MFA FINANCIAL, INC.
Form 10-K
February 13, 2014

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

FORM 10-K

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

For the fiscal year ended December 31, 2013

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

For the transition period from to
Commission File Number: 1-13991
MFA 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) (212) 207-6400 (Registrant's telephone number, including area code)	10022 (Zip Code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange
7.50% Series B Cumulative Redeemable Preferred Stock, par value $0.01 per share	New York Stock Exchange
8.00% Senior Notes due 2042	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 x No o

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 o No x

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 x No o

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

On June 28, 2013, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $3.05 billion based on the closing sales price of our common stock on such date as reported on the New York Stock Exchange.

On February 7, 2014, the registrant had a total of 366,638,568 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 May 21, 2014, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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CAUTIONARY STATEMENT — This Annual Report on Form 10-K includes "forward-looking" statements within the Private Securities Litigation Reform Act of 1995. These forward-looking statements include information about possible or assumed future results with respect to the Company's business, financial condition, liquidity, results of operations, plans and objectives. You can identify forward-looking statements by such words as "will," "believe," expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "could," "would," "may" or similar expressions. We caution t such forward-looking statements made by us are not guarantees of future performance and that actual results may differ materially from these forward-looking statements. We discuss certain factors that affect our business and that may cause our actual results to differ materially from these forward-looking statements under "Item 1A. Risk Factors" of this Annual Report on Form 10-K. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update or revise any forward-looking statements.

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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: MBS 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 Fannie Mae or Freddie Mac, or an agency of the U.S. Government, such as Ginnie Mae; Non-Agency MBS are residential MBS that are not guaranteed by any agency of the U.S. Government or any federally chartered corporation; 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 Hybrids and adjustable-rate mortgage loans which typically have interest rates that adjust annually to an increment over a specified interest rate index; ARM-MBS refers to residential MBS that are secured by ARMs; and Linked Transactions refer to Non-Agency MBS purchases which were financed with the same counterparty and are therefore considered linked for financial statement reporting purposes and are reported at fair value on a combined basis.

PART I

Item 1. Business.

GENERAL

We are primarily engaged in the business of investing, on a leveraged basis, in residential Agency MBS and Non-Agency MBS. Our principal business objective is to generate net income for distribution to our stockholders resulting from the difference between the interest and other income we earn on our investments and the interest expense we pay on the borrowings that we use to finance our leveraged investments and our operating costs.

We were incorporated in Maryland on July 24, 1997, and began operations on April 10, 1998. We have elected to be taxed as a real estate investment trust (or 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.

INVESTMENT STRATEGY

Our operating policies require that at least 50% of our investment portfolio consist of Agency and Non-Agency MBS. The remainder of our assets may consist of direct or indirect investments in: (i) other types of MBS and residential mortgage loans; (ii) other mortgage and real estate-related debt and equity; and (iii) other yield instruments (corporate or government), subject at all times to compliance with various asset and income tests to maintain our qualification as a REIT as well as our exemption from the Investment Company Act of 1940, as amended (or the Investment Company Act).

The mortgages collateralizing our MBS portfolio are predominantly Hybrids, ARMs and 15-year fixed-rate mortgages. The Hybrids collateralizing our MBS typically have initial fixed-rate periods generally ranging from three to ten years. After entering their adjustable rate period, interest rates for most of our ARM-MBS reset based on London Interbank Offered Rate (or LIBOR) and the one-year constant maturity treasury (or CMT) rate. The mortgages collateralizing our ARM-MBS typically have interim and lifetime caps on interest rate adjustments.

The coupons earned on ARM-MBS adjust over time as interest rates change, typically after an initial fixed-rate period. Because the interest rates on ARM-MBS adjust, the market values of these assets are generally less sensitive to changes in interest rates than are fixed-rate MBS. Furthermore, 15-year fixed-rate mortgages amortize according to a 15-year amortization schedule and have a 15-year final maturity. Due to their accelerated amortization and shorter

final maturity, these assets are generally less sensitive to changes in long-term interest rates as compared to mortgages with a longer final maturity, such as 30-year mortgages. In order to mitigate our interest rate risks, our strategy is to maintain a majority of our portfolio in ARM-MBS and 15-year fixed rate MBS.

While the majority of our portfolio holdings remain in Agency MBS, as part of our investment strategy a significant portion of our portfolio is invested in Non-Agency MBS. By blending Non-Agency MBS with Agency MBS, we seek to generate attractive returns with less sensitivity to changes in the yield curve, interest rate cycles and prepayments.

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Non-Agency MBS Portfolio

Our Non-Agency MBS have been acquired primarily at discounts to face/par value. A portion of the purchase discount on substantially all of our Non-Agency MBS is designated as a non-accretable purchase discount (or Credit Reserve), which effectively mitigates our risk of loss on the mortgages collateralizing such MBS and is not expected to be accreted into interest income. The portion of the purchase discount that is not designated as credit reserve is accreted into interest income over the life of the security. Yields on Non-Agency MBS, unlike Agency MBS, will exhibit sensitivity to changes in credit performance. The extent to which our yield on Non-Agency MBS is impacted by the accretion of purchase discounts will vary over time by security, based upon the amount of purchase discount, the actual credit performance, and conditional prepayment rate (or CPR) experienced on each MBS.

FINANCING STRATEGY

Our financing strategy is designed to increase the size of our MBS portfolio by borrowing against a substantial portion of the market value of the MBS in our portfolio. We primarily use repurchase agreements to finance the acquisition of our Agency MBS and repurchase agreements and securitized debt to finance the acquisition of our Non-Agency MBS. We enter into interest rate derivatives to hedge the interest rate risk associated with a portion of our repurchase agreement borrowings and securitized debt.

Repurchase agreements, although legally structured as a sale and repurchase obligation, are financing contracts (i.e., borrowings) under which we pledge our MBS as collateral to secure loans with repurchase agreement counterparties (i.e., lenders). The amount borrowed under a repurchase agreement is limited to a specified percentage of the fair value of the MBS pledged as collateral. The portion of the pledged collateral held by the lender in excess of the amount borrowed under the repurchase agreement is the margin requirement for that borrowing. Repurchase agreements involve the transfer of the pledged collateral to a lender at an agreed upon price in exchange for such lender's simultaneous agreement to return the same security back to the borrower at a future date (i.e., the maturity of the borrowing) at a higher price. The difference between the original transfer price and return price is the cost, or interest expense, of borrowing under a repurchase agreement. Our cost of borrowings under repurchase agreements is generally LIBOR based. Under our repurchase agreements, we retain beneficial ownership of the pledged collateral and continue to receive principal and interest payments, while the lender maintains custody of such collateral. At the maturity of a repurchase financing, unless the repurchase financing is renewed with the same counterparty, we are required to repay the loan including any accrued interest and concurrently reacquire custody of the pledged collateral or, with the consent of the lender, we may renew the repurchase financing at the then prevailing market interest rate and terms. Margin calls pursuant to which a lender may require that we pledge additional securities and/or cash as collateral to secure our borrowings under repurchase financing with such lender, are routinely experienced by us, when the fair value of our existing pledged collateral declines as a result of principal amortization and prepayments or due to changes in market interest rates, spreads or other market conditions. We also may make margin calls on counterparties when collateral values increase. To date, we have satisfied all of our margin calls and have never sold assets in response to any margin calls.

In order to reduce our exposure to counterparty-related risk, we generally seek to enter into repurchase agreements and other financing arrangements, including but not limited to, resecuritizations, collateralized financing arrangements and other structured financings and derivatives, with a diversified group of financial institutions. At December 31, 2013, we had outstanding balances under repurchase agreements with 26 separate lenders.

We have engaged in and may engage in future resecuritization transactions. The objective of such a transaction may include obtaining permanent non-recourse financing, obtaining liquidity or financing the underlying securitized financial assets on improved terms. For financial statement reporting purposes, we will generally account for such transactions as a financing of the underlying MBS. (See Note 15 to the consolidated financial statements included

under Item 8 of this Annual Report on Form 10-K.)

In addition to repurchase agreements, securitized debt and 8% Senior Notes due 2042 (or Senior Notes), we may also use other sources of funding in the future to finance our MBS portfolio, including, but not limited to, other types of collateralized borrowings, loan agreements, lines of credit, commercial paper or the issuance of debt securities.

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COMPETITION

We operate in the mortgage-REIT industry. We believe that our principal competitors in the business of acquiring and holding MBS of the types in which we invest are financial institutions, such as banks, savings and loan institutions, life insurance companies, institutional investors, including mutual funds and pension funds, hedge funds, other mortgage-REITs as well as the U.S. 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 us. In addition, many of these entities have greater financial resources and access to capital than us. 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 MBS, resulting in higher prices and lower yields on such assets.

EMPLOYEES

At December 31, 2013, we had 40 employees, all of whom were full-time. We believe that our relationship with our employees is good. None of our employees is unionized or represented under a collective bargaining agreement.

AVAILABLE INFORMATION

We maintain a Web site at www.mfafinancial.com. We make available, free of charge, on our Web site 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 Securities and Exchange Commission (or 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 Web site 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.

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Item 1A. Risk Factors.

This section highlights specific risks that could affect our Company and its businesses. 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 our Company faces 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, financial condition, results of operations, cash flows or liquidity. These events could also have a negative effect on the trading price of our securities.

General.

Our business and 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, the supply and demand for MBS, the availability of adequate financing, general economic and real estate conditions (both on national and local level), the impact of government actions in the real estate and mortgage sector, and the credit performance of our Non-Agency MBS. 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 MBS, the behavior of which involves various risks and uncertainties. Interest rates and CPRs (which measure the amount of unscheduled principal payment on a bond as a percentage of the bond 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. Our operating results also depend upon our ability to effectively manage the risks associated with our business operations, including interest rate, prepayment, financing and credit risks, while maintaining our qualification as a REIT.

Risks Related to our Business, Assets and Use of Leverage

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

The MBS that we acquire are secured by pools of mortgages on residential properties. In general, the mortgages collateralizing our MBS may be prepaid at any time without penalty. Prepayments on our MBS result when homeowners/mortgagees satisfy (i.e., pay off) the mortgage upon selling or refinancing their mortgaged property. When we acquire a particular MBS, 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 such MBS. If we purchase assets at a premium to par value, and borrowers prepay their mortgage loans faster than expected, the corresponding prepayments on the MBS may reduce the expected yield on such securities because we will have to amortize the related premium on an accelerated basis. Conversely, if we purchase assets at a discount to par value, when borrowers prepay their mortgage loans slower than expected, the decrease in corresponding prepayments on the MBS may reduce the expected yield on such securities because we will not be able to accrete the related discount as quickly as originally anticipated. Prepayment rates on loans are influenced by changes in mortgage and market interest rates and a variety of economic, geographic, governmental and other factors (including, without limitation, the various quantitative easing and “Operation Twist” actions undertaken by the U.S. Federal Reserve over the past few years with respect to its purchases and sales of U.S. Government and agency securities, as well as the refinancing programs described above) all of which are beyond our control. Consequently, such prepayment rates cannot be predicted with

certainty and no strategy can completely insulate us from prepayment or other such risks. In periods of declining interest rates, prepayment rates on mortgage loans generally increase. If general interest rates decline at the same time, the proceeds of such prepayments received during such periods are likely to be reinvested by us in assets yielding less than the yields on the assets that were prepaid (to the extent such assets are available for us to reinvest in). In addition, the market value of our MBS may, because of the risk of prepayment, benefit less than other fixed-income securities from declining interest rates.

With respect to Agency MBS, we often purchase securities 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 these securities. In accordance with U.S. generally accepted accounting principles (or GAAP), we amortize the premiums on our MBS over the life of the related MBS. If the mortgage loans securing these securities prepay at a more rapid rate than anticipated, we will have to amortize our premiums on an accelerated basis which may adversely affect our profitability. Defaults on Agency MBS typically have the same effect as prepayments because of the underlying Agency guarantee. As of December 31, 2013, we had net purchase premiums of

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$226.8 million, or 3.6% of current par value, on our Agency MBS and net purchase discounts of $1.502 billion, or 26.8% of current par value, on our Non-Agency MBS.

Prepayments, which are the primary feature of MBS that distinguish them from other types of bonds, are difficult to predict and can vary significantly over time. As the holder of MBS, on a monthly basis, we receive a payment equal to a portion of our investment principal in a particular MBS as the underlying mortgages are prepaid. With respect to our Agency MBS, we typically receive notice of monthly principal prepayments on the fifth business day of each month (such day is commonly referred to as factor day) and receive the related scheduled payment on a specified later date, which for (a) our Agency ARM-MBS and fixed-rate Agency MBS guaranteed by Fannie Mae is the 25th day of that month (or next business day thereafter), (b) our Agency ARM-MBS guaranteed by Freddie Mac is the 15th day of the following month (or next business day thereafter), (c) our fixed-rate Agency MBS guaranteed by Freddie Mac is the 15th day of the month (or next business day thereafter), and (d) our Agency ARM-MBS guaranteed by Ginnie Mae is the 20th day of that month (or next business day thereafter). With respect to our Non-Agency MBS, we typically receive notice of monthly principal prepayments and the related scheduled payment on the 25th day of each month (or next business day thereafter). In general, on the date each month that principal prepayments are announced (i.e., factor day for Agency MBS), the value of our MBS pledged as collateral under our repurchase agreements is reduced by the amount of the prepaid principal and, as a result, our lenders will typically initiate a margin call requiring the pledge of additional collateral or cash, in an amount equal to such prepaid principal, in order to re-establish the required ratio of borrowing to collateral value under such repurchase agreements. Accordingly, with respect to our Agency MBS, the announcement on factor day of principal prepayments is in advance of our receipt of the related scheduled payment, thereby creating a short-term receivable for us in the amount of any such principal prepayments; however, under our repurchase agreements, we may receive a margin call relating to the related reduction in value of our Agency MBS and, prior to receipt of this short-term receivable, be required to post additional collateral or cash in the amount of the principal prepayment on or about factor day, which would reduce our liquidity during the period in which the short-term receivable is outstanding. As a result, in order to meet any such margin calls, we could be forced to sell assets in order to maintain liquidity. Forced sales under adverse market conditions may result in lower sales prices than ordinary market sales made in the normal course of business. If our MBS 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. In addition, in order to continue to earn a return on this prepaid principal, we must reinvest it in additional MBS or other assets; however, if interest rates decline, we may earn a lower return on our new investments as compared to the MBS that prepay.

