of the Company, or of any other person or entity with which Executive has been involved as a direct or indirect result of his employment by, or performance of consulting or other services (including, without limitation, as a director, officer, advisor, agent, consultant or other independent contractor) for, the Company ("Confidential Information"), and, except in furtherance of his employment by the Company or as specifically required by law or by court order or as permitted by Section 5(d) or in the course of carrying out his duties for the Company, he shall not directly or indirectly disclose any such information to any person or entity; nor shall he use Confidential Information for any purpose except for the benefit of the Company. For purposes of this Agreement, "Confidential Information" includes, without limitation: client or customer lists, identities, contacts, business and financial information; investment strategies; pricing information or policies, fees or commission arrangements of the Company; marketing plans, projections, presentations or strategies of the Company; financial and budget information of the Company; personnel information, personnel lists, resumes, personnel data, organizational structure, compensation and performance evaluations; information regarding the existence or terms of any agreement or relationship between the Company and any other party; and any other information of whatever nature, which gives to the Company an opportunity to obtain an advantage over its competitors who or which do not have access to such information. This restriction shall apply regardless of whether such Confidential Information is in written, graphic, recorded, photographic, data or any machine

readable form or is orally conveyed to, or memorized by, Executive; provided, however, that this Section 5(a) shall not apply to Confidential Information that is or becomes publicly known through no act or omission on Executive's part. Anything to the contrary notwithstanding, nothing in this Agreement shall prevent Executive from retaining papers and other materials of a personal nature, including personal diaries, calendars and Rolodexes, information relating to his compensation or relating to reimbursement of expenses, and copies of plans, programs and agreements relating to his employment.

(b) Non-Solicitation of Employees. In consideration of Executive's continued employment with the Company, MFA's agreement to make severance benefits available pursuant to Section 2, and Executive's being granted access to the trade secrets and other Confidential Information of the Company, Executive agrees that during Executive's employment with the Company and during the period commencing on Executive's date of termination of employment for any reason and ending on the first anniversary of Executive's termination of employment, Executive will not, without the prior written consent of MFA, directly or indirectly (individually, or through or on behalf of another entity as owner, partner, agent, employee, consultant, or in any other capacity), (i) solicit, encourage, or engage in any activity to induce any employee of MFA or its affiliates to terminate employment with MFA or its affiliates, or to become employed by, or to enter into a business relationship with, any other person or entity; or (ii) hire or retain any person who was an employee of MFA or its affiliates within the six month period preceding such action; provided that, (A) this Section shall not apply to any administrative employee of MFA or its affiliates or any person who was an administrative employee of MFA or its affiliates and (B) any hiring or solicitation pursuant to a general solicitation conducted by an entity that has hired or agreed to hire Executive and that does not directly or indirectly target current or former employees of MFA or its affiliates, or by a headhunter employed by such entity, which in either case does not involve Executive, shall not be a violation of this Section.

(c) Remedies.

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

ii. Executive acknowledges that each of these covenants has a unique, very substantial and immeasurable value to the Company, and that, as a result, in the event that Executive breaches such covenants, monetary damages would be an insufficient remedy for the Company and equitable enforcement of the covenant would be proper. Executive therefore agrees that the Company, in addition to any other remedies available to it, will be entitled to preliminary and permanent injunctive relief against any breach by Executive of any of such covenants,

without the necessity of showing actual monetary damages or the posting of a bond or other security.

iii. Executive and MFA further agree that, in the event that any provision of this Section 5 is determined by any court of competent jurisdiction to be unenforceable by reason of its being extended over too great a time, too large a geographic area or too great a range of activities, that provision will be deemed to be modified to permit its enforcement to the maximum extent permitted by law. Executive further covenants that Executive will not challenge the reasonableness or enforceability of any of the covenants set forth in this Section 5 and that Executive will reimburse MFA and its affiliates for all costs (including reasonable attorneys' fees) incurred in connection with any action to enforce any of the provisions of this Section 5 if either MFA and/or its affiliates prevails on any material issue involved in such dispute or if Executive challenges the reasonability or enforceability of any of the provisions of this Section 5, it being understood that Executive shall not be considered to have challenged the enforceability of this Section 5 by arguing that his conduct did not, in fact, violate the terms of this Section 5. It is also agreed that each of MFA's affiliates will have the right to enforce all of Executive's obligations to that affiliate under this Agreement, including without limitation pursuant to this Section 5.

(d) Permitted Conduct.

i. Nothing in this Agreement, including the obligations set forth in this Section 5, restricts or prohibits Executive from initiating communications directly with, responding to any inquiries from, providing testimony before, providing confidential information to, reporting possible violations of law or regulation to, or from filing a claim or assisting with an investigation directly with a self-regulatory authority or a government agency or entity, including the U.S. Equal Employment Opportunity Commission, the Department of Labor, the National Labor Relations Board, the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General (collectively, the "Regulators"), or from making other disclosures that are protected under the whistleblower provisions of state or federal law or regulation. Executive does not need the prior authorization of the Company to engage in such communications with the Regulators, respond to such inquiries from the Regulators, provide confidential information or documents to the Regulators, or make any such reports or disclosures to the Regulators. Executive is not required to notify the Company that he has engaged in such communications with the Regulators.

ii. The Company hereby notifies Executive that federal law provides criminal and civil immunity to federal and state claims for trade secret misappropriation to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances that are set

forth at 18 U.S.C. §§ 1833(b)(1) and 1833(b)(2), related to the reporting or investigation of a suspected violation of the law, or in connection with a lawsuit for retaliation for reporting a suspected violation of the law. Nothing in this Agreement is intended to limit any rights under such federal law.

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

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

8. Contents of Agreement; Amendment and Assignment.

(a) Effective as of the Effective Date, this Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and cannot be changed, modified, extended or terminated except upon written amendment approved by the Compensation Committee of the Board and executed on its behalf by a duly authorized officer of the Company and by Executive; provided that, this Agreement shall not replace or supersede any obligation of the Company to provide severance payments in connection with the imposition of any non-competition restrictions set forth in any of Executive's equity award agreements, notwithstanding the terms and provisions of such equity award agreements, and such obligation shall be in addition to the Company's obligations hereunder. For the avoidance of doubt, each agreement evidencing Executive's equity awards outstanding as of the Effective Date shall be deemed to be amended in accordance with the terms of this Agreement.

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

9. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any

other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances.

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

11. Miscellaneous. All section headings used in this Agreement are for convenience only. This Agreement may be executed in counterparts, each of which is an original. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

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

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

[Signature Page Follows]

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

MFA FINANCIAL, INC.

By: /s/ Craig L. Knutson
Name: Craig L. Knutson
Title: Chief Executive Officer
Date: May 6, 2020

/s/ Harold E. Schwartz
Name: Harold E. Schwartz
Date: May 6, 2020

Exhibit A

Release

This Release of Claims (this “Release”) is made as of _____, 20___, by and between MFA FINANCIAL, INC. (“MFA”) and Harold E. Schwartz (the “Executive”).

