February 2021

Dear Fellow Shareholders:

It is hard to believe that just one year ago we were beginning to hear about a virus that would become the COVID-19 global pandemic. 2020 will undoubtedly be remembered as one of, if not the most, traumatic years of our lifetimes, as this virus ravaged societies around the globe, wreaked havoc with worldwide economies and profoundly altered how we live and work. Unfortunately, MFA Financial was not immune to the calamity wrought by the pandemic, as nearly instant price dislocations in markets for residential mortgage assets were so extreme that liquidity evaporated. Prices of Legacy Non-Agency mortgage-backed securities, which had not changed by more than three points in the last two to three years were suddenly lower by 20 points, CRT securities dropped by 20 to 50 points and MSR-related asset prices were lower by 20 to 30 points – all in a few days. Despite the fact that MFA was among the least-levered mortgage REITs and held $1 billion of unlevered assets, the deluge of margin calls due to these precipitous price reductions threatened our Company's very existence in late March of 2020.

As these market shattering events unfolded, we were at the same time forced to implement a business continuity plan to completely transition to a remote work environment to address the operating risks associated with the COVID-19 pandemic. Fortunately, we were prepared for this, as we have conducted annual business continuity plan simulation drills for many years. In response to the crisis, we took necessary and decisive action to preserve our Company. We simultaneously embarked on a three-part stabilization plan by (1) seeking forbearance from our lenders, (2) aggressively managing our balance sheet and delevering to increase liquidity, and (3) sourcing third-party capital to ensure our financial viability. The effort and determination from the entire MFA Team from mid-March through the end of June was truly astonishing. Working 15-18 hours per day, seven days a week and entirely remotely, our Team displayed extraordinary resilience, dedication and commitment. Simply put – failure was not an option. We emerged from forbearance on June 26th with substantial liquidity provided through financing from Apollo Global Management and its insurance affiliate, Athene Holding, and a materially transformed borrowing profile with approximately 60% in the form of non-mark-to-market funding. While our efforts were ultimately successful, the significant reduction in our balance sheet and decline in book value were unfortunate and unavoidable outcomes from this turbulent period.

We dedicated the second half of 2020 to taking action to improve future earnings and grow book value. While our strong liquidity position and durable financing arrangements provided us with needed stability as of June 30th, they both came at considerable cost. Since then, we have substantially reduced our interest costs through securitizations, which have replaced much of the durable financing with equally durable financing at much lower cost. These securitizations have also generated significant additional liquidity which has enabled us to pay off much of the expensive debt we incurred and that was on our balance sheet at June 30th. In addition, the equity warrant package issued to Apollo and Athene in conjunction with the financing was settled this past December through our repurchase of a portion of the warrants and Apollo and Athene's exercise of the balance of the warrants, which resulted in moderate dilution of less than 4%. In addition, asset prices recovered over the second half of 2020, and MFA's economic book value grew over 20% between March 31 and December 31.

Nevertheless, despite the effort and substantial progress made in the second half of the year, 2020 was the worst year in our 22-year history, and the damage to shareholders was undeniable. Our management team and employees are acutely aware of this, as we are also shareholders both through outright share ownership and as holders of long term incentive equity awards that have lost substantial value. While MFA's total shareholder return for the year 2020 was a dismal negative 47%, our total shareholder return for the second half of 2020 was +62%. Clearly we have more work ahead of us to continue to restore shareholder value, and we are staunchly determined and committed to this effort.

Also during 2020, we worked with borrowers who had been negatively impacted by the pandemic by granting loan deferrals and forbearance to help them manage through the crisis. While this has led to higher reported delinquencies on some of our loan portfolios, we are confident that this patient approach will ultimately permit these borrowers to recover and remain in their homes.

MFA received public recognition in January 2021 for two noteworthy achievements. We are pleased to report that for the second year in a row we were named to the 2021 Bloomberg Gender Equality Index. As one of 380 public companies across 11 sectors and 44 countries and regions to be included in this Index, we are delighted to be recognized for our commitment to equality and the advancement of women in the workplace. Gender equality is a key part of our commitment to create a culture that is diverse and inclusive, so that we can continue to attract the best possible talent, act as a responsible employer and deliver value to our shareholders. MFA was also recognized as "A Great Place to Work" for 2020 by the Great Place to Work Institute. This certification is based on the results of a lengthy anonymous employee engagement survey conducted by the Institute and represents an important validation of MFA's corporate culture. Among the survey results, 91% of respondents indicated that they "were proud to tell others that they work here." We wryly note the irony that MFA is a great place to work when the reality is we did not have a place to work in 2020, but we are proud of the corporate culture that our people have created.

2021 and Beyond

As we enter 2021, our world is still dominated by the COVID-19 pandemic, with many parts of the economy still crippled by protective measures. However, not all of the impacts of the pandemic are detrimental to our business. The Fed remains committed to providing accommodative monetary policy and interest rates are still at or near all-time lows. While this pushes yields down on assets, it also pushes yields down on liabilities, and we are aggressively terming out our liabilities through securitizations, that lock in this low funding cost for several years. In addition, nationwide demand for single family housing (whether rented or owned) is extremely robust, as families look for more space to socially distance and work from home, and home prices have increased sharply. One of the things that we have all learned during the past year is that with the availability of modern technology that people can be very productive working from home, and it is easy to envision a certain percentage of the workforce that will work from home more frequently in the future. This demand for housing has bolstered the value of the collateral supporting our credit-sensitive mortgage assets, which fortifies their credit quality. Lastly, we are beginning to see more widespread distribution and administration of vaccines, which gives us a sense of optimism and suggests that there is a light at the end of the tunnel.

On behalf of the Board of Directors and all of MFA's dedicated and talented employees, we thank you for your continued ownership and support during the challenges of the past year.

Craig L. Knutson
Chief Executive Officer, President and Director