Prepayments may have a materially negative impact on our financial results, the effects of which depend on, among other things, the timing and amount of the prepayment delay on our Agency MBS, the amount of unamortized premium on our prepaid MBS, the rate at which prepayments are made on our Non-Agency MBS, the reinvestment lag and the availability of suitable reinvestment opportunities.

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 liquidity, results of operations or financial condition.

Our business strategy involves the use of borrowing or “leverage.” Pursuant to our leverage strategy, we borrow against a substantial portion of the market value of our MBS and use the borrowed funds to finance the acquisition of additional investment assets. We are not required to maintain any particular debt-to-equity ratio. 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 MBS, 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 our MBS 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 use of leverage to finance our MBS and other assets involves a number of other risks, including, among other things, the following:

- 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. As of December 31, 2013, we had amounts outstanding under repurchase agreements with 26 separate lenders. 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

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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 under adverse market conditions may result in lower sales prices than ordinary market sales made in the normal course of business. If our MBS 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.

- 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 MBS 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 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 repurchase agreements to finance our MBS, 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 MBS 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 MBS in an unrealized loss position, in order to maintain liquidity. Forced sales under adverse market conditions could result in lower sales prices than ordinary market sales made in the normal course of business. If our MBS 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 MBS is impacted by changes in interest rates, prevailing market yields and other market conditions. A decline in the market value of our MBS 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. 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.

- 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). See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K, for further discussion regarding risks related to exposure to financial institution counterparties in light of recent market conditions. 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, 2013, we had greater than 5% stockholders' equity at risk to the following repurchase agreement counterparties: Alpine Securitization Corporation/Credit Suisse (approximately 23.9%), Wells Fargo (approximately 12.2%), RBS (approximately 8.0%) and UBS (approximately 7.7%).

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

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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 maybe more pronounced during periods of significant volatility in the market conditions for mortgages and mortgage-related assets as well as the broader financial markets.

- We have experienced declines in the market value of certain of our assets resulting in us recording impairments, which have had an adverse effect on our results of operations and financial condition.

A decline in the market value of our MBS or other assets may require us to recognize an "other-than-temporary" impairment (or OTTI) against such assets under GAAP. When the fair value of our MBS is less than its amortized cost at the balance sheet date, the security is considered impaired. We assess our impaired securities on at least a quarterly basis and designate such impairments as either "temporary" or "other-than-temporary." 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 its anticipated recovery, then we must recognize an OTTI through charges to earnings equal to the entire difference between the MBS amortized cost and its fair value at the balance sheet date. If we do not expect to sell an other-than-temporarily impaired security, only the portion of the OTTI related to credit losses is recognized through charges to earnings with the remainder recognized through other accumulated comprehensive income/(loss) (or AOCI) on our consolidated balance sheets. Impairments are recognized through other comprehensive income/(loss) (or OCI) and do not impact earnings. Following the recognition of an OTTI through earnings, a new cost basis is established for the MBS and may not be adjusted for subsequent recoveries in fair value through earnings. However, OTTIs recognized through charges to earnings may be accreted back to the amortized cost basis of the security on a prospective basis through interest income. The determination as to whether an OTTI exists and, if so, the amount of credit impairment recognized in earnings is subjective, as such determinations are based on factual information available at the time of assessment as well as the Company's estimates of the future performance and cash flow projections. As a result, the timing and amount of OTTIs constitute material estimates that are susceptible to significant change.

- Any downgrade, or perceived potential of a downgrade, of U.S. sovereign credit ratings or the credit ratings of the U.S. Government-sponsored entities (or GSEs) by the various credit rating agencies may materially adversely affect our business.

During the summer of 2011, Standard & Poor's Corporation (or S&P), one of the major credit rating agencies, downgraded the U.S. sovereign credit rating in response to the protracted debate over the "U.S. debt ceiling limit" and

S&P's perception of the U.S. Government's ability to address its long-term budget deficit. In addition, the credit rating of the GSEs was also downgraded by S&P in response to the downgrade in the U.S. sovereign credit rating, as the value of the Agency MBS issued by such GSEs and their ability to meet their obligations under such Agency MBS is impacted by the support provided to them by the U.S. Government and market perceptions of the strength of such support and the likelihood of its continuity. On October 15, 2013, Fitch Ratings Service (or Fitch) placed the U.S. Government credit rating on negative watch, warning that a failure by the U.S. Government to honor interest or principal payments on U.S. Department of the Treasury (or U.S. Treasury) securities would impact its decision whether to downgrade the U.S. Government credit rating. Fitch also stated that the manner and duration of an agreement to raise the debt ceiling and resolve the budget impasse, as well as the perceived risk of such events occurring in the future, would weigh on its ratings. We could be negatively affected in a number of ways in the event of a default by the U.S. Government, a downgrade of the U.S. sovereign credit rating by Fitch or other credit rating agencies or a further downgrade by S&P. Such negative impacts could include changes in the financing terms of our repurchase agreements collateralized by Agency MBS, which could include higher financing costs and/or a reduction in the amount of financing provided based on the market value of collateral

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posted under these agreements. In addition, to the extent that the credit rating of any or all of the GSEs were to be downgraded by other credit rating agencies or further downgraded by S&P, the value of our Agency MBS could be adversely affected. These outcomes could in turn materially adversely affect our operations and financial condition in a number of ways, including a reduction in the net interest spread between our assets and associated repurchase agreement borrowings or by decreasing our ability to obtain repurchase agreement financing on acceptable terms, or at all.

Because assets we acquire may experience periods of illiquidity, we may lose profits, incur losses or be prevented from earning capital gains if we cannot sell mortgage-related assets at an opportune time.

We bear the risk of being unable to dispose of our investments at advantageous times or in a timely manner because mortgage-related assets may experience periods of illiquidity. A lack of liquidity may result from the absence of a willing buyer or an established market for these assets, as well as legal or contractual restrictions on resale or the unavailability of financing for these assets. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be relatively limited, which may cause us to incur losses or prevent us from realizing capital gains.

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 these securities may be 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, 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.

Our investments in Non-Agency MBS or other investment assets of lower credit quality involve credit risk, which could materially adversely affect our results of operations.

The holder of a mortgage or MBS assumes a risk that the borrowers may default on their obligations to make full and timely payments of principal and interest. Pursuant to our investment policy, we have the ability to acquire Non-Agency MBS and other investment assets of lower credit quality. In general, Non-Agency MBS carry greater investment risk than Agency MBS because they are not guaranteed as to principal and/or interest by the U.S. Government, any federal agency or any federally chartered corporation. Unexpectedly high rates of default (e.g., in excess of the default rates forecasted) and/or higher than expected loss severities on the mortgages collateralizing our Non-Agency MBS may adversely affect the value of such assets. Accordingly, Non-Agency MBS and other investment assets of less-than-high credit quality could cause us to incur losses of income from, and/or losses in market value relating to, these assets if there are defaults of principal and/or interest on these assets.

We may have significant credit risk, especially on Non-Agency MBS, in certain geographic areas and may be disproportionately affected by economic or housing downturns, natural disasters, terrorist events, adverse climate changes or other adverse events specific to those markets.

A significant number of the mortgages collateralizing our MBS may be concentrated in certain geographic areas. For example, with respect to our Non-Agency MBS portfolio, we have significantly higher exposure in California, Florida, New York, Virginia and Maryland. (See “Market Value Risk” included under Part II, Item 7A. “Quantitative

and Qualitative Disclosures About Market Risk" of this Annual Report on Form 10-K) Certain markets within these states (particularly California and Florida) experienced significant decreases in residential home value during the recent housing crisis. Any event that adversely affects the economy or real estate market in these states could have a disproportionately adverse effect on our Non-Agency MBS portfolio. In general, any material decline in the economy or significant difficulties in the real estate markets would be likely to cause a decline in the value of residential properties securing the mortgages in the relevant geographic area. This, in turn, would increase the risk of delinquency, default and foreclosure on real estate collateralizing our Non-Agency MBS in this area. This may then materially adversely affect our credit loss experience on our Non-Agency MBS in such area if unexpectedly high rates of default (e.g., in excess of the default rates forecasted) and/or higher than expected loss severities on the mortgages collateralizing such securities were to occur.

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The occurrence of a natural disaster (such as an earthquake, tornado, hurricane or a flood) or a significant adverse climate change may cause a sudden decrease in the value of real estate and would likely reduce the value of the properties securing the mortgages collateralizing our Non-Agency MBS. Since certain natural disasters may not typically be covered by the standard hazard insurance policies maintained by borrowers, the borrowers may have to pay for repairs due to the disasters. Borrowers may not repair their property or may stop paying their mortgages under those circumstances. This would likely cause defaults and credit loss severities to increase on the pool of mortgages securing our Non-Agency MBS which, unlike Agency MBS, are not guaranteed as to principal and/or interest by the U.S. Government, any federal agency or federally chartered corporation.

We have investments in Non-Agency MBS collateralized by Alt A loans and may also have investments collateralized by subprime mortgage loans, which, due to lower underwriting standards, are subject to increased risk of losses.

We have certain investments in Non-Agency MBS backed by collateral pools containing mortgage loans that have been originated using underwriting standards that are less strict than those used in underwriting "prime mortgage loans". These lower standards permit mortgage loans made to borrowers having impaired credit histories, mortgage loans where the amount of the loan at origination is 80% or more of the value of the mortgage property, mortgage loans made to borrowers with low credit scores, mortgage loans made to borrowers who have other debt that represents a large portion of their income and mortgage loans made to borrowers whose income is not required to be disclosed or verified. Due to economic conditions, including increased interest rates and lower home prices, as well as aggressive lending practices, Alt A and subprime mortgage loans have in recent periods experienced increased rates of delinquency, foreclosure, bankruptcy and loss, and they are likely to continue to experience delinquency, foreclosure, bankruptcy and loss rates that are higher, and that may be substantially higher, than those experienced by mortgage loans underwritten in a more traditional manner. Thus, because of higher delinquency rates and losses associated with Alt A and subprime mortgage loans, the performance of Non-Agency MBS backed by these types of loans that we may acquire could be correspondingly adversely affected, which could materially adversely impact our results of operations, financial condition and business.

We may generate taxable income that differs from our GAAP income on Non-Agency MBS 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 at prices that reflect significant market discounts on their unpaid principal balances. For financial statement reporting purposes, we generally establish a portion of this discount 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.

An increase in our borrowing costs relative to the interest we receive on our MBS 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 to finance the acquisition of MBS which

have longer-term contractual maturities. Even though the majority of our MBS 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 MBS. In general, if the interest expense on our borrowings increases relative to the interest income we earn on our MBS, 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 MBS 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 MBS. During a period of rising interest rates, our borrowing costs generally will increase at a faster pace

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than our interest earnings on the leveraged portion of our MBS 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 MBS portfolio. 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.

- Interest rate caps on the mortgages collateralizing our MBS may materially adversely affect our profitability if short-term interest rates increase. The coupons earned on ARM-MBS adjust over time as interest rates change (typically after an initial fixed-rate period for Hybrids). The financial markets primarily determine the interest rates that we pay on the repurchase transactions used to finance the acquisition of our MBS; however, the level of adjustment to the interest rates earned on our ARM-MBS is typically limited by contract (or in certain cases by state or federal law). The interim and lifetime interest rate caps on the mortgages collateralizing our MBS limit the amount by which the interest rates on such assets can adjust. Interim interest rate caps limit the amount interest rates on a particular ARM can adjust during the next adjustment period. Lifetime interest rate caps limit the amount interest rates can adjust upward from inception through maturity of a particular ARM. Our repurchase transactions are not subject to similar restrictions. Accordingly, in a sustained period of rising interest rates or a period in which interest rates rise rapidly, we could experience a decrease in net income or a net loss because the interest rates paid by us on our borrowings (excluding the impact of hedging transactions) could increase without limitation (as new repurchase transactions are entered into upon the maturity of existing repurchase transactions) while increases in the interest rates earned on the mortgages collateralizing our MBS could be limited due to interim or lifetime interest rate caps.

- Adjustments of interest rates on our borrowings may not be matched to interest rate indexes on our MBS. In general, the interest rates on our repurchase transactions are based on LIBOR, while the interest rates on our ARM-MBS may be indexed to LIBOR or CMT rate. Accordingly, any increase in LIBOR relative to one-year CMT rates will generally result in an increase in our borrowing costs that is not matched by a corresponding increase in the interest earned on our ARM-MBS tied to these other index rates. Any such interest rate index mismatch could adversely affect our profitability, which may negatively impact our distributions to stockholders.

- A flat or inverted yield curve may adversely affect ARM-MBS prepayment rates and supply. Our net interest income varies primarily as a result of changes in interest rates as well as changes in interest rates across the yield curve. When the differential between short-term and long-term benchmark interest rates narrows, the yield curve is said to be "flattening." In addition, a flatter yield curve generally leads to fixed-rate mortgage rates that are closer to the interest rates available on ARMs, potentially decreasing the supply of ARM-MBS. At times, short-term interest rates may increase and exceed long-term interest rates, causing an inverted yield curve. When the yield curve is inverted, fixed-rate mortgage rates may approach or be lower than mortgage rates on ARMs, further increasing ARM-MBS prepayments and further negatively impacting ARM-MBS supply. Increases in prepayments on our MBS portfolio cause our premium amortization to accelerate, lowering the yield on such assets. If this happens, we could experience a decrease in net income or incur a net loss during these periods, which may negatively impact our distributions to stockholders.

- We are dependent on our executive officers and key personnel for our success, the loss of any of which 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 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 systems' failures 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.

Computer malware, viruses, and computer hacking and phishing attacks have become more prevalent in our industry and may occur on our systems in the future. 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

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of our networks or systems 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 MBS 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. 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 and establish additional business relationships than us. 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.