(a) The Executive, on behalf of himself, his agents, heirs, successors, assigns, executors and administrators, in consideration for the termination payments and other consideration provided for under the Agreement entered into by MFA and the Executive, effective as of [DATE] (the “Agreement”), hereby forever releases and discharges MFA, and its successors, its affiliated entities, and, in such capacities, its past and present directors, employees, agents, attorneys, accountants, representatives, plan fiduciaries, successors and assigns (collectively, the “Releasees”) from any and all known and unknown causes of action, actions, judgments, liens, indebtedness, damages, losses, claims, liabilities, and demands of whatsoever kind and character in any manner whatsoever arising on or prior to the date of this Release, including but not limited to (i) any claim for breach of contract, breach of implied covenant, breach of oral or written promise, wrongful termination, intentional infliction of emotional distress, defamation, interference with contract relations or prospective economic advantage, negligence, misrepresentation or employment discrimination, and including without limitation alleged violations of Title VII of the Civil Rights Act of 1964, as amended, prohibiting discrimination based on race, color, religion, sex or national origin; the Family and Medical Leave Act; the Americans With Disabilities Act; the Age Discrimination in Employment Act; other federal, state and local laws, ordinances and regulations; (ii) any and all liability that was or may have been alleged against or imputed to MFA by the Executive or by anyone acting on his behalf; (iii) all claims for monetary or equitable relief, employment or reemployment with MFA in any position, and any punitive, compensatory or liquidated damages; and (iv) all rights to and claims for attorneys’ fees and costs except as otherwise provided in the Agreement. The only claims that are not being waived and released by the Executive under this Release are (i) claims for indemnification or D&O coverage or any claim arising under, or preserved by, Section 2 of the Agreement, (ii) claims that, by applicable law, cannot be waived, (iii) claims based on any wrongful act or omission occurring after the date Executive signs this Release, (iv) claims to benefits under any compensation or benefit plan, program or arrangement in which the Executive was participating as of the Termination Date, and (v) claims challenging the legality of this Release in a legal proceeding pursuant to the Older Workers Benefit Protection Act and the Age Discrimination in Employment Act. The Executive acknowledges that the Executive has not made any claims or allegations related to sexual harassment or sexual abuse and none of the termination payments and other consideration provided for under the Agreement are related to sexual harassment or sexual abuse.

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

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

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

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

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

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

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

(3) HE HAS THE RIGHT TO REVOKE THIS RELEASE FOR A PERIOD OF SEVEN (7) DAYS AFTER HE SIGNS IT BY MAILING OR DELIVERING A WRITTEN NOTICE OF REVOCATION TO MFA’S GENERAL COUNSEL, NO

LATER THAN THE CLOSE OF BUSINESS ON THE SEVENTH DAY AFTER THE DAY ON WHICH HE SIGNED THIS RELEASE;

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

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

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

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

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

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

IN WITNESS WHEREOF, the parties have hereunto set their hands this ____ day of _____, 20__.

By: _____
Name: Harold E. Schwartz

MFA FINANCIAL, INC.
EQUITY COMPENSATION PLAN

PHANTOM SHARE AWARD AGREEMENT
(TIME BASED VESTING)

AGREEMENT, dated as of the __ of _____, 202_ (the “Grant Date”), by and between MFA Financial, Inc., a Maryland corporation (the “Company”), and _____ (the “Grantee”).

WHEREAS, the Company maintains the MFA Financial, Inc. Equity Compensation Plan, as it may be amended from time to time (the “Plan”) (capitalized terms used but not defined herein shall have the respective meanings ascribed thereto by the Plan);

WHEREAS, the Grantee, as an employee of the Company, is an Eligible Person;

WHEREAS, the Company and the Grantee entered into that certain Employment Agreement, entered into as of November 26, 2019, as amended and restated as of February 22, 2021 (as amended and restated from time to time, the “Employment Agreement”); and

WHEREAS, the Committee has determined that it is in the best interests of the Company and its stockholders to grant Phantom Shares to the Grantee subject to the terms and conditions set forth below.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. **Grant of Phantom Shares.**

The Company hereby grants the Grantee _____ Phantom Shares. The Phantom Shares are subject to the terms and conditions of this Agreement and are also subject to the provisions of the Plan. The Plan is hereby incorporated by reference as though set forth herein in its entirety.

2. **Vesting.**

The Phantom Shares shall be subject to the terms and conditions set forth in this paragraph 2.

(a) Except as otherwise provided herein, 100% of the Phantom Shares shall vest on December 31, 202_, (the “Vesting Date”) provided that the Grantee has not had a Termination of Service prior to such date.

(b) The following terms shall apply in the event of Termination of Service:

(i) Subject to paragraph 2(b)(iv), in the event that, prior to the Vesting Date, the Grantee experiences a Termination of Service by the Company without Cause (as defined in the Employment Agreement) or a Termination of Service by the Grantee for Good Reason (as defined in the Employment Agreement), then, subject to Section 5(k) of the Employment Agreement relating to execution of a release, to the extent that the Phantom Shares otherwise

would have vested during the 12 month period following the Grantee's Termination of Service, such Phantom Shares shall vest as of the date of the Grantee's Termination of Service. Notwithstanding the foregoing, in the event that in connection with the Grantee's Termination of Service with the Company, the Company is managed by an external manager pursuant to a management and advisory contract and such external manager has provided the Grantee with an offer of employment (A) on economic terms that are at least substantially equivalent in form and economic substance (and not in the aggregate) to those provided to the Grantee immediately prior to such Termination of Service and (B) on terms that would not be deemed to trigger Good Reason (an offer of employment that meets the requirements of (A) and (B), a "Qualifying Offer"), then, regardless of whether the Grantee accepts such offer of employment, this paragraph 2(b)(i) shall have no effect and the Grantee shall not be entitled to receive the vesting described in this paragraph 2(b)(i) or paragraph 2(b)(iv).

(ii) In the event the Grantee experiences a Termination of Service on account of death or Disability (as defined in the Employment Agreement) prior to the Vesting Date, then the Phantom Shares shall become fully vested as of the date of the Grantee's Termination of Service; provided that in the event of the Grantee's Disability, such vesting shall be subject to Section 5(k) of the Employment Agreement relating to execution of a release.

