

MFA FINANCIAL, INC.
Form 10-Q
November 04, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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)

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

350 Park Avenue, 20th Floor, New York, New York
(Address of principal executive offices)

10022
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

369,079,139 shares of the registrant’s common stock, \$0.01 par value, were outstanding as of October 30, 2014.

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MFA FINANCIAL, INC.

CONSOLIDATED BALANCE SHEETS

(In Thousands Except Per Share Amounts)	September 30, 2014 (Unaudited)	December 31, 2013
Assets:		
Mortgage-backed securities (“MBS”):		
Agency MBS, at fair value (\$5,765,633 and \$6,142,306 pledged as collateral, respectively)	\$ 6,174,176	\$ 6,519,221
Non-Agency MBS, at fair value (\$2,178,412 and \$1,778,067 pledged as collateral, respectively)	3,311,062	2,569,766
Non-Agency MBS transferred to consolidated variable interest entities (“VIEs”) (1)	1,452,264	2,282,371
Securities obtained and pledged as collateral, at fair value	442,370	383,743
Cash and cash equivalents	423,891	565,370
Restricted cash	43,751	37,520
Interest receivable	32,499	35,828
Derivative instruments:		
MBS linked transactions, net (“Linked Transactions”), at fair value	190,681	28,181
Interest rate swap agreements (“Swaps”), at fair value	4,322	13,000
Goodwill	7,189	7,189
Prepaid and other assets (See Notes 2(d) and 15)	160,572	29,719
Total Assets	\$ 12,242,777	\$ 12,471,908
Liabilities:		
Repurchase agreements	\$ 8,125,723	\$ 8,339,297
Securitized debt (2)	156,276	366,205
Obligation to return securities obtained as collateral, at fair value	442,370	383,743
8% Senior Notes due 2042 (“Senior Notes”)	100,000	100,000
Accrued interest payable	12,172	14,726
Swaps, at fair value	35,493	28,217
Dividends and dividend equivalents rights (“DERs”) payable	74,126	73,643
Accrued expenses and other liabilities	42,873	23,826
Total Liabilities	\$ 8,989,033	\$ 9,329,657
Commitments and contingencies (See Note 10)		
Stockholders’ Equity:		
Preferred stock, \$.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
Common stock, \$.01 par value; 886,950 shares authorized; 368,721 and 365,125 shares issued and outstanding, respectively	3,687	3,651
Additional paid-in capital, in excess of par	3,002,549	2,972,369
Accumulated deficit	(570,106)	(571,544)
Accumulated other comprehensive income	817,534	737,695
Total Stockholders’ Equity	\$ 3,253,744	\$ 3,142,251
Total Liabilities and Stockholders’ Equity	\$ 12,242,777	\$ 12,471,908

(1) Non-Agency MBS transferred to consolidated VIEs represent assets of the consolidated VIEs that can be used only to settle the obligations of each respective VIE.

Securitized Debt represents third-party liabilities of consolidated VIEs and excludes liabilities of the VIEs acquired (2) by the Company that eliminate on consolidation. The third-party beneficial interest holders in the VIEs have no recourse to the general credit of the Company. (See Notes 10 and 15 for further discussion.)

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

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CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In Thousands, Except Per Share Amounts)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Interest Income:				
Agency MBS	\$33,066	\$36,158	\$110,004	\$116,982
Non-Agency MBS	48,571	43,131	135,199	128,175
Non-Agency MBS transferred to consolidated VIEs	29,303	39,172	105,510	116,641
Cash and cash equivalent investments	20	21	63	93
Interest Income	\$110,960	\$118,482	\$350,776	\$361,891
Interest Expense:				
Repurchase agreements	\$35,935	\$37,113	\$109,354	\$105,185
Securitized debt	1,415	2,830	5,471	9,381
Senior Notes	2,008	2,007	6,023	6,020
Interest Expense	\$39,358	\$41,950	\$120,848	\$120,586
Net Interest Income	\$71,602	\$76,532	\$229,928	\$241,305
Other Income, net:				
Unrealized net gains and net interest income from Linked Transactions	\$2,559	\$544	\$9,586	\$1,785
Unrealized losses on TBA short positions	—	(8,724)	—	(8,724)
Gain on sales of MBS and U.S. Treasury securities, net	13,880	13,680	25,303	19,678
Other, net	1,251	55	1,543	165
Other Income, net	\$17,690	\$5,555	\$36,432	\$12,904
Operating and Other Expense:				
Compensation and benefits	\$5,970	\$5,294	\$18,378	\$15,851
Other general and administrative expense	3,831	3,434	11,461	10,175
Excise tax and interest	—	—	1,175	2,000
Impairment of resecuritization related costs	—	2,031	—	2,031
Other investment related operating expenses	609	—	1,550	—
Operating and Other Expense	\$10,410	\$10,759	\$32,564	\$30,057
Net Income	\$78,882	\$71,328	\$233,796	\$224,152
Less Preferred Stock Dividends	3,750	3,750	11,250	10,000
Less Issuance Costs of Redeemed Preferred Stock	—	—	—	3,947
Net Income Available to Common Stock and Participating Securities	\$75,132	\$67,578	\$222,546	\$210,205
Earnings per Common Share - Basic and Diluted	\$0.20	\$0.19	\$0.60	\$0.58

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Dividends Declared per Share of Common Stock	\$0.20	\$0.50	(1) \$0.60	\$1.44	(1)(2)
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(1) Includes a special dividend of \$0.28 per share declared on August 1, 2013.

(2) Includes a special dividend of \$0.50 per share declared on March 4, 2013.

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

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

(In Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$78,882	\$71,328	\$233,796	\$224,152
Other Comprehensive (Loss)/Income:				
Unrealized (loss)/gain on Agency MBS, net	(14,937) 15,469	46,000	