A 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.

As Europe continues to experience credit-related concerns, particularly in countries such as Greece, Italy, Spain and Portugal, there is a risk to the financial condition and stability of major European banks. Some of these banks have U.S. banking subsidiaries, which have provided financing to us, particularly repurchase agreement financing for the acquisition of various investments, including MBS investments. During the past few years, the U.S. government placed many of the U.S. banking subsidiaries of these major European banks on credit watch. If European credit concerns continue to impact these major European banks, there is the possibility that it will also impact the operations of their U.S. banking subsidiaries. This could adversely affect our financing and operations as well as those of the entire mortgage sector in general.

Government use of eminent domain to seize underwater mortgages could materially adversely affect the value of, and the returns on, our MBS.

The mortgages securing our Non-Agency MBS are located in many geographic regions across the United States, with significantly higher exposure in California, Florida, New York, Virginia and Maryland. Several county and municipal governments have discussed using eminent domain to seize from mortgage holders the mortgages of borrowers who are underwater, but not in default. In August 2013, the U.S. Federal Housing Finance Agency (or FHFA) released a statement expressing serious concerns on the use of eminent domain to restructure mortgages, based on a review it conducted since requesting public input on the proposal in August 2012, and indicated that it may take action in response to the use of eminent domain to restructure mortgage loans. However, if definitive action is taken by any local governments and such actions withstand Constitutional and other legal challenges, resulting in mortgages securing our Non-Agency MBS being seized using eminent domain, the consideration received from the seizing authorities for such mortgages may be substantially less than the outstanding principal balance, which would result in a realized loss and a corresponding write-down of the principal balance of those mortgages. The result of these seizures would be that the amounts we receive on our Non-Agency MBS would be less than we would otherwise have received if the mortgage loans had not been seized, which may result in a decline in the market value and/or OTTI of these securities. If governments ultimately

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adopt such plans and mortgages securing our Non-Agency MBS are seized on a widespread scale, it could have a material adverse effect on the value of and/or returns on our Non-Agency MBS and our results of operations more generally.

Risks Associated With Adverse Developments in the Mortgage Finance and Credit Markets

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. Beginning in 2007, significant adverse changes in financial market conditions resulted in a deleveraging of the entire global financial system and the forced sale of large quantities of mortgage-related and other financial assets, which resulted in significant volatility in the market for mortgages and mortgage-related assets and significant losses by certain commercial banks, investment banks and insurance companies with exposure to the residential mortgage market. The 2007-2008 financial crisis and its aftermath impacted investor perception of the risk associated with residential MBS, real estate-related securities and various other asset classes in which we invest, which has continued, in varying degrees through the present. More recently, concerns over economic growth rates, continuing relatively high levels of unemployment and uncertainty regarding future U.S. monetary policy have contributed to increased interest rate volatility. As a result of these circumstances, values for residential MBS, real estate-related securities and various other asset classes in which we may invest have experienced volatility. Any decline in the value of our investments, or perceived market uncertainty about their value, would likely 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. Although markets have stabilized more recently, renewed volatility and/or deterioration in the broader residential mortgage and MBS markets could materially adversely affect the performance and market value of our investments.

The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. Government, may materially adversely affect our business.

The payments of principal and interest we receive on our Agency MBS, which depend directly upon payments on the mortgages underlying such securities, are guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. Fannie Mae and Freddie Mac are GSEs, but their guarantees are not backed by the full faith and credit of the United States. Ginnie Mae is part of a U.S. Government agency and its guarantees are backed by the full faith and credit of the United States.

In response to general market instability and, more specifically, the financial conditions of Fannie Mae and Freddie Mac, in July 2008 Congress enacted the Housing and Economic Recovery Act of 2008 established a new regulator for Fannie Mae and Freddie Mac, the FHFA. In September 2008, the U.S. Treasury, the FHFA, and the U.S. Federal Reserve announced a comprehensive action plan to help stabilize the financial markets, support the availability of mortgage finance and protect taxpayers. Under this plan, among other things, the FHFA was appointed as conservator of both Fannie Mae and Freddie Mac, allowing the FHFA to control the actions of the two GSEs without forcing them to liquidate (which would have been the case under receivership). The primary focus of the plan was to increase the availability of mortgage financing by allowing these GSEs to continue to grow their guarantee business without limit, while limiting the size of their retained mortgage and Agency MBS portfolios and requiring that these portfolios be reduced over time.

In an effort to further stabilize the U.S. mortgage market, the U.S. Treasury pursued three additional initiatives beginning in 2008. First, it entered into preferred stock purchase agreements, which have been subsequently

amended, with each of the GSEs to ensure that they maintain a positive net worth. Second, it established a new secured short-term credit facility, which was available to Fannie Mae and Freddie Mac (as well as Federal Home Loan Banks) when other funding sources were unavailable. Third, it established an Agency MBS purchase program under which the U.S. Treasury purchased Agency MBS in the open market. The U.S. Federal Reserve also established a program of purchasing Agency MBS.

Those efforts resulted in significant U.S. Government financial support and increased control of the GSEs. In December 2013, the FHFA reported that, from the time of execution of the preferred stock purchase agreements, funding provided to Fannie Mae and Freddie Mac under the preferred stock purchase agreements totaled approximately $187.5 billion. The U.S. Treasury committed to support the positive net worth of Fannie Mae and Freddie Mac through preferred stock purchases as necessary. Although neither GSE has needed additional funding from the Treasury since the second quarter of 2012, FHFA had previously made projections for stock purchases through 2015, predicting that cumulative U.S. Treasury draws (including dividends) at the end of 2015 could range from $191 billion to $209 billion. Those preferred stock purchase agreements, as amended, also require the reduction of Fannie Mae’s and Freddie Mac’s mortgage and Agency MBS portfolios (such portfolios were limited to $900 billion as of December 31, 2009, and to $810 billion as of December 31, 2010, and must be reduced each year until their respective mortgage

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assets reach $250 billion). In August 2012, the Treasury Department amended its stock purchase agreements to provide that the GSEs' portfolios will be wound down at an annual rate of 15 percent (an increase of five percent over the previously agreed annual rate of ten percent), requiring the GSEs' to reach the $250 billion target four years earlier than previously planned.

Although the U.S. Government has committed to support the positive net worth of Fannie Mae and Freddie Mac, there can be no assurance that these actions will be adequate for their needs, and there is no guarantee of continuing capital support (although some amount of such support is projected to be necessary). These uncertainties lead to questions about the availability of, and trading market for, Agency MBS. Despite the steps taken by the U.S. Government, Fannie Mae and Freddie Mac could default on their guarantee obligations which would materially and adversely affect the value of our Agency MBS. Accordingly, if these government actions are inadequate and the GSEs return to suffering losses or cease to exist (as discussed below), our business, operations and financial condition could be materially and adversely affected.

In addition, the problems faced by Fannie Mae and Freddie Mac resulting in their being placed into federal conservatorship and receiving significant U.S. Government support have sparked serious debate among federal policy makers regarding the continued role of the U.S. Government in providing liquidity for mortgage loans. In 2011, the Obama administration proposed a plan to wind down the GSEs, and both houses of Congress are considering legislation to reform the GSEs, their functions and their missions. The future roles of Fannie Mae and Freddie Mac are likely to be reduced (perhaps significantly) and the nature of their guarantee obligations could be considerably limited relative to historical measurements. Alternatively, it is still possible that Fannie Mae and Freddie Mac could be dissolved entirely or privatized, and, as mentioned above, the U.S. Government could determine to stop providing liquidity support of any kind to the mortgage market. Any changes to the nature of the GSEs or their guarantee obligations could redefine what constitutes an Agency MBS and could have broad adverse implications for the market and our business, operations and financial condition. If Fannie Mae or Freddie Mac were to be eliminated, or their structures were to change radically (i.e., limitation or removal of the guarantee obligation), we may be unable to acquire additional Agency MBS and our existing Agency MBS could be materially and adversely impacted.

We could be negatively affected in a number of ways depending on the manner in which related events unfold for Fannie Mae and Freddie Mac. We rely on our Agency MBS as collateral for our financings under our repurchase agreements. Any decline in their value, or perceived market uncertainty about their value, would make it more difficult for us to obtain financing on our Agency MBS on acceptable terms or at all, or to maintain our compliance with the terms of any financing transactions. Further, the current support provided by the U.S. Treasury to Fannie Mae and Freddie Mac, and any additional support it may provide in the future, could have the effect of lowering the interest rates we expect to receive from Agency MBS, thereby tightening the spread between the interest we earn on our Agency MBS and the cost of financing those assets. A reduction in the supply of Agency MBS could also negatively affect the pricing of Agency MBS by reducing the spread between the interest we earn on our portfolio of Agency MBS and our cost of financing that portfolio.

As indicated above, as legislation enacted over the past few years has changed the relationship between Fannie Mae and Freddie Mac and the U.S. Government, future legislation could further change that relationship by, among other things, reforming the entities and their functions, or by nationalizing, privatizing, or eliminating such entities entirely. Any law affecting the GSEs may create market uncertainty and have the effect of reducing the actual or perceived credit quality of securities issued or guaranteed by Fannie Mae or Freddie Mac. As a result, such laws could increase the risk of loss on our investments in Agency MBS guaranteed by Fannie Mae and/or Freddie Mac. It also is possible that such laws could adversely impact the market for such securities and spreads at which they trade. All of the foregoing could materially and adversely affect our business, operations and financial condition.

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

The U.S. Government, through the Federal Reserve, the Treasury Department, the Federal Housing Administration (or the FHA) and other agencies has implemented a number of federal programs designed to assist homeowners, including the Home Affordable Modification Program (or HAMP), which provides homeowners with assistance in avoiding residential mortgage loan foreclosures, the Hope for Homeowners Program (or H4H Program), which allows certain distressed borrowers to refinance their mortgages into FHA-insured loans in order to avoid residential mortgage loan foreclosures, and the Home Affordable Refinance Program, which allows borrowers who are current on their mortgage payments to refinance and reduce their monthly mortgage payments without new mortgage insurance, up to an unlimited loan-to-value ratio for fixed-rate mortgages. HAMP, the H4H Program and other loss mitigation programs 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 Non-Agency MBS, a significant number of loan modifications with respect to a given security, including, but not limited to, those related to principal forgiveness and coupon reduction, could negatively impact the realized yields and cash flows on such security. These loan modification programs, future legislative or regulatory actions,

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including possible amendments to the bankruptcy laws, which 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, our MBS.

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 Wall Street Reform and Consumer Protection Act (or 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 organizations regulated by the U.S. 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 of residential mortgage loans. While the full impact of the Dodd-Frank Act cannot be assessed until the final regulations are fully operationalized, the Dodd-Frank Act's extensive requirements may have a significant effect on the financial markets, and may affect the availability or terms of financing from our lender counterparties and the availability or terms of MBS, both of which could have a material adverse effect on our business.

In addition, U.S. Government, U.S. Federal Reserve, U.S. Treasury and other governmental and regulatory bodies have taken or are considering taking other actions to continue to address the fallout from the 2007-2008 financial and credit crisis. We cannot predict whether or when such actions may occur or what affect, if any, such actions could have on our business, results of operations and financial condition.

Risks Related to Our Hedging and Investment Strategies

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

In accordance with our operating policies, we pursue various types of hedging strategies, including interest rate swap agreements (or Swaps), interest rate cap agreements and other derivative transactions, 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 liability;
-

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.

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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. The Commodities Futures Trading Commission (CFTC), issued new rules that became effective in October 2012 regarding Swaps under the authority granted to it pursuant to the Dodd-Frank Act. Although the new rules do not directly affect the negotiations and terms of individual Swap transactions between counterparties, they do require that 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, and regulation could adversely affect our business and results of operations. Additionally, for all Swaps we entered into prior to June 2013, we are not required to clear them through the central clearinghouse and these Swaps are still subject to the risks of non-performance by any of the individual counterparties with whom we entered into these transactions. If the Swap counterparty cannot perform under the terms of a Swap, we would not receive payments due under that agreement, we may lose any unrealized gain associated with the Swap, and the hedged liability would cease to be hedged by the Swap. We may also be at risk for any collateral we have pledged to secure our obligation under the Swap if the counterparty becomes insolvent or files for bankruptcy. Default by a party with whom we enter into a hedging transaction may result in a loss and force us to cover our commitments, if any, at the then-current market price. Although generally we will seek to reserve the right to terminate our hedging positions, it may not always be possible to dispose of or close out a hedging position without the consent of the hedging counterparty and we may not be able to enter into an offsetting contract in order to cover our risk. We cannot assure you that there will always be a liquid secondary market that will exist for hedging instruments purchased or sold and we may be required to maintain a position until exercise or expiration, which could result in losses.

Clearing facilities or exchanges upon which some of 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

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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, 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.

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. A change in our investment strategy may increase our exposure to interest rate risk, credit risk, default 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 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.

We may enter into Resecuritization Transactions, the tax treatment of which could have a material adverse effect on our results of operations.

We have engaged in and may in the future, engage in resecuritization transactions in which we transfer Non-Agency MBS to a special purpose entity that has formed or will form a securitization vehicle that will issue multiple classes of securities secured by and payable from cash flows on the underlying Non-Agency MBS. To date, we have structured two such transactions as a real estate mortgage investment conduit (or REMIC) securitizations, which, to the extent we have transferred securities in a resecuritization, is viewed as the sale of securities for tax purposes. Although such transactions are treated as sales for tax purposes, they have historically not given rise to any taxable gain so that the prohibited transactions tax rules have not been implicated (i.e., the tax only applies to net taxable gain from sales that are prohibited transactions); however, no assurance can be offered that the Internal Revenue Service (or IRS) will agree with such treatment. In addition, to these REMIC securitization transactions, we have also engaged in two resecuritization transactions that we believe should be treated as financing transactions for tax purposes. If a securitization transaction were to be considered to be a sale of property to customers in the ordinary course of a trade or business, and we recognized a gain on such transaction for tax purposes, then we could risk exposure to the 100% tax on net taxable income from prohibited transactions. Moreover, even if we retained MBS resulting from a resecuritization transaction and then subsequently sold such securities at a tax gain, the gain could, absent an available safe-harbor provision, be characterized as net income from a prohibited transaction. Under these circumstances, our results of operations could be materially adversely affected.