(iii) In the event the Grantee experiences a Termination of Service on account of the Grantee's voluntary resignation at a time when circumstances constituting Cause do not exist, and such Termination of Service is an Eligible Retirement (as defined below) then, subject to Section 5(k) of the Employment Agreement relating to execution of a release, the Phantom Shares shall become fully vested as of the date of the Grantee's Termination of Service. For purposes of this Agreement, an "Eligible Retirement" means the Grantee's Termination of Service without Good Reason and other than on account of death or Disability either (A) on or after age 65 or (B) on account of an Eligible Early Retirement. For purposes of this Agreement, "Eligible Early Retirement" means the Grantee's Termination of Service prior to age 65 pursuant to a succession plan approved by the Board, which may include (but, for clarity would not necessarily require) the Grantee and the Company entering into a consulting or advisory agreement and the Grantee's reasonable cooperation in providing transition services for a period of time following termination of employment; provided that, the Executive provides the Company with at least nine months prior written notice (or such shorter notice period as determined by the Board in its discretion) of the Grantee's termination of employment (and continues in active employment during such notice period) and the Board approves such Termination of Service as an Eligible Early Retirement.¹

(iv) Notwithstanding the foregoing:

(A) In the event that, prior to the Vesting Date, the Grantee experiences a Termination of Service by the Company without Cause or a Termination of Service by the Grantee for Good Reason, in either case within 12 months following a Change of Control, then, subject to Section 5(k) of the Employment Agreement relating to execution of a release, the Phantom Shares shall become fully vested as of the Grantee's Termination of Service.

(B) In the event that, prior to the Vesting Date, the Grantee experiences a Termination of Service by the Company without Cause, such Termination of Service occurs

¹ Note to draft: To be included only for the CEO.

within three months prior to a Change of Control, and such termination is initiated by, at the request or suggestion of, or with the agreement of, the counterparty to the Change of Control, then, subject to Section 5(k) of the Employment Agreement relating to execution of a release, any Phantom Shares that did not become fully vested pursuant to paragraph 2(b)(i) shall become fully vested as of the date of such Change of Control.

(C) Notwithstanding the preceding clauses (A) and (B), in the event that a Change of Control occurs and immediately following such Change of Control, the Company is managed by an external manager pursuant to a management and advisory contract and such external manager has provided the Grantee with a Qualifying Offer, then, regardless of whether the Grantee accepts such offer of employment, the preceding clauses (A) and (B) shall have no effect and the Grantee shall not be entitled to receive the vesting described in paragraph 2(b)(i) or this paragraph 2(b)(iv).

(c) Except as otherwise provided in this paragraph 2, if the Grantee experiences a Termination of Service for any reason, any unvested Phantom Shares shall, with no further action, be forfeited and cease to be outstanding as of the Grantee's Termination of Service.

3. Settlement.

Each vested and outstanding Phantom Share shall be settled in one share of Common Stock of the Company (a "Share") within 30 days following the date on which such Phantom Share vests as set forth in paragraph 2 above (the "Settlement Date"), provided that, to the extent required by Section 409A of the Code, if the Change of Control described in paragraph 2(b)(iv)(B) does not constitute a "change in control event" for purposes of Section 409A of the Code, then the Settlement Date with respect to any Phantom Shares that vest in accordance with paragraph 2(b)(iv)(B) shall occur within 30 days following the Vesting Date. To the extent any payment described in this paragraph 3 is required to be delayed six months pursuant to the rules of Section 409A of the Code related to "specified employees," such payment shall not be made before the date which is six months after the date of Grantee's Termination of Service. Any delayed payment shall be made to the Grantee on the first day of the seventh month following the Grantee's Termination of Service (or within 30 days following the Grantee's death, if earlier).

4. Dividend Equivalents.

As of the payment date of any cash dividend declared on the Shares, with respect to each outstanding Phantom Share (whether or not vested) that has not been forfeited in accordance with paragraph 2 as of such date, the Company will credit to the Grantee an amount, per Phantom Share, equal to the amount of the cash dividend declared and paid in respect of one Share. Such credited amount will be credited in the form of additional Phantom Shares, the number of which will be calculated based on the Fair Market Value of a Share as of the payment date of the applicable cash dividend (rounded to the nearest whole number), and which additional Phantom Shares will be paid (if at all) on the same date and subject to the same terms and conditions (including with respect to vesting) applicable the Phantom Shares on which they were credited, provided that such amount shall be paid in cash, based on the Fair Market Value of a Share as of the date of vesting.

5. Miscellaneous.

(a) The value of a Phantom Share may decrease depending upon the Fair Market Value of a Share from time to time. Neither the Company nor the Committee, nor any other party associated with the Plan, shall be held liable for any decrease in the value of the Phantom Shares. If the value of such Phantom Shares decrease, there will be a decrease in the underlying value of what is distributed to the Grantee under the Plan and this Agreement.

(b) With respect to this Agreement, (i) the Phantom Shares are bookkeeping entries and the Grantee shall not have any rights of a shareholder with respect to Common Stock unless and until the Phantom Shares vest and are settled by the issuance of such Shares of Common Stock, (ii) the obligations of the Company under the Plan are unsecured and constitute a commitment by the Company to make benefit payments in the future, (iii) to the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of any general unsecured creditor of the Company, (iv) all payments under the Plan (including distributions of Shares) shall be paid from the general funds of the Company and (v) no special or separate fund shall be established or other segregation of assets made to assure such payments (except that the Company may in its discretion establish a bookkeeping reserve to meet its obligations under the Plan). The award of Phantom Shares is intended to be an arrangement that is unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended.

(c) 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.

(d) The Committee may construe and interpret this Agreement and establish, amend and revoke such rules, regulations and procedures for the administration of this Agreement as it deems appropriate. In this connection, the Committee may correct any defect or supply any omission, or reconcile any inconsistency 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.

(e) All notices hereunder shall be in writing and, if to the Company, shall be delivered to the Board or mailed to its principal office, addressed to the attention of the Committee 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 5(e).

(f) 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.

- (g) Nothing in this Agreement shall (i) confer on the Grantee any right to continue in the service of the Company or its Subsidiaries or otherwise confer any additional rights or benefits upon the Grantee with respect to the Grantee's employment with the Company or (ii) interfere in any way with the right of the Company or its Subsidiaries and its stockholders to terminate the Grantee's service at any time.
- (h) If any change is made to the outstanding Common Stock or the capital structure of the Company, the Phantom Shares shall be adjusted in accordance with the Plan.
- (i) The Phantom Shares and the rights relating thereto shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, garnishment, levy, execution, or other legal or equitable process, either voluntary or involuntary; and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, attach or garnish, or levy or execute on the Phantom Shares and the rights relating thereto shall be void.
- (j) The Company may assign any of its rights under this Agreement. This Agreement will be binding upon and inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein, this Agreement will be binding upon the Grantee and the Grantee's beneficiaries, executors, administrators and the person(s) to whom the Phantom Shares may be transferred by will or the laws of descent or distribution.
- (k) The Plan is discretionary and may be amended, suspended or discontinued by the Company at any time, in its discretion. The grant of the Phantom Shares in this Agreement does not create any contractual right or other right to receive any Phantom Shares or other Grants in the future. Future Grants, if any, will be at the sole discretion of the Company. Any amendment, suspension or discontinuation of the Plan shall not constitute a change or impairment of the terms and conditions of the Grantee's employment with the Company.
- (l) The issuance and transfer of Shares shall be subject to compliance by the Company and the Grantee with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Shares may be listed. No shares of Common Stock shall be issued or transferred unless and until any then applicable requirements of state and federal laws and regulatory agencies have been fully complied with to the satisfaction of the Company and its counsel.
- (m) The Grantee shall be required to pay to the Company or make arrangements satisfactory to the Company regarding payment of any federal, state or local taxes of any kind that are required by law to be withheld with respect to the Phantom Shares. Except as may be otherwise permitted by the Committee, to satisfy such obligation, the Company shall withhold a number of Shares to be issued pursuant to this Agreement with an aggregate Fair Market Value as of the date withholding is effected that would satisfy the withholding amount due; provided, however, that no Shares shall be withheld with an aggregate value exceeding the minimum amount of tax required to be withheld by law or such higher amount that does not result in adverse accounting treatment for the Company, as approved in advance by the Committee. Notwithstanding anything contained in the Plan or this Agreement to the contrary, the Grantee's satisfaction of any tax withholding requirements imposed by the Committee shall be a condition precedent to the Company's obligation as may otherwise be provided hereunder to provide Shares to the

