August 2023

Dear Fellow Stockholders:

2022 was one of the most challenging years on record for fixed-income investors. The Federal Reserve aggressively increased interest rates in response to the most significant inflation in decades; the yield curve inverted; and the spread between Treasuries and Agency residential mortgage-backed securities (RMBS) widened to levels not seen since the 2008 financial crisis. Interest rate and credit spread volatility have continued well into 2023, unsettling the mortgage market and the mortgage REIT sector.

While MFA has not been immune to the pain, we have benefited from meaningful steps taken in late 2021 and early 2022 to protect our balance sheet. We proactively hedged our duration risk, more than tripling our interest rate swap position from $900 million in December 2021 to $3.2 billion in June of 2022. We reduced our exposure to repurchase agreements, warehouse lines and other forms of short-term funding by issuing nine fixed-rate securitizations throughout 2022 and four more in the first half of 2023. We prioritized liquidity and were highly selective on new investments.

As a result of these moves, we were able to avoid the worst of the negative impact of higher interest rates and the accompanying volatility which were experienced by several of our peers, some of whom saw their book values decline by close to 50% during 2022. The March 2023 banking crisis was another cruel reminder of what can happen to financial institutions that fail to adequately prepare for higher interest rates. Fortunately, all of our borrowing costs are effectively fixed due to our interest rate hedges and securitizations. During the twelve months between July 1, 2022 and June 30, 2023, our effective cost of funds rose by only 58 basis points, a remarkable outcome as the Fed Funds Rate rose by 350 basis points during that same period.

Our investment team remains hard at work evaluating the residential mortgage landscape for attractive, high yielding loans and securities with strong credit fundamentals. We invested in assets at increasingly higher yields throughout 2022 and into 2023, boosting our net interest spread to over 200 basis points in the second quarter of 2023. The average coupon on our new loan investments is now approaching 10%. Our earnings reap the benefit as we acquire or originate loans with higher rates while keeping our effective cost of funds relatively stable. We will continue to tap the securitization markets to finance these new investments with durable, non-recourse financing whenever we believe market conditions are favorable.

Recent book value declines have been driven almost entirely by higher interest rates, not credit losses or weakening fundamentals. Many of our loans are now held below par on our balance sheet, but over time, we would expect to recoup those unrealized losses as borrowers pay back the principal of their loans. The potential upside is substantial. We estimate that as of the end of the second quarter of 2023, our Economic book value would exceed $18 per share if our loan investments pay off at par and our outstanding securitized debt is repaid at par.

The credit performance of our loan portfolio has been among the best relative to our peers. Thanks to principal paydowns and strong home price appreciation, the weighted average loan-to-value (LTV) ratio of our loan portfolio was below 60% halfway through 2023. Delinquencies have remained extremely low. Our credit exposure is well-diversified by geography and product type, and we continue to prioritize high FICO scores and low LTV ratios. We believe that we are well-positioned to weather whatever economic storms lay ahead.

2022 was Lima One's first full year as a wholly-owned subsidiary of MFA. The Lima team originated $2.3 billion of business-purpose loans (BPLs) nationwide in 2022, a record for them and a 42% increase from 2021. This was no easy feat, particularly since we tightened underwriting standards and raised interest rates on new loans throughout the year beginning in February 2022. Notably, Lima is taking market share from weaker, less well capitalized competitors, many of whom have shrunk their businesses dramatically or ceased operations altogether. Lima today offers a broad range of financing solutions for real estate investors and developers across the U.S., including transitional loans, single-family rental loans and small-balance multifamily loans. Under MFA's ownership, Lima has rapidly emerged as one of the nation's preeminent BPL lenders. We are excited to support their continued growth in 2023 and beyond.

Our commitment to diversity and to advancing women in the workplace remains unwavering. Gender equality is a key part of our effort to create a corporate 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 stockholders. We are pleased to report that early in 2023, for the fourth consecutive year, MFA was included in Bloomberg's Gender Equality Index. In addition, our Women@MFA group has hosted over 30 networking events for our employees. We were also recognized as a "Gender Balanced" and "Winning Company" by 50/50 Women on Boards for the sixth consecutive year. Four of our seven Board directors, including our Board chair, are women. We have proudly sponsored 50/50 Women on Boards since 2020. MFA was also again certified as a "Great Place to Work" by the Great Place to Work Institute. This certification is based on the results of a lengthy anonymous employee engagement survey conducted and represents an important validation of MFA's corporate culture.

In April, we celebrated the 25th anniversary of our listing on the New York Stock Exchange. It is worth taking a moment to reflect on our evolution since then. We invested almost exclusively in Agency RMBS during our first decade as a public company. In the wake of the 2008 financial crisis, we hired and developed a credit team that purchased over the next five years in excess of $5 billion of legacy non-Agency RMBS at highly discounted prices. Those securities appreciated enormously as the U.S. economy and housing market recovered. In 2014, we began investing directly in residential whole loans, eventually acquiring over $4 billion of non-performing and re-performing mortgage loans, also at significant discounts to par. Our more recent endeavors in the non-qualified mortgage ("Non-QM") and BPL sectors have once again showcased our ability to shift into new asset classes as attractive opportunities arise.

We remain focused on producing strong returns while prudently managing risk in even the most volatile market environments. We are proud to have delivered over $4.6 billion in dividends to our stockholders since our IPO in 1998 and look forward to further success in the decades to come.

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.

Sincerely,

Craig L. Knutson
President and Chief Executive Officer