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

Our qualification as a REIT

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 subjected to 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 and ownership tests applicable to REITs. We believe that we currently meet all of the REIT requirements and 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 that 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 interest 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, other distributions 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 qualified requirements at the close of each quarter. There can be no assurance that the IRS or a court would agree with any conclusions or positions we have taken in interpreting the REIT requirements.

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Also, 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 federal income tax on our undistributed taxable income. 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. Also, it is possible that because of differences in timing between the recognition of taxable income and the actual receipt of cash, we may have to borrow funds on a short-term basis to meet the 90% dividend distribution requirement.

Even a technical or inadvertent mistake could jeopardize our REIT qualification unless we meet certain statutory relief provisions. Furthermore, Congress and the IRS might make changes to the tax laws and regulations, and the courts might issue new rulings, that make it more difficult or impossible for us to remain qualified as a REIT.

Furthermore, even if we qualify as a REIT for U.S. federal income tax purposes, we may be required to pay certain federal, state and local taxes on our income. Any of these taxes would reduce our operating cash flow.

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 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 qualified REIT subsidiary (or 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 hold a 100% interest in the equity interests in a taxable mortgage pool, either directly, or through a QRS, it 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. 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 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.

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Our reported GAAP financial results differ from the taxable income results that impact our 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 taxable income results, which impacts 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 taxable income and our dividend distribution requirements. These changes may materially adversely affect our results of operations.

Dividends payable by REITs do not qualify for the reduced tax rates

Legislation enacted in 2003 generally reduces the maximum tax rate for dividends payable to domestic stockholders that are individuals, trusts and estates from 38.6% to 15% (through 2012). Beginning in 2013, the rate increased to 20% for taxpayers with incomes exceeding $400,000 ($450,000 for married taxpayers). Dividends payable by REITs, however, are generally not eligible for the reduced rates. Although this legislation does not adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in stock of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

Future legal changes could require us to significantly restructure our operations in order to maintain our investment company exemption, which would materially and adversely affect us.

Our objective has been to conduct our business so as not to become regulated as an investment company under the Investment Company Act. Section 3(c)(5)(C) of the Investment Company Act exempts from the definition of "investment company" entities that are "primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interests in real estate." Under current interpretations of the SEC staff, this exemption generally means that at least 55% of our assets must be comprised of "qualifying real estate assets" and at least 80% of our portfolio must be comprised of qualifying real estate assets and real estate-related assets under the Investment Company Act. We primarily rely on an existing interpretation of the SEC staff that generally provides that "whole pool certificates" that are issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae (or Agency Whole Pool Certificates) are considered qualifying real estate assets under Section 3(c)(5)(C). We treat as real estate-related assets MBS that do not represent all of the certificates issued with respect to the entire pool of mortgages. Compliance with this exemption inherently limits the types of assets we may acquire from time to time.

On August 31, 2011, the SEC issued a concept release under which it announced that it is reviewing interpretive issues related to the Section 3(c)(5)(C) exemption, including requesting comments on whether it should reconsider whether Agency Whole Pool Certificates may be treated as interests in real estate (and presumably Qualifying Real

Estate Assets) and whether companies, such as us, whose primary business consists of investing in Agency Whole Pool Certificates, are the type of entities that Congress intended to be covered by the exclusion provided by Section 3(c)(5)(C).

The potential timetable and outcome of the SEC's review are unclear. However, if the SEC determines that Agency Whole Pool Certificates are not interests in real estate (and therefore not Qualifying Real Estate Assets), adopts an otherwise adverse interpretation with respect to Agency Whole Pool Certificates, issues different guidance regarding any of the matters bearing upon the exemption under Section 3(c)(5)(C) or otherwise believes we do not satisfy an Investment Company Act exemption, we would be required to significantly restructure our operations in order to maintain our investment company exemption. Under these circumstances, our ability to use leverage and our access to more favorable methods of financing would be substantially reduced, and we would be unable to conduct our business as we currently conduct it. We may also be required to sell certain of our assets and/or limit the types of assets we acquire. Under the circumstances described above, it is likely that our net interest income would be significantly reduced, which would materially and adversely affect our business.

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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 our 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, (3) vest in our Board the exclusive power to fix the number of directorships and (4) require, unless called by our Chairman of the Board, Chief Executive Officer or President or our Board, the written request of stockholders entitled to cast not less than a majority of all votes entitled to be cast at such a meeting to call a special meeting. These provisions may delay or prevent a change of control of our company.

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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 us.

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 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.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Office Leases

We pay monthly rent pursuant to two operating leases. Our lease for our corporate headquarters in New York, New York extends through May 31, 2020. The lease provides for aggregate cash payments ranging over time from approximately $2.4 million to $2.5 million per year, paid on a monthly basis, exclusive of escalation charges. In addition, as part of this lease agreement, we have provided the landlord a $785,000 irrevocable standby letter of credit fully collateralized by cash. The letter of credit may be drawn upon by the landlord in the event that we default under certain terms of the lease. In addition, we have a lease through December 31, 2016, for our off-site back-up facility located in Rockville Centre, New York, which provides for, among other things, cash payments ranging over time from $28,000 to $30,000 per year, paid on a monthly basis.

Item 3. Legal Proceedings.

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

To date, we have not been required to make any payments to the IRS as a penalty for failing to make disclosures required with respect to certain transactions that have been identified by the IRS as abusive or that have a significant tax avoidance purpose.

Item 4. Mine Safety Disclosures.

Not applicable.

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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." On February 7, 2014, the last sales price for our common stock on the New York Stock Exchange was $7.45 per share. The following table sets forth the high and low sales prices per share of our common stock during each calendar quarter for the years ended December 31, 2013 and 2012:

	2013		2012	
Quarter Ended	High	Low	High	Low
March 31	$9.59	$8.21	$7.60	$6.65
June 30	9.55	7.90	7.93	7.01
September 30	8.60	6.98	8.63	7.61
December 31	7.77	7.01	8.77	7.50

Holders

As of February 7, 2014, we had 667 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, 2013. We have historically declared cash dividends on our common stock on a quarterly basis. During 2013 and 2012, we declared total cash dividends to holders of our common stock of $594.3 million ($1.64 per share) and $314.6 million ($0.88 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 2013 and 2012, our common stock dividends were characterized as ordinary income to stockholders. (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.

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We declared and paid the following dividends on our common stock during the years 2013 and 2012:

Year	Declaration Date	Record Date	Payment Date	Dividend per Share	
2013	March 4, 2013	March 18, 2013	April 10, 2013	$0.50	(1)
	March 28, 2013	April 12, 2013	April 30, 2013	0.22	
	June 28, 2013	July 12, 2013	July 31, 2013	0.22	
	August 1, 2013	August 12, 2013	August 30, 2013	0.28	(2)
	September 26, 2013	October 11, 2013	October 31, 2013	0.22	
	December 11, 2013	December 31, 2013	January 31, 2014	0.20	(3)
2012	March 23, 2012	April 4, 2012	April 30, 2012	$0.24	
	June 27, 2012	July 13, 2012	July 31, 2012	0.23	
	September 28, 2012	October 12, 2012	October 31, 2012	0.21	
	December 12, 2012	December 28, 2012	January 31, 2013	0.20	

(1) Reflects the special cash dividend on common stock declared on March 4, 2013.
(2) Reflects the special cash dividend on common stock declared on August 1, 2013.
(3) At December 31, 2013, the Company had accrued dividends and dividend equivalent rights (or DERs) payable of $73.6 million related to the common stock dividend declared on December 11, 2013.

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. We have not established a minimum payout level for our common stock. (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

As previously disclosed, in August 2005, our Board authorized a stock repurchase program (or Repurchase Program), to repurchase up to 4.0 million shares of its outstanding common stock under the Repurchase Program. The Board reaffirmed such authorization in May 2010. In December 2013, our Board increased the number of shares authorized for repurchase to 10.0 million shares. Such authorization does not have an expiration date and, at present, there is no intention to modify or otherwise rescind such authorization. Subject to applicable securities laws, repurchases of common stock under the Repurchase Program are made at times and in amounts as we deem appropriate (including, in our discretion, through the use of one or more plans adopted under Rule 10b-5-1 promulgated under the Securities Exchange Act of 1934, as amended (or 1934 Act)), using available cash resources. Shares of common stock repurchased by us under the Repurchase Program are cancelled and, until reissued by us, are deemed to be authorized but unissued shares of our common stock. The Repurchase Program may be suspended or discontinued by us at any time and without prior notice.

During the year ended December 31, 2013, we repurchased 2,143,354 shares of our common stock under the Repurchase Program at a total cost of approximately $15.4 million and an average cost of $7.20 per share. During the year ended December 31, 2012, we repurchased 1,240,291 shares of our common stock under the Repurchase Program at a total cost of approximately $9.7 million and an average cost of $7.83 per share.

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The following table presents information with respect to (i) shares of common stock repurchased by us under the Repurchase Program and (ii) restricted shares withheld (under the terms of grants under our Amended and Restated 2010 Equity Compensation Plan (or 2010 Plan)) to offset tax withholding obligations that occur upon the vesting and release of restricted stock awards and restricted stock units and (iii) eligible shares remaining for repurchase under the Repurchase Program in each case during the fourth quarter of 2013:

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 that May Yet be Purchased Under the Repurchase Program or Employee Plan
October 1-31, 2013:				
Repurchase Program (2)	—	$—	—	2,755,909
Employee Transactions (3)	—	—	N/A	N/A
November 1-30, 2013:				
Repurchase Program (2)	728,244	7.22	—	2,027,665
Employee Transactions (3)	—	—	N/A	N/A
December 1-31, 2013:				
Repurchase Program (2)	1,411,310	7.19	—	6,616,355
Employee Transactions (3)	49,896	7.09	N/A	N/A
Total Repurchase Program (2)	2,139,554	$7.20	—	6,616,355
Total Employee Transactions (3)	49,896	$7.09	N/A	N/A

(1) Includes brokerage commissions.
(2) In December 2013, our Board increased the number of shares authorized for repurchase to 10.0 million shares. As of December 31, 2013, we had repurchased an aggregate of 3,383,645 shares under the Repurchase Program.
(3) Our 2010 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.

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 DRSPP) to provide existing stockholders and new investors with a convenient and economical way to purchase shares of our common stock. Under the DRSPP, 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 DRSPP 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 DRSPP (or the Plan Agent). Stockholders who own common stock that is registered in their own name and want to participate in the DRSPP 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 want to participate in the DRSPP 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 2013 and 2012, we issued 9,511,739 and 1,977,165 shares of common stock through the DRSPP generating net proceeds of approximately $77.6 million and $15.5 million, respectively.

Controlled Equity Offering Program

On August 20, 2004, we initiated a controlled equity offering program (or the CEO Program) through which we may, from time to time, publicly offer and sell shares of our common stock through Cantor Fitzgerald & Co. in privately negotiated and/or at-the-market transactions. During 2013 and 2012, we did not issue any shares of common stock through our CEO Program.

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Securities Authorized For Issuance Under Equity Compensation Plans

During 2010, we adopted the 2010 Plan, as approved by our stockholders. (For a description of the 2010 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, 2013:

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)
Stock Options	5,000	$8.40	
Restricted Stock Units (or RSUs)	777,818		
Total	782,818	(2)	9,705,913 (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, 2013, 98,824 RSUs were vested, 405,900 RSUs were subject to time based vesting and 273,094 RSUs had vesting subject to achieving a market condition.
(3) Number of securities remaining available for future issuance under equity compensation plans excludes stock options and RSUs presented in the table and 443,967 shares of restricted stock, which were issued and outstanding at December 31, 2013, which are not presented in the table.

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Item 6. Selected Financial Data.

Our selected financial data set forth below is derived from our audited financial statements and should be read in conjunction with our consolidated financial statements and the accompanying notes, included under Item 8 of this Annual Report on Form 10-K.