Grantee, and the failure of the Grantee to satisfy such requirements with respect to this Grant shall cause this Grant to be forfeited.

(n) The Phantom Shares shall be subject to any applicable clawback policy implemented by the Board from time to time.

(o) The Phantom Shares are intended to comply with Section 409A of the Code or an exemption thereunder and shall be construed and interpreted in a manner that is consistent with the requirements for avoiding additional taxes or penalties under Section 409A of the Code and administered in accordance with Section 27 of the Plan. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A of the Code and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Grantee on account of non-compliance with Section 409A of the Code. Notwithstanding any provision of this Agreement to the contrary, in no event shall the timing of the Grantee's execution of a release, directly or indirectly, result in the Grantee designating the calendar year of payment of any amounts of deferred compensation subject to section 409A of the Code, and if a payment that is subject to execution of a release could be made in more than one taxable year, payment shall be made in the later taxable year.

(p) This Agreement 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; provided that, for the avoidance of doubt, Section 7(f) of the Employment Agreement, which provides for forfeiture of equity awards and repayment of any shares or other amounts received pursuant to equity awards in the event that the Grantee breaches his obligations under Section 7 of the Employment Agreement, shall apply to the Phantom Shares and any amounts paid to the Grantee pursuant to this Agreement, and is hereby incorporated by reference. In the event of any inconsistency between the terms of this Agreement and the Employment Agreement, the terms of this Agreement shall govern.

[remainder of the page left intentionally blank]

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

MFA FINANCIAL, INC.

By: _____

Name:

Title:

The Grantee hereby agrees and acknowledges that (a) the Grantee will be bound by the terms and conditions of this Agreement and the Plan and (b) all determinations by the Committee will be final and binding on all persons.

Name:

MFA FINANCIAL, INC.
EQUITY COMPENSATION PLAN

PHANTOM SHARE AWARD AGREEMENT
(PERFORMANCE BASED VESTING)

AGREEMENT, dated as of the __ day of _____, 202_ (the “Grant Date”), by and between MFA Financial, Inc., a Maryland corporation (the “Company”), and _____ (the “Grantee”).

WHEREAS, the Company maintains the MFA Financial, Inc. Equity Compensation Plan, as it may be amended from time to time (the “Plan”) (capitalized terms used but not defined herein shall have the respective meanings ascribed thereto by the Plan);

WHEREAS, the Grantee, as an employee of the Company, is an Eligible Person;

WHEREAS, the Company and the Grantee entered into that certain Employment Agreement, entered into as of November 26, 2019, as amended and restated as of February 22, 2021 (as amended and restated from time to time, the “Employment Agreement”); and

WHEREAS, the Committee has determined that it is in the best interests of the Company and its stockholders to grant Phantom Shares to the Grantee subject to the terms and conditions set forth below.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. **Grant of Phantom Shares.**

(a) The Phantom Shares are subject to the terms and conditions of this Agreement and are also subject to the provisions of the Plan. The Plan is hereby incorporated by reference as though set forth herein in its entirety.

(b) The target amount of Phantom Shares granted pursuant to this Agreement is [] Phantom Shares (the “Target Amount”); provided that the Grantee has the opportunity to earn up to [] Phantom Shares (the “Maximum Amount”), subject to the Maximum Cap described in paragraph 4(e), based upon achievement of performance goals and the terms and conditions described herein.

(i) With respect to the Target Amount, [] Phantom Shares (the “Absolute TSR Target Shares”), and with respect to the Maximum Amount, [] Phantom Shares¹ will vest based on the Company’s total shareholder return for a three-year period subject to the Grantee’s continued service with the Company through December 31, 202_ (the “Vesting Date”), except as provided in paragraph 2 below.

¹ Note to draft: To be equal to two times the Absolute TSR Target Shares.

(ii) With respect to the Target Amount, [] Phantom Shares (the “Relative TSR Target Shares”), and with respect to the Maximum Amount, [] Phantom Shares² will vest based on the Company’s total shareholder return compared to the total shareholder return of the peer group companies listed on Appendix 1 to Exhibit A attached hereto (the “Peer Group Companies”) for a three-year period subject to the Grantee’s continued service with the Company through the Vesting Date except as provided in paragraph 2 below.

2. **Vesting.**

(a) Subject to paragraph 2(b) and the Maximum Cap described below, and except as otherwise provided in paragraph 2(c)(iv), the number of Phantom Shares that shall vest on the Vesting Date, if any, shall be calculated in accordance with Exhibit A attached hereto based upon the achievement of the performance goals set forth on Exhibit A (the “Performance Goals”) during the period (the “TSR Performance Period”) beginning on January 1, 202_ and ending on the Vesting Date; provided that, to the extent that any fractional Shares result, the number of Phantom Shares eligible for settlement (as set forth in paragraph 4) shall be rounded down to the nearest whole share.

(b) Except as otherwise provided in this paragraph 2, if the Grantee experiences a Termination of Service for any reason prior to the Vesting Date, the Phantom Shares shall, with no further action, be forfeited and cease to be outstanding as of the Grantee’s Termination of Service.

(c) The following terms shall apply in the event of a Termination of Service:

(i) Subject to paragraph 2(c)(iv), in the event that, prior to the Vesting Date, the Grantee experiences a Termination of Service by the Company without Cause (as defined in the Employment Agreement) or a Termination of Service by the Grantee for Good Reason (as defined in the Employment Agreement), then, subject to Section 5(k) of the Employment Agreement relating to execution of a release, the Grantee shall vest in a pro-rata portion of the Phantom Shares as of the Vesting Date. The pro-rata portion shall be calculated as the number of Phantom Shares that would have vested on the Vesting Date based upon achievement of the Performance Goals if the Grantee remained employed through the Vesting Date, multiplied by a fraction, (x) the numerator of which is the number of days in the TSR Performance Period that elapse through the anniversary of the Grant Date that immediately follows the Grantee’s Termination of Service (but not beyond the Vesting Date) and (y) the denominator of which is 1,095. Notwithstanding the foregoing, in the event that in connection with the Grantee’s Termination of Service the Company, the Company is managed by an external manager pursuant to a management and advisory contract and such external manager has provided the Grantee with an offer of employment (A) on economic terms that are at least substantially equivalent in form and economic substance (and not in the aggregate) to those provided to the Grantee immediately prior to such Termination of Service and (B) on terms that would not be deemed to trigger Good Reason (an offer of employment that meets the requirements of (A) and (B), a “Qualifying Offer”), then, regardless of whether the Grantee accepts such offer of employment, this paragraph 2(c)(i) shall have no effect and the Grantee shall not be entitled to receive the vesting described in this paragraph 2(c)(i) or paragraph 2(c)(iv).

² Note to draft: To be equal to two times the Relative TSR Target Shares.

(ii) Subject to paragraph 2(c)(iv), in the event that, prior to the Vesting Date, the Grantee experiences a Termination of Service on account of the Grantee's death or Disability (as defined in the Employment Agreement), then the number of Phantom Shares that shall vest, if any, on the Vesting Date shall be the number of Phantom Shares that would have vested on the Vesting Date based upon achievement of the Performance Goals if the Grantee remained employed through the Vesting Date; provided that, such vesting shall be subject to Section 5(k) of the Employment Agreement relating to execution of a release, if the Grantee experiences a Termination of Service on account of the Grantee's Disability.

(iii) Subject to paragraph 2(c)(iv), in the event that, prior to the Vesting Date, the Grantee experiences a Termination of Service on account of the Grantee's voluntary resignation at a time when circumstances constituting Cause do not exist, and such Termination of Service is an Eligible Retirement (as defined below) then, subject to Section 5(k) of the Employment Agreement relating to execution of a release, the number of Phantom Shares that shall vest, if any, on the Vesting Date shall be the number of Phantom Shares that would have vested on the Vesting Date based upon achievement of the Performance Goals if the Grantee remained employed through the Vesting Date. For purposes of this Agreement, an "Eligible Retirement" means the Grantee's Termination of Service without Good Reason and other than on account of death or Disability either (A) on or after age 65 or (B) on account of an Eligible Early Retirement. For purposes of this Agreement, "Eligible Early Retirement" means the Grantee's Termination of Service prior to age 65 pursuant to a succession plan approved by the Board, which may include (but, for clarity would not necessarily require) the Grantee and the Company entering into a consulting or advisory agreement and the Grantee's reasonable cooperation in providing transition services for a period of time following termination of employment; provided that, the Executive provides the Company with at least nine months prior written notice (or such shorter notice period as determined by the Board in its discretion) of the Grantee's termination of employment (and continues in active employment during such notice period) and the Board approves such Termination of Service as an Eligible Early Retirement.³

(iv) Notwithstanding the foregoing:

(A) In the event that, prior to the Vesting Date, the Grantee experiences a Termination of Service by the Company without Cause, a Termination of Service by the Grantee for Good Reason, [a Termination of Service satisfying the conditions in paragraph 2(c)(iii)]⁴, or a Termination of Service on account of the Grantee's death or Disability, in each case within 12 months following a Change of Control, then, subject to Section 5(k) of the Employment Agreement relating to execution of a release (other than in the case of the Grantee's death), the Target Amount of Phantom Shares shall become fully vested as of the Grantee's Termination of Service and all other Phantom Shares shall be forfeited by the Grantee and cease to be outstanding.

³ Note to draft: To be included only for the CEO.

⁴ Note to draft: To be included only for the CEO.

(B) In the event that, prior to the Vesting Date, the Grantee experiences a Termination of Service by the Company without Cause, such Termination of Service occurs within three months prior to a Change of Control, such termination is initiated by, at the request or suggestion of, or with the agreement of, the counterparty to the Change of Control and the Change of Control occurs prior to the Vesting Date, then, subject to Section 5(k) of the Employment Agreement relating to execution of a release, the total number of Phantom Shares that shall become fully vested pursuant to this Agreement shall be the Target Amount of Phantom Shares and all other Phantom Shares shall be forfeited by the Grantee and cease to be outstanding.

(C) Notwithstanding the preceding clauses (A) and (B), in the event that a Change of Control occurs and immediately following such Change of Control, the Company is managed by an external manager pursuant to a management and advisory contract and such external manager has provided the Grantee with a Qualifying Offer, then, regardless of whether the Grantee accepts such offer of employment, the preceding clauses (A) and (B) shall have no effect and the Grantee shall not be entitled to receive the vesting described in paragraph 2(c)(i) or this paragraph 2(c)(iv).

(v) In the event the Grantee experiences a Termination of Service by the Company for Cause, then all Phantom Shares granted pursuant to this Agreement, whether or not vested, shall immediately be cancelled for no consideration, and the Grantee shall cease to have any rights under this Agreement.

(d) Any Phantom Shares that do not vest as of the Vesting Date shall, with no further action, be forfeited and cease to be outstanding as of the Vesting Date.

3. **Dividend Equivalents.**

(a) With respect to each outstanding Phantom Share that vests in accordance with paragraph 2 and Exhibit A, the Grantee shall have the right to receive an amount equal to the cash dividend distributions declared in the ordinary course on a share (“Share”) of Common Stock of the Company (each, a “Dividend Payment”) during the period beginning on the Grant Date and ending on the last day of the TSR Performance Period, or if earlier, the date on which the Phantom Shares are settled pursuant to paragraph 4 (such period, the “Dividend Period”).

(b) Any such Dividend Payments shall only be payable with respect to Phantom Shares that vest and shall be paid in the form of additional Shares at the time Phantom Shares are settled pursuant to paragraph 4. At such time, the Grantee shall receive additional Shares with an aggregate value (determined as described below) equal to the aggregate value of the Dividend Payments declared during the Dividend Period with respect to the number of Shares equal to the number of vested Phantom Shares.

(c) The number of additional Shares to be distributed pursuant to sub-paragraph (b) shall be calculated as follows: (i) the accumulated Dividend Payments declared during the Dividend Period, multiplied by (ii) the number of Shares to be distributed with respect to the vested Phantom Shares, divided by (iii) the Fair Market Value per Share on the date on the last day of the Performance Period, or if earlier, the date on which the Phantom Shares are settled pursuant to paragraph 4, rounded down to the nearest whole share.