(Dollars in Thousands, Except per Share Amounts)	At or/For the Year Ended December 31, 2013	2012	2011	2010	2009
Operating Data:					
Interest and dividend income on mortgage-backed securities	$482,816	$499,030	$496,611	$390,953	$504,464
Interest income on cash and cash equivalent investments	124	127	136	385	1,097
Interest expense	(164,013)	(171,670)	(149,411)	(145,125)	(229,406
Net impairment losses recognized in earnings (1)	—	(1,200)	(10,570)	(12,277)	(17,928
Unrealized net gains and net interest income from Linked Transactions	3,225	12,610	3,015	53,762	8,829
Gain on sales of MBS and U.S. Treasury securities, net (2)	25,825	9,001	6,730	33,739	22,617
Loss on termination of repurchase agreements (3)	—	—	—	(26,815)	—
Other (loss)/income, net	(7,298)	10	1,082	1,464	1,563
Operating and other expense	(37,970)	(41,069)	(31,179)	(26,324)	(23,047
Net income	$302,709	$306,839	$316,414	$269,762	$268,189
Preferred stock dividends	13,750	8,160	8,160	8,160	8,160
Issuance costs of redeemed preferred stock (4)	3,947	—	—	—	—
Net income available to common stock and participating securities	$285,012	$298,679	$308,254	$261,602	$260,029
Earnings per share — basic and diluted	$0.78	$0.83	$0.90	$0.93	$1.06
Dividends declared per share of common stock (5)(6)	$1.640	$0.880	$1.005	$0.890	$0.990
Dividends declared per share of preferred stock (7)	$2.136	$2.125	$2.125	$2.125	$2.125
Balance Sheet Data:					
Mortgage-backed securities	$11,371,358	$12,607,625	$10,912,977	$8,058,710	$8,757,954
Cash and cash equivalents	565,370	401,293	394,022	345,243	653,460
Linked Transactions	28,181	12,704	55,801	179,915	86,014
Total assets	12,471,908	13,517,550	11,750,634	8,687,407	9,627,209
Repurchase agreements	8,339,297	8,752,472	7,813,159	5,992,269	7,195,827
Securitized debt	366,205	646,816	875,520	220,933	—
Swaps (in a liability position)	28,217	63,034	114,220	139,142	152,463
Total liabilities	9,329,657	10,206,544	9,252,874	6,436,960	7,458,947
Preferred stock, liquidation preference	200,000	96,000	96,000	96,000	96,000
Total stockholders' equity	3,142,251	3,311,006	2,497,760	2,250,447	2,168,262
Other Data:					
Average total assets	$13,192,285	$12,942,171	$11,185,224	$8,242,541	$10,105,12
Average total stockholders' equity	$3,262,458	$2,945,687	$2,701,204	$2,226,546	$1,777,311
Return on average total assets (8)	2.16%	2.31%	2.76%	3.17%	2.57

Return on average total stockholders' equity (9)	8.74 %	10.14 %	11.41 %	11.75 %	14.63 %
Total average stockholders' equity to total average assets (10)	24.73 %	22.76 %	24.18 %	26.91 %	17.59 %
Dividend payout ratio (11)	1.10 %	1.06 %	1.12 %	0.96 %	0.93 %
Book value per share of common stock (12)	$8.06	$8.99	$6.74	$7.68	$7.40

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(1) Reflects OTTI through earnings related to Non-Agency MBS.
(2) 2013: We sold Non-Agency MBS for $152.6 million, realizing gross gains of $25.8 million and sold U.S. Treasury securities for $422.2 million, realizing net losses of approximately $24,000. 2012: We sold Agency MBS for $168.9 million, realizing gross gains of $9.0 million. 2011: We sold Agency MBS for $150.6 million, realizing gross gains of $6.7 million. 2010: During the first quarter of 2010, we sold 52 of our longer term-to-reset Agency MBS for $931.9 million, realizing gross gains of $33.1 million. (See Note (3) below.) 2009: We sold 36 of our longer-term Agency MBS with an amortized cost of $628.3 million for $650.9 million, realizing gross gains of $22.6 million.
(3) In connection with sales of our Agency MBS in the first quarter of 2010, we terminated $657.3 million of repurchase agreement borrowings, incurring losses of $26.8 million.
(4) Issuance costs of redeemed preferred stock represent the original offering costs related to the 8.50% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock"), which was redeemed on May 16, 2013.
(5) During 2013, 2012 and 2011, we declared our common stock dividend in the third month of each calendar quarter. For the periods presented prior to 2011, we declared dividends on our common stock in the month subsequent to the end of each calendar quarter, with the exception of the fourth quarter dividend, which was typically declared during the fourth calendar quarter for tax reasons.
(6) 2013: Includes special cash dividends paid totaling $0.78 per share. 2011: Includes special cash dividend of $0.02 per share.
(7) 2013: Reflects dividends declared per share on Series A Preferred Stock and 7.50% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") of $0.80 and $1.33, respectively.
(8) Reflects net income available to common stock and participating securities divided by average total assets.
(9) Reflects net income available to common stock and participating securities divided by average total stockholders' equity.
(10) Reflects total average stockholders' equity divided by total average assets.
(11) Reflects dividends declared per share of common stock divided by earnings per share.
(12) Reflects total stockholders' equity less the preferred stock liquidation preference divided by total shares of common stock outstanding.

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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 a REIT primarily engaged in the business of investing, on a leveraged basis, in residential Agency MBS and Non-Agency MBS. Our principal business objective is to generate net income for distribution to our stockholders resulting from the difference between the interest and other income we earn on our investments and the interest expense we pay on the borrowings that we use to finance our leveraged investments and our operating costs.

At December 31, 2013, we had total assets of approximately $12.472 billion, of which $11.371 billion, or 91.2%, represented our MBS portfolio. At such date, our MBS portfolio was comprised of $6.519 billion of Agency MBS and $4.852 billion of Non-Agency MBS. Our remaining investment-related assets were primarily comprised of cash and cash equivalents, restricted cash, collateral obtained in connection with reverse repurchase agreements, derivative instruments and MBS-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, the market value of our assets, the supply and demand for MBS 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 Non-Agency MBS. 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 MBS, 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 a bond as a percentage of the bond 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 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 our MBS portfolio and, correspondingly, our stockholders' equity to decline; (iii) coupons on our ARM-MBS to reset, on a delayed basis, to higher interest rates; (iv) prepayments on our MBS to decline, thereby slowing the amortization of our MBS purchase premiums and the accretion of our purchase discounts; and (v) the value of our derivative instruments 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 our MBS portfolio and, correspondingly, our stockholders' equity to increase; (iii) coupons on our ARM-MBS to reset, on a delayed basis, to lower interest rates; (iv) prepayments on our MBS to increase, thereby accelerating the amortization of our MBS purchase premiums and the accretion of our purchase discounts; and (v) the value of our derivative instruments 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.

We are exposed to credit risk in our Non-Agency MBS portfolio, generally meaning that we are subject to credit losses in our Non-Agency MBS portfolio that correspond to the risk of delinquency, default and foreclosure on the real estate collateralizing our Non-Agency MBS. In particular, we have significantly higher exposure in our Non-Agency MBS portfolio in California, Florida, New York, Virginia and Maryland. We believe the discounted purchase prices paid on certain of our Non-Agency MBS effectively mitigates our risk of loss in the event, as we expect on most, that we receive less than 100% of the par value of these securities. Our Non-Agency MBS

investment process involves analysis focused primarily on quantifying and pricing credit risk. Interest income on Non-Agency MBS purchased at a significant discount is recorded at an effective yield, based on management's estimate of expected cash flows from each security, which estimate is based on our observation of current information and events and includes assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses.

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The table below presents the composition of our MBS portfolios with respect to repricing characteristics as of December 31, 2013:

Underlying Mortgages	December 31, 2013 Agency MBS Fair Value (1)	Non-Agency MBS Fair Value (2) (3)	Total MBS (1)	Percent of Total	
(In Thousands)					
Hybrids in contractual fixed-rate period	$2,918,806	$ 1,008,794	$3,927,600	34.5	%
Hybrids in adjustable period	1,039,768	2,310,169	3,349,937	29.5	
15-year fixed rate	2,460,066	12,906	2,472,972	21.8	
Greater than 15-year fixed rate	—	1,432,639	1,432,639	12.6	
Floaters	99,461	83,740	183,201	1.6	
Total	$6,518,101	$ 4,848,248	$11,366,349	100.0	%

(1) Does not include principal receivable in the amount of $1.1 million.
(2) Does not reflect $130.8 million of Non-Agency MBS underlying our Linked Transactions.
(3) Does not reflect $3.9 million of Non-Agency MBS, which is a re-performing deal with both fixed rate and hybrid re-performing loans.

As of December 31, 2013, approximately $7.833 billion, or 68.9%, of our MBS portfolio was in its contractual fixed-rate period or were fixed-rate MBS and approximately $3.533 billion, or 31.1%, was in its contractual adjustable-rate period, or were floating rate MBS. Our ARM-MBS in their contractual adjustable-rate period primarily include MBS collateralized by Hybrids for which the initial fixed-rate period has elapsed, such that the interest rate will typically adjust on an annual or semiannual basis. In addition, at December 31, 2013, we had $183.2 million, or 1.6%, of MBS with interest rates that reset monthly.

Premiums arise when we acquire MBS at a price in excess of the principal balance of the mortgages securing such MBS (i.e., par value). Conversely, discounts arise when we acquire MBS at a price below the principal balance of the mortgages securing such MBS. Premiums paid on our MBS are amortized against interest income and accretable purchase discounts on our MBS are accreted to interest income. Purchase premiums on our MBS, which are primarily carried on our Agency MBS, are amortized against interest income over the life of each security 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 yield/interest income earned on such assets. Generally, if prepayments on our Non-Agency MBS are less than anticipated, we expect that the income recognized on such assets would be reduced and impairments could result.

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 mortgages collateralizing a particular MBS, and the conditional default rate (or CDR), which measures involuntary prepayments resulting from defaults. CPRs on Agency MBS and Non-Agency MBS may differ significantly. For the year ended December 31, 2013, our Agency MBS portfolio experienced a weighted average CPR of 17.9%, and our Non-Agency MBS portfolio (including Non-Agency MBS underlying our Linked Transactions) experienced a CPR of 15.9%. For the year ended December 31, 2012, our Agency MBS portfolio experienced a weighted average CPR of 19.8%, and our Non-Agency MBS portfolio (including Non-Agency MBS underlying our Linked Transactions) experienced a CPR of 15.0%. Over the last consecutive eight quarters, ending with December 31, 2013, the monthly fair value weighted average CPR on our MBS portfolio ranged from a high of 19.7% experienced during the quarter ended September 30, 2013 to a low of 12.1% experienced during the quarter ended December 31, 2013, with an average CPR over such quarters of 17.4%.

When we purchase Non-Agency MBS at significant discounts to par value, we make certain assumptions with respect to each security. These assumptions include, but are not limited to, future interest rates, voluntary prepayment rates, default rates, mortgage modifications and loss severities. As part of our Non-Agency MBS surveillance process, we track and compare each security's actual performance over time to the performance expected at the time of purchase or, if we have modified our original purchase assumptions, to our revised performance expectations. To the extent that actual performance or our expectation of future performance of our Non-Agency MBS deviates materially from our expected performance parameters, we may revise our performance expectations, such that the amount of purchase discount designated as credit discount may be increased or decreased over time. Nevertheless, credit losses greater than those anticipated or in excess of the recorded purchase discount could occur, which could materially adversely impact our operating results.

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It is our business strategy to hold our MBS as long-term investments. On at least a quarterly basis, we assess our ability and intent to continue to hold each security and, as part of this process, we monitor our securities for other-than-temporary impairment. A change in our ability and/or intent to continue to hold any of our 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. At December 31, 2013, we had net unrealized gains of $14.4 million on our Agency MBS, comprised of gross unrealized gains of $106.7 million and gross unrealized losses of $92.3 million, and had net unrealized gains on our Non-Agency MBS of $738.5 million, comprised of gross unrealized gains of $742.3 million and gross unrealized losses of $3.7 million. At December 31, 2013, we did not intend to sell any of our MBS that were in an unrealized loss position, and we believe it is more likely than not that we will not be required to sell those MBS before recovery of their amortized cost basis, which may be at their maturity.

We rely primarily on borrowings under repurchase agreements to finance our Agency MBS and Non-Agency MBS. Our MBS have longer term contractual maturities than our borrowings under repurchase agreements. We have also engaged in resecuritization transactions with respect to our Non-Agency MBS, which provide access to non-recourse financing. Even though the majority of our MBS 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 and securitized debt will typically change at a faster pace than the interest rates we earn on our MBS. In order to reduce this interest rate risk exposure, we may enter into derivative instruments, which at December 31, 2013 were comprised of Swaps.

Our Swap derivative hedging instruments are designated as cash-flow hedges against a portion of our current and forecasted LIBOR-based repurchase agreements and securitized debt. Our Swaps do not extend the maturities of our repurchase agreements and/or securitized debt; they do, however, lock in a fixed rate of interest over their term for the notional amount of the Swap corresponding to the hedged item. During 2013, we entered into 23 new Swaps with an aggregate notional amount of $2.501 billion, a weighted average fixed-pay rate of 1.85% and initial maturities ranging from two months to ten years and had Swaps with an aggregate notional amount of $975.4 million and a weighted average fixed-pay rate of 2.78% amortize and/or expire. At December 31, 2013, we had Swaps with an aggregate notional amount of $4.045 billion with a weighted average fixed-pay rate of 1.91% and a weighted average variable interest rate of 0.17%.

Recent Market Conditions and Our Strategy

During 2013, we continued to invest in both Agency and Non-Agency MBS. During the year ended December 31, 2013, we acquired approximately (i) $1.384 billion of Agency MBS at a weighted average purchase price of 104.3% of par value and (ii) $430.4 million of Non-Agency MBS (including $97.1 million of MBS, which are reported as a component of Linked Transactions), at a weighted average purchase price of 90.0% of par value. At December 31, 2013, our combined MBS portfolio was approximately $11.371 billion compared to $12.608 billion at December 31, 2012. During 2013, we experienced a decrease in our MBS portfolio primarily due to principal repayments exceeding the addition of newly acquired assets.

At December 31, 2013, $6.519 billion, or 57.3% of our MBS portfolio, was invested in Agency MBS. During the year ended 2013, the fair value of our Agency MBS holdings declined by $706.2 million. This was due to $1.846 billion of principal repayments, $57.9 million of premium amortization, and a $186.6 million decrease in net unrealized gains, which was partially offset by the addition of $1.384 billion of newly acquired assets.

At December 31, 2013, $4.852 billion, or 42.7% of our MBS portfolio, was invested in Non-Agency MBS. In addition, we had $130.8 million of Non-Agency MBS that were reported as a component of our Linked Transactions. During the year ended December 31, 2013, the fair value of our Non-Agency MBS holdings declined by $530.0

million. This was due to $924.4 million of principal repayments and the sale of Non-Agency MBS with an amortized cost of $126.8 million, which was partially offset by $73.2 million of discount accretion and a $114.7 million increase in net unrealized gains. In addition, we purchased $430.4 million of Non-Agency MBS, of which $97.1 million are reported as a component of Linked Transactions.

Our book value per common share was $8.06 as of December 31, 2013. Book value declined from $8.99 as of December 31, 2012 due primarily to previously disclosed special dividends of $0.78 per common share, a decline in the value of our Agency MBS portfolio partially offset by appreciation within the Non-Agency MBS portfolio.

Due to the interest rate environment in 2013, yields on acquired assets were lower than in prior periods. At the end of 2013, the average coupon on mortgages underlying our Agency MBS was lower compared to the end of 2012, due to acquisition of assets in the marketplace at generally lower coupons reflecting current market conditions and as a result of prepayments on higher yielding assets and downward resets on Hybrid and ARM-MBS within the portfolio. As a result, the coupon yield on our Agency MBS portfolio declined 45 basis points to 3.13% for 2013 from 3.58% for 2012. In addition, the net Agency MBS yield decreased to 2.28% for 2013, from 2.83% for 2012. Our Non-Agency MBS portfolio yielded 7.25% for 2013 compared to 6.76% for 2012.