(d) In the event that dividends are declared with respect to the Common Stock of the Company during the period beginning on the Vesting Date and ending on the date on which the Phantom Shares are settled pursuant to paragraph 4, then an amount equal to the dividends that the Grantee would have received if the Grantee had owned a number of Shares equal to the number of outstanding Phantom Shares as of the date the dividend is declared shall be paid to the Grantee in cash on the date such dividends are paid to shareholders of the Common Stock of the Company, but no later than December 31, 202_.

4. **Settlement.**

(a) Subject to subparagraphs (b), (c), (d) and (e) below, each vested and outstanding Phantom Share shall be settled in one Share on January 2, 202_ (the "Settlement Date").

(b) The following terms shall apply in the event of a Termination of Service prior to the Settlement Date:

(i) In the event that the Grantee's Termination of Service occurs on or prior to the Vesting Date, each Phantom Share that becomes vested upon the Vesting Date shall be settled in one Share in January 202_.

(ii) In the event that the Grantee's Termination of Service occurs following the Vesting Date, then to the extent not previously settled pursuant to paragraph 4(c) below, each Phantom Share that became vested upon the Vesting Date shall be settled in one Share within 30 days following such Termination of Service.

(iii) Notwithstanding the preceding clauses (i) and (ii), in the event that the Grantee's Termination of Service occurs on or prior to the Vesting Date and within 12 months following a Change of Control, then the Grantee shall receive one share for each Phantom Share that is vested as of such Termination of Service within 30 days following such Termination of Service, provided that, to the extent required by Section 409A of the Code, if such Change of Control does not constitute a "change in control event" for purposes of Section 409A of the Code, then any such vested Phantom Shares shall not be settled at the time described in this clause (iii) and shall instead be settled in accordance with the preceding clauses (i).

(iv) Each Phantom Share that becomes vested under paragraph 2(b)(iv)(B) in connection with the Grantee's Termination of Service by the Company without Cause within three months prior to a Change of Control shall be settled in one Share. If the Change of Control occurs on or prior to the Vesting Date, settlement shall occur in January 202_, and if the Change of Control occurs following the Vesting Date, settlement shall occur within 30 days following the date of the Change of Control; provided that, to the extent required by Section 409A of the Code, if such Change of Control does not constitute a "change in control event" for purposes of Section 409A of the Code, then such Phantom Shares shall be settled on January 2, 202_ or any earlier date permitted by Section 409A of the Code. The number of Phantom Shares that are settled pursuant to this paragraph 4(b)(iv) shall be the number of Phantom Shares equal to the excess (if any) of the Target Amount of Phantom Shares over the number of Phantom Shares which became vested pursuant to paragraph 2(c)(i) and settled pursuant to paragraph 4(b)(i).

(c) The following terms shall apply in the event a Change of Control that constitutes a “change in control event” for purposes of Section 409A of the Code occurs prior to the Settlement Date:

(i) In the event a Change of Control that constitutes a “change in control event” for purposes of Section 409A of the Code occurs on or prior to the Vesting Date, each Phantom Share that becomes vested on the Vesting Date shall be settled in one Share in January 202_ ; and

(ii) In the event a Change of Control that constitutes a “change in control event” for purposes of Section 409A of the Code occurs following the Vesting Date, each Phantom Share that became vested on the Vesting Date shall be settled in one Share within 30 days following the date of the Change of Control.

(d) To the extent any payment described in this paragraph 4 is required to be delayed six months pursuant to the rules of Section 409A of the Code related to “specified employees,” such payment shall not be made before the date which is six months after the date of Termination of Service. Any delayed payment shall be made to the Grantee on the first day of the seventh month following the Grantee’s Termination of Service (or within 30 days following the Grantee’s death, if earlier).

(e) Notwithstanding anything in this Agreement to the contrary, the Fair Market Value of the Shares delivered pursuant to this Agreement, measured as of the last day of the Performance Period (or, if earlier, the date on which the Phantom Shares are settled pursuant to this paragraph 4) shall not exceed 400% of the Fair Market Value of the Target Amount of Phantom Shares measured on the Grant Date (the “Maximum Cap”), and any and all amounts otherwise payable pursuant to this Agreement in excess of the Maximum Cap shall be forfeited, provided that, payment with respect to the dividend equivalent rights described below for dividends declared and paid following the end of the Performance Period shall not count against the Maximum Cap.

5. **Miscellaneous.**

(a) The value of a Phantom Share may decrease depending upon the Fair Market Value of a Share from time to time. Neither the Company nor the Committee, nor any other party associated with the Plan, shall be held liable for any decrease in the value of the Phantom Shares. If the value of such Phantom Shares decrease, there will be a decrease in the underlying value of what is distributed to the Grantee under the Plan and this Agreement.

(b) With respect to this Agreement, (i) the Phantom Shares are bookkeeping entries and the Grantee shall not have any rights of a shareholder with respect to Common Stock unless and until the Phantom Shares vest and are settled by the issuance of such Shares of Common Stock, (ii) the obligations of the Company under the Plan are unsecured and constitute a commitment by the Company to make benefit payments in the future, (iii) to the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall be no greater than the right of any general unsecured creditor of the Company, (iv) all payments under the Plan (including distributions of Shares) shall be paid from the general funds of the Company and (v) no special or separate fund shall be established or other segregation of assets made to assure such payments (except that the Company may in its discretion establish a bookkeeping reserve to meet

its obligations under the Plan). The award of Phantom Shares is intended to be an arrangement that is unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended.

(c) 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.

(d) The Committee may construe and interpret this Agreement and establish, amend and revoke such rules, regulations and procedures for the administration of this Agreement as it deems appropriate. In this connection, the Committee may correct any defect or supply any omission, or reconcile any inconsistency 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.

(e) All notices hereunder shall be in writing and, if to the Company, shall be delivered to the Board or mailed to its principal office, addressed to the attention of the Committee 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 5(e).

(f) 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.

(g) Nothing in this Agreement shall (i) confer on the Grantee any right to continue in the service of the Company or its Subsidiaries or otherwise confer any additional rights or benefits upon the Grantee with respect to the Grantee's employment with the Company or (ii) interfere in any way with the right of the Company or its Subsidiaries and its stockholders to terminate the Grantee's service at any time.

(h) If any change is made to the outstanding Common Stock or the capital structure of the Company, the Phantom Shares shall be adjusted in accordance with the Plan.

(i) The Phantom Shares and the rights relating thereto shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, garnishment, levy, execution, or other legal or equitable process, either voluntary or involuntary; and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, attach or garnish, or levy or execute on the Phantom Shares and the rights relating thereto shall be void.

(j) The Company may assign any of its rights under this Agreement. This Agreement will be binding upon and inure to the benefit of the successors and assigns of the Company. Subject

to the restrictions on transfer set forth herein, this Agreement will be binding upon the Grantee and the Grantee's beneficiaries, executors, administrators and the person(s) to whom the Phantom Shares may be transferred by will or the laws of descent or distribution.

(k) The Plan is discretionary and may be amended, suspended or discontinued by the Company at any time, in its discretion. The grant of the Phantom Shares in this Agreement does not create any contractual right or other right to receive any Phantom Shares or other Grants in the future. Future Grants, if any, will be at the sole discretion of the Company. Any amendment, suspension or discontinuation of the Plan shall not constitute a change or impairment of the terms and conditions of the Grantee's employment with the Company.

(l) The issuance and transfer of Shares shall be subject to compliance by the Company and the Grantee with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Shares may be listed. No shares of Common Stock shall be issued or transferred unless and until any then applicable requirements of state and federal laws and regulatory agencies have been fully complied with to the satisfaction of the Company and its counsel.

(m) The Grantee shall be required to pay to the Company, or make arrangements satisfactory to the Company regarding payment of any federal, state or local taxes of any kind that are required by law to be withheld with respect to the Phantom Shares. Except as may be otherwise permitted by the Committee, to satisfy such obligation, the Company shall withhold a number of Shares to be issued pursuant to this Agreement with an aggregate Fair Market Value as of the date withholding is effected that would satisfy the withholding amount due; provided, however, that no Shares shall be withheld with an aggregate value exceeding the minimum amount of tax required to be withheld by law or such higher amount that does not result in adverse accounting treatment for the Company, as approved in advance by the Committee. Notwithstanding anything contained in the Plan or this Agreement to the contrary, the Grantee's satisfaction of any tax withholding requirements imposed by the Committee shall be a condition precedent to the Company's obligation as may otherwise be provided hereunder to provide Shares to the Grantee, and the failure of the Grantee to satisfy such requirements with respect to this Grant shall cause this Grant to be forfeited.

(n) The Phantom Shares shall be subject to any applicable clawback policy implemented by the Board from time to time.

(o) The Phantom Shares are intended to comply with Section 409A of the Code or an exemption thereunder and shall be construed and interpreted in a manner that is consistent with the requirements for avoiding additional taxes or penalties under Section 409A of the Code and administered in accordance with Section 27 of the Plan. Notwithstanding the foregoing, the Company makes no representations that the payments and benefits provided under this Agreement comply with Section 409A of the Code and in no event shall the Company be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Grantee on account of non-compliance with Section 409A of the Code. Notwithstanding any provision of this Agreement to the contrary, in no event shall the timing of the Grantee's execution of a release, directly or indirectly, result in the Grantee designating the calendar year of payment of any amounts of deferred compensation subject to section 409A of the Code, and if

a payment that is subject to execution of a release could be made in more than one taxable year, payment shall be made in the later taxable year.

(p) This Agreement, including Exhibit A and Appendix 1 to Exhibit A, 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; provided that, for the avoidance of doubt, Section 7(f) of the Employment Agreement, which provides for forfeiture of equity awards and repayment of any shares or other amounts received pursuant to equity awards in the event that the Grantee breaches his obligations under Section 7 of the Employment Agreement, shall apply to the Phantom Shares and any amounts paid to the Grantee pursuant to this Agreement, and is hereby incorporated by reference. In the event of any inconsistency between the terms of this Agreement and the Employment Agreement, the terms of this Agreement shall govern.

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

MFA FINANCIAL, INC.

By: _____

Name:

Title:

The Grantee hereby agrees and acknowledges that (a) the Grantee will be bound by the terms and conditions of this Agreement and the Plan and (b) all determinations by the Committee will be final and binding on all persons.

Name:

Exhibit A

This Exhibit A sets forth the Performance Goals applicable to the Phantom Shares granted pursuant to the Agreement to which this Exhibit A is attached. Unless otherwise specified in this Exhibit A, all defined terms shall have the meanings set forth in the Agreement.

The Phantom Shares will vest based on the Company's total shareholder return for the TSR Performance Period and based on the Grantee's continued service as set forth in the Agreement. As further described below, the Absolute TSR Shares will be eligible to vest based on the Company's average total shareholder return for the Performance Period, and the Relative TSR Shares will be eligible to vest based on the Company's total shareholder return compared to the total shareholder return of the Peer Group Companies for the TSR Performance Period.

For purposes of this Exhibit A, TSR for the TSR Performance Period shall be calculated as follows:

- "TSR" is equal to (x) the Average Final Price minus the Average Initial Price, plus Dividends Paid on a share of common stock in respect of the TSR Performance Period, divided by (y) the Average Initial Price.
- The "Average Initial Price" is equal to the average closing daily price of a share of common stock during the last 20 trading days immediately prior to the first day of the TSR Performance Period.
- The "Average Final Price" is equal to the average closing daily price of a share of common stock during the last 20 trading days in the TSR Performance Period.
- The "Dividends Paid" shall equal the cumulative dividends (including any stock dividends) paid per share of common stock in respect of the TSR Performance Period. For this purpose, dividends declared, but not yet paid, on a share within the 45 day period preceding the Vesting Date will be counted as Dividends Paid. Notwithstanding the foregoing, if any dividends were included in Dividends Paid for purposes of calculating TSR for the year prior to the year in which the TSR Performance Period commences, then such dividends will not be included in Dividends Paid for purposes of calculating TSR for the TSR Performance Period.

Absolute TSR Shares

For purposes of the Absolute TSR Shares, the "Average TSR" for the Performance Period is the TSR, divided by 3, and the "Target TSR" is an 8% per annum simple cumulative return over the TSR Performance Period.

The portion of the Absolute TSR Target Shares that will be eligible to vest on the Vesting Date shall be determined by comparing the Average TSR of the Company to the Target TSR and may range from zero up to a maximum vesting of 200% of the Absolute TSR Target Shares.

The number of Absolute TSR Shares that will be eligible to vest on the Vesting Date shall equal the product of (i) the Absolute TSR Target Shares and (ii) the sum of (A) one (1) plus (B) a fraction (which fraction can be a negative number), the numerator of which is the Company’s Average TSR less Target TSR and the denominator of which is eight (8). For purposes of the preceding sentence, in the event that the Company’s Average TSR is (x) less than zero, then the Company’s Average TSR shall be deemed to be zero, and (y) greater 16%, then the Company’s Average TSR shall be deemed to be 16%.

Any Absolute TSR Shares that do not vest on the Vesting Date shall be forfeited.

Vested Absolute TSR Shares and related Dividend Payments, if any, will be settled as described in the Agreement.

Set forth below are examples, which are intended to be used purely for illustrative purposes:

Example 1:

Assume 10,000 Absolute TSR Target Shares. If the Company’s Average TSR over the TSR Performance Period was 2%, then the portion of the Absolute TSR Target Shares that would be eligible to vest would be equal to two-eighths (2/8) of the Absolute TSR Target Shares, or 2,500 Absolute TSR Shares.

Example 2:

Assume 10,000 Absolute TSR Target Shares. If the Company’s Average TSR over the TSR Performance Period was 12%, then the portion of the Absolute TSR Target Shares that would be eligible to vest would be equal to 1.5 times (or twelve-eighths (12/8) of) the Absolute TSR Target Shares, or 15,000 Absolute TSR Shares.