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The increase in the yield on our Non-Agency MBS portfolio is primarily due to increases in accretable discount and changes in the forward yield curve.

We continue to believe that loss-adjusted returns on Non-Agency MBS represent attractive investment opportunities. We believe that our $1.043 billion Credit Reserve and OTTI appropriately factors in remaining uncertainties regarding underlying mortgage performance and the potential impact on future cash flows. Home price appreciation and underlying mortgage loan amortization continue to decrease the loan-to-value (or LTV) for many of the mortgages underlying our Non-Agency MBS portfolio. Home price appreciation is generally due to a combination of limited housing supply, low mortgage rates, capital flows into own-to-rent foreclosure purchases and demographic-driven U.S. household formation. We estimate that the LTV of mortgage loans underlying our Non-Agency MBS has declined from approximately 105% as of January 2012 to less than 85% as of December 31, 2013. Lower LTVs lessen the likelihood of defaults and simultaneously decrease loss severities. Additionally, current to 60-days delinquent transition rates continue to decline from their 2009 peak. Further, during 2013, we have also observed faster voluntary prepayment (i.e. prepayment of loans in full with no loss) speeds than originally projected. The yields on our Non-Agency MBS that were purchased at a discount are generally positively impacted if prepayment rates on these securities exceed our prepayment assumptions. Based on these current conditions, we have reduced estimated future losses within our Non-Agency portfolio. As a result, during the year ended 2013, we transferred $207.9 million from Credit Reserve to accretable discount. This increase in accretable discount is expected to increase the interest income realized over the remaining life of our Non-Agency MBS. The remaining average contractual life of such assets is approximately 22 years, but based on scheduled loan amortization and prepayments (both voluntary and involuntary), loan balances will decline substantially over time. Consequently, we believe that the majority of the impact on interest income from the reduction in Credit Reserve will occur over the next ten years.

With $565.4 million of cash and cash equivalents and $369.1 million of unpledged Agency MBS at December 31, 2013, we believe that we are positioned to continue to take advantage of investment opportunities within the residential MBS marketplace. In 2014 we intend to continue to selectively acquire Agency MBS and Non-Agency MBS. We believe that our Non-Agency assets will benefit going forward as the existing private label MBS universe continues to decline in size due to prepayments, defaults and limited issuance. In addition, while most Non-Agency MBS in our portfolio will not return their full face value due to loan defaults, we believe that they will deliver attractive loss adjusted yields due to our average amortized cost of 73% of face value as of December 31, 2013.

We believe the financial environment continues to be favorably impacted by accommodative U.S. monetary policy. Repurchase agreement funding for both Agency MBS and Non-Agency MBS continues to be available to us from multiple counterparties. Typically, repurchase agreement funding involving Non-Agency MBS is available from fewer counterparties, at terms requiring higher collateralization and higher interest rates, than for repurchase agreement funding involving Agency MBS. At December 31, 2013, our debt consisted of borrowings under repurchase agreements with 26 counterparties, securitized debt, payable for unsettled purchases and Senior Notes outstanding and obligation to return securities obtained as collateral, resulting in a debt-to-equity multiple of 2.9 times. (See table on page 47 under Results of Operations that presents our quarterly leverage multiples since March 31, 2012.)

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Information About Our Assets

The tables below present certain information about our asset allocation at December 31, 2013.

ASSET ALLOCATION

GAAP Basis	Agency MBS	Non-Agency MBS	MBS Portfolio	Cash (1)	Other, net (2)	Total
(Dollars in Thousands)						
Amortized Cost	$6,504,846	$4,113,600	$10,618,446	$602,890	$(4,541)	$11,216,795
Market Value	$6,519,221	$4,852,137	$11,371,358	$602,890	$(4,541)	$11,969,707
Less Payable for Unsettled Purchases	(6,737)	—	(6,737)	—	—	(6,737)
Less Repurchase Agreements	(5,750,053)	(2,589,244)	(8,339,297)	—	—	(8,339,297)
Less Securitized Debt	—	(366,205)	(366,205)	—	—	(366,205)
Less Senior Notes	—	—	—	—	(100,000)	(100,000)
Equity Allocated	$762,431	$1,896,688	$2,659,119	$602,890	$(104,541)	$3,157,468
Less Swaps at Market Value	—	—	—	—	(15,217)	(15,217)
Net Equity Allocated	$762,431	$1,896,688	$2,659,119	$602,890	$(119,758)	$3,142,251
Debt/Net Equity Ratio (3)	7.55 x	1.56 x				2.93 x

Non-GAAP Adjustments	Agency MBS	Non-Agency MBS (4)	MBS Portfolio	Cash (1)	Other, net (4)	Total
(Dollars in Thousands)						
Amortized Cost	$—	$126,497	$126,497	$—	$(26,968)	$99,529
Market Value	$—	$130,790	$130,790	$—	$(26,968)	$103,822
Repurchase Agreements	—	279,921	279,921	—	—	279,921
Multi-year Collateralized Financing Arrangements	—	(383,743)	(383,743)	—	—	(383,743)
Equity Allocated	$—	$26,968	$26,968	$—	$(26,968)	$—
Less Swaps at Market Value	—	—	—	—	—	—
Net Equity Allocated	$—	$26,968	$26,968	$—	$(26,968)	$—

Non-GAAP Basis	Agency MBS	Non-Agency MBS (4)	MBS Portfolio	Cash (1)	Other, net (5)	Total
(Dollars in Thousands)						
Amortized Cost	$6,504,846	$4,240,097	$10,744,943	$602,890	$(31,509)	$11,316,324
Market Value	$6,519,221	$4,982,927	$11,502,148	$602,890	$(31,509)	$12,073,529
Less Payable for Unsettled Purchases	(6,737)	—	(6,737)	—	—	(6,737)
Less Repurchase Agreements	(5,750,053)	(2,309,323)	(8,059,376)	—	—	(8,059,376)
Less Multi-year Collateralized Financing Arrangements	—	(383,743)	(383,743)	—	—	(383,743)
Less Securitized Debt	—	(366,205)	(366,205)	—	—	(366,205)

Less Senior Notes	—	—	—	—	(100,000)	(100,000)
Equity Allocated	$762,431	$1,923,656	$2,686,087	$602,890	$(131,509)	$3,157,468
Less Swaps at Market Value	—	—	—	—	(15,217)	(15,217)
Net Equity Allocated	$762,431	$1,923,656	$2,686,087	$602,890	$(146,726)	$3,142,251
Debt/Net Equity Ratio (6)	7.55 x	1.59 x				2.96 x

(1) Includes cash, cash equivalents and restricted cash.
(2) Includes securities obtained and pledged as collateral, Linked Transactions, interest receivable, goodwill, prepaid and other assets, obligation to return securities obtained as collateral, interest payable, dividends payable, excise tax and interest payable, and accrued expenses and other liabilities.
(3) For the Agency and Non-Agency MBS portfolio, represents the sum of borrowings under repurchase agreements, payable for unsettled purchases and securitized debt as a multiple of net equity allocated. The numerator of our Total Debt/Net Equity ratio also includes the obligation to return securities obtained as collateral of $383.7 million and Senior Notes.

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(4) Includes Non-Agency MBS and repurchase agreements underlying Linked Transactions. The purchase of a Non-Agency MBS and contemporaneous repurchase borrowing of this MBS with the same counterparty are accounted for under GAAP as a "linked transaction." The two components of a linked transaction (MBS and associated borrowings under a repurchase agreement) are evaluated on a combined basis and are presented net as "Linked Transactions" on our consolidated balance sheet. Also includes the adjustment to reflect Non-Agency financing under multi-year collateralized financing arrangements of $383.7 million, while borrowings under repurchase agreements of $382.7 million for which U.S. Treasury securities are pledged as collateral is reclassified to other, net.
(5) Includes securities obtained and pledged as collateral, interest receivable, goodwill, prepaid and other assets, borrowings under repurchase agreements of $382.7 million for which U.S. Treasury securities are pledged as collateral, interest payable, dividends payable, excise tax and interest payable, and accrued expenses and other liabilities.
(6) For the Agency and Non-Agency MBS portfolio, represents the sum of borrowings under repurchase agreements, payable for unsettled purchases, multi-year collateralized financing arrangements of $383.7 million and securitized debt as a multiple of net equity allocated. The numerator of our Total Debt/Net Equity ratio also includes borrowings under repurchase agreements of $382.7 million for which U.S. Treasury securities are pledged as collateral and Senior Notes.

Agency MBS

The following table presents certain information regarding the composition of our Agency MBS portfolio as of December 31, 2013 and 2012:

December 31, 2013

(Dollars in Thousands)	Current Face	Weighted Average Purchase Price		Weighted Average Market Price		Fair Value (1)	Weighted Average Loan Age (Months) (2)	Weighted Average Coupon (2)		Weighted Average 3 Month CPR	
15-Year Fixed Rate:											
Low Loan Balance (3)	$1,977,798	104.3	%	101.8	%	$2,012,876	20	3.04	%	7.2	%
HARP (4)	205,895	104.7		101.8		209,597	19	3.01		6.3	
Other (Post June 2009) (5)	222,691	103.7		106.1		236,253	40	4.16		17.0	
Other (Pre June 2009) (6)	1,256	104.9		106.7		1,340	55	4.50		0.5	
Total 15-Year Fixed Rate	$2,407,640	104.3	%	102.2	%	$2,460,066	22	3.14	%	8.0	%
Hybrid:											
Other (Post June 2009) (5)	$2,502,413	104.1	%	104.4	%	$2,612,108	32	3.22	%	17.7	%
Other (Pre June 2009) (6)	1,202,227	101.4		106.0		1,274,745	84	3.28		13.2	
Total Hybrid	$3,704,640	103.2	%	104.9	%	$3,886,853	49	3.24	%	16.2	%
CMO/Other	$164,639	102.5	%	104.0	%	$171,182	154	2.44	%	8.7	%
Total Portfolio	$6,276,919	103.6	%	103.8	%	$6,518,101	41	3.18	%	12.9	%

December 31, 2012

(Dollars in Thousands)	Current Face	Weighted Average Purchase Price		Weighted Average Market Price		Fair Value (1)	Weighted Average Loan Age (Months) (2)	Weighted Average Coupon (2)		Weighted Average 3 Month CPR	
15-Year Fixed Rate:											
Low Loan Balance (3)	$1,674,980	104.4	%	107.0	%	$1,792,740	14	3.32	%	10.2	%
HARP (4)	203,929	104.8		106.7		217,506	10	3.16		7.4	

Other (Post June 2009) (5)	296,277	103.4		106.9		316,864	30	4.19		29.1		
Other (Pre June 2009) (6)	2,347	104.9		107.5		2,524	43	4.50		20.9		
Total 15-Year Fixed Rate	$2,177,533	104.3	%	107.0	%	$2,329,634	16	3.43	%	13.0	%	
Hybrid:												
Other (Post June 2009) (5)	$2,697,573	103.9	%	105.5	%	$2,846,944	22	3.26	%	21.9	%	
Other (Pre June 2009) (6)	1,722,463	101.4		106.9		1,841,275	70	4.10		23.0		
Total Hybrid	$4,420,036	102.9	%	106.1	%	$4,688,219	41	3.59	%	22.3	%	
CMO/Other	$195,199	102.4	%	104.1	%	$203,184	145	2.75	%	10.7	%	
Total Portfolio	$6,792,768	103.3	%	106.3	%	$7,221,037	36	3.51	%	19.2	%	

(1) Does not include principal payments receivable of $1.1 million and $4.4 million at December 31, 2013 and 2012, respectively.
(2) Weighted average is based on MBS current face at December 31, 2013 and 2012, respectively.
(3) Low loan balance represents MBS collateralized by mortgages with original loan balance of less than or equal to $175,000.
(4) Home Affordable Refinance Program (or HARP) MBS are backed by refinanced loans with LTVs greater than or equal to 80% at origination.
(5) MBS issued in June 2009 or later. Majority of underlying loans are ineligible to refinance through the HARP program.
(6) MBS issued before June 2009.

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The following table presents certain information regarding our 15-year fixed-rate Agency MBS as of December 31, 2013 and 2012:

December 31, 2013 Coupon	Current Face	Weighted Average Purchase Price	Weighted Average Market Price	Fair Value (1)	Weighted Average Loan Age (Months) (2)	Weighted Average Loan Rate	Low Loan Balance and/or HARP (3)	Weighted Average 3 Month CPR
(Dollars in Thousands)								
15-Year Fixed Rate:								
2.5%	$1,096,097	104.0 %	99.2 %	$1,086,853	12	3.04 %	100 %	4.0 %
3.0%	481,174	105.9	102.1	491,212	18	3.49	100	5.5
3.5%	15,429	103.5	104.8	16,162	38	4.16	100	24.1
4.0%	688,213	103.4	106.2	730,542	37	4.40	80	13.8
4.5%	126,727	105.2	106.8	135,297	41	4.87	32	15.8
Total 15-Year Fixed Rate	$2,407,640	104.3 %	102.2 %	$2,460,066	22	3.62 %	91 %	8.0 %

December 31, 2012 Coupon	Current Face	Weighted Average Purchase Price	Weighted Average Market Price	Fair Value (1)	Weighted Average Loan Age (Months) (2)	Weighted Average Loan Rate	Low Loan Balance and/or HARP (3)	Weighted Average 3 Month CPR
(Dollars in Thousands)								
15-Year Fixed Rate:								
2.5%	$520,202	104.2 %	104.9 %	$545,528	3	3.04 %	99 %	2.6 %
3.0%	546,780	105.9	106.6	582,904	6	3.49	100	4.2
3.5%	21,756	103.5	106.8	23,243	26	4.16	100	25.7
4.0%	907,891	103.3	108.3	982,796	26	4.40	81	18.8
4.5%	180,904	105.2	107.9	195,163	29	4.87	31	24.5
Total 15-Year Fixed Rate	$2,177,533	104.3 %	107.0 %	$2,329,634	16	3.88 %	86 %	13.0 %

(1) Does not include principal payments receivable of $1.1 million and $4.4 million at December 31, 2013 and 2012, respectively.
(2) Weighted average is based on MBS current face at December 31, 2013 and 2012, respectively.
(3) Low Loan Balance represents MBS collateralized by mortgages with original loan balance less than or equal to $175,000. HARP MBS are backed by refinanced loans with LTVs greater than or equal to 80% at origination.

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The following table presents certain information regarding our Hybrid Agency MBS as of December 31, 2013 and 2012:

December 31, 2013

(Dollars in Thousands)	Current Face	Weighted Average Purchase Price	Weighted Average Market Price	Fair Value (1)	Weighted Average Coupon (2)	Weighted Average Loan Age (Months) (2)	Weighted Average Months to Reset (3)	Interest Only (4)	3 Month CPR
Hybrid Post June 2009:									
Agency 5/1	$921,849	103.5 %	105.5 %	$972,201	3.37 %	39	20	24 %	23.8 %
Agency 7/1	1,233,187	104.4	104.2	1,284,739	3.09	28	55	21	15.1
Agency 10/1	347,377	104.8	102.2	355,168	3.27	24	95	57	10.9
Total Hybrids Post June 2009	$2,502,413	104.1 %	104.4 %	$2,612,108	3.22 %	32	48	27 %	17.7 %
Hybrid Pre June 2009:									
Coupon < 4.5% (5)	$860,491	101.5 %	105.9 %	$910,849	2.44 %	88	6	56 %	8.8 %
Coupon >= 4.5% (6)	341,736	101.2	106.5	363,896	5.40	73	20	77	23.5
Total Hybrids Pre June 2009	$1,202,227	101.4 %	106.0 %	$1,274,745	3.28 %	84	10	62 %	13.2 %
Total Hybrids	$3,704,640	103.2 %	104.9 %	$3,886,853	3.24 %	49	35	38 %	16.2 %

December 31, 2012

(Dollars in Thousands)	Current Face	Weighted Average Purchase Price	Weighted Average Market Price	Fair Value (1)	Weighted Average Coupon (2)	Weighted Average Loan Age (Months) (2)	Weighted Average Months to Reset (3)	Interest Only (4)	3 Month CPR
Hybrid Post June 2009:									
Agency 5/1	$1,195,531	103.3 %	105.4 %	$1,260,379	3.43 %	29	30	24 %	26.1 %
Agency 7/1	1,463,829	104.4	105.6	1,546,339	3.14	17	67	21	18.7
Agency 10/1	38,213	104.4	105.3	40,226	2.95	6	113	—	12.4
Total Hybrids Post June 2009	$2,697,573	103.9 %	105.5 %	$2,846,944	3.26 %	22	51	22 %	21.9 %
Hybrid Pre June 2009:									
Coupon < 4.5% (5)	$870,664	101.6 %	106.8 %	$929,622	2.80 %	78	6	51 %	12.6 %
Coupon >= 4.5% (6)	851,799	101.2	107.0	911,653	5.42	62	25	78	32.8
Total Hybrids Pre June 2009	$1,722,463	101.4 %	106.9 %	$1,841,275	4.10 %	70	15	64 %	23.0 %
Total Hybrids	$4,420,036	102.9 %	106.1 %	$4,688,219	3.59 %	41	37	38 %	22.3 %

(1) Does not include principal payments receivable of $1.1 million and $4.4 million at December 31, 2013 and 2012, respectively.
(2) Weighted average is based on MBS current face at December 31, 2013 and 2012, respectively.
(3) Weighted average months to reset is the number of months remaining before the coupon interest rate resets. At reset, the MBS coupon will adjust based upon the underlying benchmark interest rate index, margin and periodic or lifetime caps. The months to reset do not reflect scheduled amortization or prepayments.
(4) Interest only represents MBS backed by mortgages currently in their interest only period. Percentage is based on MBS current face at December 31, 2013.

(5) Agency 3/1, 5/1, 7/1 and 10/1 Hybrid ARM-MBS with coupon less than 4.5%.
(6) Agency 3/1, 5/1, 7/1 and 10/1 Hybrid ARM-MBS with coupon greater than or equal to 4.5%.

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Non-Agency MBS

The following table presents information with respect to our Non-Agency MBS: (i) excluding Linked Transactions and reported in accordance with GAAP; (ii) underlying our Linked Transactions and reflected consistent with GAAP reporting requirements; and (iii) on a combined basis (Non-GAAP) as of December 31, 2013 and December 31, 2012:

(In Thousands)	December 31, 2013		2012	
(i) Non-Agency MBS (GAAP - excluding Linked Transactions)				
Face/Par	$5,616,038		$6,509,560	
Fair Value	4,852,137		5,382,165	
Amortized Cost	4,113,600		4,758,300	
Purchase Discount Designated as Credit Reserve and OTTI	(1,043,037)	(1)	(1,380,506)	(2)
Purchase Discount Designated as Accretable	(460,039)		(371,626)	
Purchase Premiums	638		872	
(ii) Non-Agency MBS Underlying Linked Transactions				
Face/Par	$134,430		$52,277	
Fair Value	130,790		47,828	
Amortized Cost	126,497		43,817	
Purchase Discount Designated as Credit Reserve	(4,721)		(6,051)	
Purchase Discount Designated as Accretable	(3,212)		(2,409)	
(iii) Combined Non-Agency MBS and MBS Underlying Linked Transactions (Non-GAAP)				
Face/Par	$5,750,468		$6,561,837	
Fair Value	4,982,927		5,429,993	
Amortized Cost	4,240,097		4,802,117	
Purchase Discount Designated as Credit Reserve and OTTI	(1,047,758)	(3)	(1,386,557)	(4)
Purchase Discount Designated as Accretable	(463,251)		(374,035)	
Purchase Premiums	638		872	

(1) Includes discount designated as Credit Reserve of $998.5 million and OTTI of $44.5 million.
(2) Includes discount designated as Credit Reserve of $1.332 billion and OTTI of $48.7 million.
(3) Includes discount designated as Credit Reserve of $1.003 billion and OTTI of $44.5 million.
(4) Includes discount designated as Credit Reserve of $1.338 billion and OTTI of $48.7 million.

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Purchase Discounts on Non-Agency MBS and Securities Underlying Linked Transactions

The following table presents the changes in the components of purchase discount on Non-Agency MBS with respect to purchase discount designated as Credit Reserve and OTTI, and accretable purchase discount, including securities underlying Linked Transactions, for the years ended December 31, 2013 and 2012 on both a GAAP and Non-GAAP basis.

	For the Year Ended December 31,			
	2013		2012	
GAAP Basis	Discount Designated as Credit Reserve and OTTI	Accretable Discount (1)	Discount Designated as Credit Reserve and OTTI	Accretable Discount (1)
(In Thousands)				
Balance at beginning of period	$(1,380,506)	$(371,626)	$(1,228,766)	$(250,479)
Accretion of discount	—	73,422	—	38,185
Realized credit losses	163,478	—	162,458	—
Purchases	(79,320)	32,152	(427,741)	3,497
Sales	45,371	13,953	—	—
Reclass discount for OTTI	—	—	866	(866)
Net impairment losses recognized in earnings	—	—	(1,200)	—
Unlinking of Linked Transactions	—	—	(38,662)	(9,424)
Transfers/release of credit reserve	207,940	(207,940)	152,539	(152,539)
Balance at end of period	$(1,043,037)	$(460,039)	$(1,380,506)	$(371,626)

	Discount		Discount	
Non-GAAP Adjustments	Designated as Credit Reserve and OTTI	Accretable Discount (1)	Designated as Credit Reserve and OTTI	Accretable Discount (1)
(In Thousands)				
Balance at beginning of period	$(6,051)	$(2,409)	$(45,735)	$(6,206)
Accretion of discount	—	831	—	958
Realized credit losses	635	—	1,442	—
Purchases	—	(939)	—	—
Sales	—	—	—	—
Unlinking of Linked Transactions	—	—	38,662	2,419
Transfers/release of credit reserve	695	(695)	(420)	420
Balance at end of period	$(4,721)	$(3,212)	$(6,051)	$(2,409)

	Discount		Discount	
Non-GAAP Basis	Designated as Credit Reserve and OTTI	Accretable Discount (1)	Designated as Credit Reserve and OTTI	Accretable Discount (1)
(In Thousands)				
Balance at beginning of period	$(1,386,557)	$(374,035)	$(1,274,501)	$(256,685)
Accretion of discount	—	74,253	—	39,143
Realized credit losses	164,113	—	163,900	—
Purchases	(79,320)	31,213	(427,741)	3,497

Sales	45,371	13,953	—	—
Reclass discount for OTTI	—	—	866	(866)
Net impairment losses recognized in earnings	—	—	(1,200)	—
Unlinking of Linked Transactions	—	—	—	(7,005)
Transfers/release of credit reserve	208,635	(208,635)	152,119	(152,119)
Balance at end of period	$(1,047,758)	$(463,251)	$(1,386,557)	$(374,035)

(1) Together with coupon interest, accretable purchase discount is recognized as interest income over the life of the security.

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The following table presents information with respect to the yield components of our Non-Agency MBS: (i) excluding Linked Transactions and reported in accordance with GAAP; (ii) underlying our Linked Transactions and (iii) combined with the securities underlying Linked Transactions (Non-GAAP) for the periods presented:

	For the Year Ended December 31,		
	2013	2012	2011
Non-Agency MBS (GAAP - excluding Linked Transactions)			
Coupon Yield (1)	5.63 %	5.91 %	6.30 %
Effective Yield Adjustment (2)	1.62	0.85	1.25
Net Yield	7.25 %	6.76 %	7.55 %
Non-Agency MBS Underlying Linked Transactions			
Coupon Yield (1)	4.48 %	5.04 %	5.80 %
Effective Yield Adjustment (2)	1.23	1.16	0.75
Net Yield	5.71 %	6.20 %	6.55 %
Combined Non-Agency MBS and MBS Underlying Linked Transactions (Non-GAAP)			
Coupon Yield (1)	5.61 %	5.90 %	6.25 %
Effective Yield Adjustment (2)	1.62	0.85	1.19
Net Yield	7.23 %	6.75 %	7.44 %

(1) Reflects coupon interest income divided by the average amortized cost. The discounted purchase price on Non-Agency MBS causes the coupon yield to be higher than the pass-through coupon interest rate.
(2) The effective yield adjustment is the difference between the net yield, calculated utilizing management's estimates of future cash flows for Non-Agency MBS, less the current coupon yield.

The information in the above tables, on pages 36-38, includes certain underlying Non-Agency MBS and the associated repurchase agreement borrowings that are disclosed both separately and/or on a combined basis with our Non-Agency MBS portfolio. However, for GAAP financial reporting purposes, these items are required to be accounted for by us as Linked Transactions. Consequently, the presentation of this information in the above tables constitutes Non-GAAP financial measures within the meaning of Regulation G, as promulgated by the SEC.

In assessing the performance of the Non-Agency MBS portfolio, we do not view these transactions as linked, but rather view the performance of the linked Non-Agency MBS and the related repurchase agreement borrowings as we would any other Non-Agency MBS that is not part of a linked transaction. Accordingly, we consider that the Non-GAAP information disclosed in the above tables enhances the ability of investors to analyze the performance of our Non-Agency MBS in the same way that we assess such assets.

In addition, in connection with our financing strategy for Non-Agency MBS, we have entered into contemporaneous repurchase agreement and reverse repurchase agreement transactions with a single counterparty. The transactions effectively result in us pledging Non-Agency MBS as collateral to the counterparty in connection with the repurchase agreement financing and obtaining U.S. Treasury securities as collateral in connection with the reverse repurchase agreement. Both the repurchase agreement and the reverse repurchase agreement have a contractual maturity of January 2016 with no net exchange of cash at inception. The U.S. Treasury collateral obtained is pledged as collateral in a subsequent repurchase agreement transaction with a different counterparty for cash. This subsequent repurchase transaction has a term of 90 days at inception. For purposes of presentation of its repurchase agreement financing liabilities in the Non-GAAP Asset Allocation table on page 32, the obligation to return the $384 million of U.S. Treasury collateral, is separately presented as "Multi-year collateralized financing arrangements" and is included in the

numerator of the Debt/Net Equity Ratio for the Non-Agency MBS portfolio. In addition, the asset balance for U.S. Treasury securities obtained as collateral and the repurchase agreement liability to the second counterparty to which we pledged those U.S Treasury securities as collateral are included in the "Other, net" column as we believe net presentation is consistent with the economic substance of the transactions. However, GAAP prohibits offsetting of this asset and liability for a number of reasons, including the fact that the counterparties to these transactions are different, and there is no legal right of offset. For GAAP presentation purposes, the repurchase agreement liability against which we have pledged U.S. Treasuries is disclosed as "Repurchase Agreements" and is included in the numerator of the Debt/Net Equity Ratio for the Non-Agency MBS portfolio.

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In addition, the asset balance for the U.S. Treasury securities obtained as collateral and the liability balance for the obligation to return this collateral are included in the "Other, net" column. However, management considers that the Non-GAAP Asset Allocation table presented on page 32 more appropriately reflects the economic substance of the transactions. Consequently, this presentation constitutes a Non-GAAP financial measure within the meaning of Regulation G, as promulgated by the SEC. The Non-GAAP presentation of liabilities associated with the Company's collateralized financing arrangements does not impact the overall calculation of Debt/Net Equity for the Company as a whole.