Example 3:

Assume 10,000 Absolute TSR Target Shares. If the Company’s Average TSR over the TSR Performance Period were 16%, then the portion of the Absolute TSR Target Shares that would be eligible to vest would be equal to two times (or sixteen-eighths (16/8) of) the Absolute TSR Target Shares, or 20,000 Absolute TSR Shares (maximum vesting).

Relative TSR Shares

At the end of each TSR Performance Period, the Company’s TSR and the TSR of each of the Peer Group Companies will be ranked from highest to lowest. The “Relative TSR Vesting Percentage” will be determined based on the Company’s TSR as compared to the TSR of the Peer Group Companies for the TSR Performance Period as follows:

| Company TSR Rank | Relative TSR Vesting Percentage |
|-----------------------------|---------------------------------|
| 80th percentile or above | 200% |
| 50th percentile | 100% |
| At or below 25th percentile | 0% |

If the Company's TSR Rank is between the 25th percentile and the 50th percentile or between the 50th percentile and the 80th percentile, the Relative TSR Vesting Percentage will be interpolated.

Notwithstanding the provisions set forth above, in the event that the Company's TSR is a negative number, the Relative TSR Vesting Percentage shall not exceed 100%.

The number of Relative TSR Shares that will be eligible to vest for the TSR Performance Period will be determined by multiplying the Relative TSR Target Shares by the Relative TSR Vesting Percentage.

For the avoidance of doubt, in no event shall any Relative TSR Shares vest if the Company's Average TSR Rank is at or below the 25th percentile.

Not more than 200% of the Relative TSR Target Shares may vest based on the Company's TSR Rank.

Any Relative TSR Shares that do not vest on the Vesting Date shall be forfeited.

Vested Relative TSR Shares and related Dividend Payments, if any, will be settled as described in the Agreement.

Set forth below are examples, which are intended to be used purely for illustrative purposes:

Example 1:

Assume 10,000 Relative TSR Target Shares. If the Company's TSR Rank at the end of the TSR Performance Period was 15 out of 18, the Company would be in the 17th percentile. Because the Company's TSR Rank would be below the 25th percentile, the Relative TSR Vesting Percentage would be 0, so that none of the Relative TSR Shares would be eligible to vest. 100% of the Relative TSR Target Shares would be forfeited.

Example 2:

Assume 10,000 Relative TSR Target Shares. If the Company's TSR Rank at the end of the TSR Performance Period was nine out of 18, the Company would be in the 50th percentile. The Relative TSR Vesting Percentage would be 100, so that 100% of the Relative TSR Target Shares (10,000 Phantom Shares) would be eligible to vest.

Example 3:

Assume 10,000 Relative TSR Target Shares. If the Company's TSR at the end of the TSR Performance Period was positive and the Company's TSR Rank at the end of the TSR Performance Period was two out of 18, the Company would be in the 89th percentile. The Relative TSR Vesting Percentage would be 200, so that 200% of the Relative TSR Target Shares (20,000 Phantom Shares) would be eligible to vest. Note that if the Company's TSR at the end of the TSR Performance Period was instead a negative number, 100% of the Relative TSR Target Shares (10,000 Phantom Shares) would be eligible to vest.

Appendix 1 to Exhibit A⁵

Relative TSR Peer Group Companies

In the event of a merger, acquisition or business combination transaction of a Peer Group Company during the TSR Performance Period in which such Peer Group Company is the surviving entity and remains publicly traded, the surviving entity shall remain a Peer Group Company. Any entity involved in the transaction during the TSR Performance Period that is not the surviving company shall no longer be a Peer Group Company.

In the event of a merger, acquisition or business combination transaction of a Peer Group Company, a “going private” transaction or other event involving a Peer Group Company or the liquidation of a Peer Group Company (other than a bankruptcy as described below), in each case during the TSR Performance Period and where the Peer Group Company is not the surviving entity or is no longer publicly traded, such Peer Group Company shall no longer be a Peer Group Company.

Notwithstanding the foregoing, in the event of a bankruptcy of a Peer Group Company during the TSR Performance Period where the Peer Group Company is not publicly traded at the end of the Performance Period, such Peer Group Company shall remain a Peer Group Company but shall be deemed to be ranked last among all Peer Group Companies in the Peer Group.

⁵ Note to draft: Peer Group Companies to be determined by Compensation Committee at the time of grant.

| Subsidiaries of the Registrant | Jurisdiction |
|------------------------------------|----------------|
| Beaumont Securities Holdings, LLC | Delaware |
| Diplomat Properties Holding Corp. | Delaware |
| MFA Omaha Borrower, LLC | Delaware |
| MFA Securities Holdings LLC | Delaware |
| MFA Securitization Holdings LLC | Delaware |
| MFResidential Assets I, LLC | Delaware |
| MFResidential Assets Holding Corp. | Delaware |
| MFRA Trust 2014-2 | Delaware |
| MFRA Trust 2015-2 | Delaware |
| MFRA Trust 2016-1 | Delaware |
| MFRA Trust 2020-1 | Delaware |
| MFA Kittiwake Investments Ltd. | Cayman Islands |

Consent of Independent Registered Public Accounting Firm

The Board of Directors

MFA Financial, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-233337 and 333-234218) on Form S-3 and in registration statements (No. 333-205105 and 333-224986) on Form S-8 of MFA Financial, Inc. of our reports dated February 23, 2021, with respect to the consolidated balance sheets of MFA Financial, Inc. as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive income/(loss), changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2020, and the related notes and Schedule IV – Mortgage Loans on Real Estate, and the effectiveness of internal control over financial reporting as of December 31, 2020, which reports appear in the December 31, 2020 annual report on Form 10-K of MFA Financial, Inc.

As discussed in Note 2 to the financial statements, the Company has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2020 due to the adoption of ASC Topic 326, *Financial Instruments - Credit Losses*.

/s/ KPMG LLP

New York, New York
February 23, 2021

CERTIFICATION

I, Stephen D. Yarad, certify that:

1. I have reviewed this Annual Report on Form 10-K of MFA Financial, Inc. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: February 23, 2021

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

**Certification of Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002**

In connection with the annual report on Form 10-K of MFA Financial, Inc. (the "Company") for the fiscal year ended December 31, 2020 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, Craig L. Knutson, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Date: February 23, 2021

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being "filed" as part of the Form 10-K or as a separate disclosure document for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference to any filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

**Certification of Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350, as Adopted
Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002**

In connection with the annual report on Form 10-K of MFA Financial, Inc. (the "Company") for the fiscal year ended December 31, 2020 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, Stephen D. Yarad, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Date: February 23, 2021

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being "filed" as part of the Form 10-K or as a separate disclosure document for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference to any filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.