Actual maturities of MBS are generally shorter than stated contractual maturities because actual maturities of MBS are affected by the contractual lives of the underlying mortgages, periodic payments of principal, and prepayments of principal. The following table presents certain information regarding the amortized costs, weighted average yields and contractual maturities of our MBS at December 31, 2013 and does not reflect the effect of prepayments or scheduled principal amortization on our MBS:

	One to Five Years		Five to Ten Years		Over Ten Years		Total MBS (1)		
(Dollars in Thousands)	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Total Amortized Cost	Total Fair Value	Weighted Average Yield
Agency MBS:									
Fannie Mae	$346	3.51 %	$1,007	1.89 %	$5,272,680	2.29 %	$5,274,033	$5,315,363	2.29 %
Freddie Mac	—	—	—	—	1,217,927	2.26	1,217,927	1,190,670	2.26
Ginnie Mae	—	—	—	—	12,886	1.62	12,886	13,188	1.62
Total Agency MBS	$346	3.51 %	$1,007	1.89 %	$6,503,493	2.28 %	$6,504,846	$6,519,221	2.28 %
Non-Agency MBS	$3,890	4.47 %	$12,213	6.55 %	$4,097,497	7.21 %	$4,113,600	$4,852,137	7.21 %
Total MBS	$4,236	4.39 %	$13,220	6.19 %	$10,600,990	4.21 %	$10,618,446	$11,371,358	4.22 %

(1) We did not have any MBS with contractual maturities of less than one year at December 31, 2013.

Exposure to Financial Counterparties

We finance the acquisition of a significant portion of our MBS with repurchase agreements. In connection with these financing arrangements, we pledge our securities as collateral to secure the borrowing. The amount of collateral pledged will typically exceed the amount of the financing with the extent of over-collateralization ranging from 1-6% of the amount borrowed (U.S. Treasury and Agency MBS collateral) to up to 63% (Non-Agency MBS collateral). Consequently, while repurchase agreement financing results in us recording a liability to the counterparty in our consolidated balance sheet, we are exposed to the counterparty, if during the term of the repurchase agreement financing, a lender should default on its obligation and we are not able to recover our pledged assets. The amount of this exposure is the difference between the amount loaned to us plus interest due to the counterparty and the fair value of the collateral pledged by us to the lender including accrued interest receivable on such collateral.

In addition, we use interest rate swaps to manage interest rate risk exposure in connection with our repurchase agreement financings. We will make cash payments or pledge securities as collateral as part of a margin arrangement in connection with interest rate swaps that are in an unrealized loss position. In the event that a counterparty for a swap that is not subject to central clearing were to default on its obligation, we would be exposed to a loss to a swap counterparty to the extent that the amount of cash or securities pledged exceeded the unrealized loss on the associated swaps and we were not able to recover the excess collateral.

During the past several years, certain of our repurchase agreement counterparties in the United States and Europe have experienced financial difficulty and have been either rescued by government assistance or otherwise benefited from

accommodative monetary policy of central banks.

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The table below summarizes our exposure to our counterparties at December 31, 2013, by country of domicile:

Country	Number of Counterparties	Repurchase Agreement Financing		Swaps at Fair Value	Exposure (1)	Exposure as a Percentage of MFA Total Assets	
(Dollars in Thousands)							
European Countries: (2)							
Switzerland	4	$1,487,682		$—	$993,745	7.97	%
United Kingdom	2	1,118,778		(10,915)	281,276	2.26	
France	1	458,939		—	25,692	0.21	
Holland	1	418,101		1,913	17,321	0.14	
Germany	1	—		(2,563)	4,254	0.03	
Total	9	3,483,500		(11,565)	1,322,288	10.61	%
Other Countries:							
United States (3)	12	$4,147,909		$(3,652)	$779,469	6.25	%
Japan	4	669,463		—	42,663	0.34	
Other	3	641,162		—	141,241	1.13	
Total	19	5,458,534		(3,652)	963,373	7.72	%
Total Counterparty Exposure	28	$8,942,034	(4)(5)	$(15,217)	$2,285,661	18.33	%

(1) Represents for each counterparty the amount of cash and/or securities pledged as collateral less the aggregate of repurchase agreement financing, Swaps at fair value, and net interest receivable/payable on all such instruments.
(2) Includes European-based counterparties as well as U.S.-domiciled subsidiaries of the European parent entity.
(3) Includes one counterparty that is a central clearing house for certain of our Swaps.
(4) Includes $500.0 million of repurchase agreements entered into in connection with contemporaneous repurchase and reverse repurchase agreements with a single counterparty.
(5) Includes $102.7 million of repurchase agreements which are a component of our Linked Transactions.

At December 31, 2013, we did not use credit default swaps or other forms of credit protection to hedge the exposures summarized in the table above.

If the weak European conditions continue to impact our major European financial counterparties, there is the possibility that it will also impact the operations of their U.S. domiciled subsidiaries. This could adversely affect our financing and operations as well as those of the entire mortgage sector in general. Management monitors our exposure to our repurchase agreement and swap counterparties on a regular basis, using various methods, including review of recent rating agency actions or other developments and by monitoring the amount of cash and securities collateral pledged and the associated loan amount under repurchase agreements and/or the fair of swaps with our counterparties. We intend to make reverse margin calls on our counterparties to recover excess collateral as permitted by the agreements governing our financing arrangements, or take other necessary actions to reduce the amount of our exposure to a counterparty when such actions are considered necessary.

Tax Considerations

Key differences between GAAP net income and REIT Taxable Income for Non-Agency MBS

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 variable interest entities (or VIEs) used to facilitate resecuritization transactions were deemed to be sold; (ii) the tax portfolio includes certain securities issued by these VIEs; and (iii) Non-Agency MBS underlying linked transactions are included in our tax portfolio. In addition, for

our Non-Agency MBS tax portfolio, potential timing differences arise with respect to the accretion of market discount into income and recognition of realized losses for tax purposes as compared to GAAP. Consequently, our REIT taxable income calculated in a given period may differ significantly from our GAAP net income.

The determination of taxable income attributable to Non-Agency MBS is dependent on a number of factors, including principal payments, defaults and loss severities. In projecting taxable income for Non-Agency MBS during the year, management considers estimates of the amount of discount expected to be accreted. Such estimates require significant judgment and actual results may differ from these estimates. Moreover, the deductibility of realized losses from Non-Agency MBS and their effect on

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market discount accretion is 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 in periods after the realized losses are reported.

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

For tax purposes, depending on the transaction structure, a resecuritization transaction may be treated either as a sale or a financing of the underlying MBS. Income recognized from resecuritization transactions will differ for tax and GAAP. For tax purposes, we own and may in the future acquire interests in 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 effecting our dividend distribution requirement to stockholders.

Status of 2012 tax return and impact on distribution of taxable income for 2012 and 2013

As previously disclosed, following a detailed review of tax calculations, we determined that our originally calculated taxable income for certain years did not fully include the impact of discount accretion and premium amortization for certain MBS within our portfolio. In addition, in prior periods the Company utilized a reconciliation process to compare its calculation of GAAP income to taxable income, which did not identify the underreporting of taxable income. Consequently, our Board declared two special cash dividends during 2013 as follows (i) $0.50 per share of common stock during the first quarter of 2013 payable on April 10, 2013, to stockholders of record on March 18, 2013 and (ii) $0.28 per share of common stock during the third quarter of 2013 payable on August 30, 2013 to stockholders of record on August 12, 2013. Approximately $136.0 million, or $0.37 per share of common stock, of these distributions were allocated to the previously undistributed REIT taxable income for tax years prior to 2012, with the remainder satisfying a portion of our undistributed 2012 taxable income.

We timely filed our 2012 tax return in September 2013, and reported fully distributed REIT taxable income of approximately $476 million for the year ended December 31, 2012.

We estimate that for 2013, our taxable income was approximately $374 million. Based on dividends paid or declared during 2013, we have distributed approximately $313 million in dividends not allocated to prior years. We have until the filing of our 2013 tax return (due not later than September 15, 2014) to declare the distribution of any 2013 REIT taxable income not previously distributed.

Regulatory Developments

The U.S. Congress, Board of Governors of the Federal Reserve System, U.S. Treasury, Federal Deposit Insurance Corporation, SEC and other governmental and regulatory bodies have taken and continue to consider additional actions in response to the financial crisis. In particular the Dodd-Frank Act created a new regulator housed within the Federal Reserve System, an independent bureau known as the Consumer Financial Protection Bureau (or the CFPB), which has broad authority over a wide range of consumer financial products and services, including mortgage lending. Another section of the Dodd-Frank Act, the Mortgage Reform and Anti-Predatory Lending Act (or the Mortgage Reform Act), contains new underwriting and servicing standards for the mortgage industry, as well as restrictions on compensation for mortgage originators. In addition, the Mortgage Reform Act grants 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 credit rating agencies.

The Dodd-Frank Act requires numerous regulations, many of which (including those mentioned above regarding underwriting and mortgage originator compensation) have only recently been finalized and are only now becoming effective and implemented and operationalized. As a result, we are unable to fully predict at this time how the Dodd-Frank Act, as well as other laws that may be adopted in the future, will impact 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. However, at a minimum, we believe that the Dodd-Frank Act and the regulations promulgated thereunder are likely to increase the economic and compliance costs for participants in the mortgage and securitization industries, including us.

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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, including us, seek to rely on an existing interpretation of the SEC staff with respect to Section 3(c)(5)(C) so as not to become an investment company for the purpose of regulation under the Investment Company Act. The SEC has requested comments on, among other things, whether it should reconsider its existing interpretation of Section 3(c)(5)(C) on which we rely. (For additional discussion of the SEC's concept release and its potential impact on us, please see Part I, Item 1A. "Risk Factors" in this Form 10-K.)

Results of Operations

Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

General

For 2013, we had net income available to our common stock and participating securities of $285.0 million, or $0.78 per basic and diluted common share, compared to net income available to common stock and participating securities of $298.7 million, or $0.83 per basic and diluted common share, for 2012. The decrease in net income available to our common stock and participating securities, and the decrease of this item on a per share basis were generally influenced by the current interest rate environment and in particular, its impact on Agency MBS yields. Since the middle of 2013, MBS values have been influenced by market uncertainty regarding the timing of tapering of asset purchases by the Federal Reserve. Primarily in the third quarter of 2013, the Company took steps to reduce interest rate risk by using derivatives (Swaps and forward contracts for the sale of Agency MBS securities on a generic pool, or to-be-announced basis (or TBA short positions)) to reduce the duration of our investment portfolio. These actions, combined with the prevailing interest rate environment during 2013 resulted in a decline in our net interest spread compared to the prior year. Yields on Agency MBS were impacted by the lower interest rate environment and higher premium amortization as the weighted average premium for our Agency MBS has increased, while yields on Non-Agency MBS were higher due primarily to the impact of credit reserve releases during the year ended December 31, 2013. In addition, during 2013 we had an increase in preferred stock dividends resulting from the issuance of the Series B Preferred Stock and a $3.9 million write-off of issuance costs on the redemption of Series A Preferred Stock (See Note 11 to the accompanying consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K).

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 MBS. Interest rates and CPRs (which measure the amount of unscheduled principal prepayment on a bond as a percentage of the bond 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 2013, our net interest income decreased by $8.6 million, or 2.6%, to $318.9 million from $327.5 million for 2012. This decrease primarily reflects the impact of lower yielding Agency MBS, increased Non-Agency MBS borrowing costs (primarily due to allocation of Swap expense), partially offset by lower Agency MBS borrowing costs and higher yielding Non-Agency MBS due to strong credit performance. The net interest spread on our Agency MBS portfolio declined to 1.09% for 2013 compared to 1.27% for 2012. The net interest spread on our Non-Agency MBS portfolio increased to 4.55% for 2013 compared to 4.42% for the 2012. Our net interest spread and margin for 2013 were 2.32% and 2.70%, respectively, compared to a net interest spread and margin of 2.38% and 2.78%, respectively, for 2012.

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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, 2013, 2012 and 2011. 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.

	For the Year Ended December 31,								
	2013			2012			2011		
(Dollars in Thousands)	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
Assets:									
Interest-earning assets:									
Agency MBS (1)	$6,841,082	$156,046	2.28%	$6,925,973	$196,058	2.83%	$6,921,494	$241,994	3.50%
Non-Agency MBS (1)	4,507,500	326,770	7.25	4,482,281	302,972	6.76	3,373,534	254,617	7.55
Total MBS	11,348,582	482,816	4.25	11,408,254	499,030	4.37	10,295,028	496,611	4.82
Cash and cash equivalents (2)	475,287	124	0.03	382,373	127	0.03	459,363	136	0.03
Total interest-earning assets	11,823,869	482,940	4.08	11,790,627	499,157	4.23	10,754,391	496,747	4.62
Total non-interest-earning assets	1,368,416			1,151,544			430,833		
Total assets	$13,192,285			$12,942,171			$11,185,224		
Liabilities and stockholders' equity:									
Interest-bearing liabilities:									
Agency repurchase agreements (3)	$6,116,468	$72,856	1.19	$6,241,623	$97,094	1.56	$6,168,092	$113,062	1.83
Non-Agency repurchase agreements (3)	2,596,663	71,029	2.74	2,090,031	51,673	2.47	1,416,663	24,677	1.74
Total repurchase agreements	8,713,131	143,885	1.65	8,331,654	148,767	1.79	7,584,755	137,739	1.82
Securitized debt	487,476	12,100	2.48	852,656	17,106	2.01	784,120	11,672	1.49
Senior Notes	100,000	8,028	8.03	72,404	5,797	8.01	—	—	—
Total interest-bearing liabilities	9,300,607	164,013	1.76	9,256,714	171,670	1.85	8,368,875	149,411	1.79
Total non-interest-bearing liabilities	629,220			739,770			115,145		
Total liabilities	9,929,827			9,996,484			8,484,020		
Stockholders' equity	3,262,458			2,945,687			2,701,204		
Total liabilities and stockholders' equity	$13,192,285			$12,942,171			$11,185,224		

Net interest income/ net interest rate spread (4)			$318,927	2.32%			$327,487	2.38%			$347,336	2.83%
Net interest-earning assets/ net interest margin (5)	$2,523,262			2.70%	$2,533,913			2.78%	$2,385,516			3.23%
Ratio of interest-earning assets to interest-bearing liabilities	1.27	x			1.27	x			1.29	x		

(1) Yields presented throughout this Annual Report on Form 10-K are calculated using average amortized cost data which excludes unrealized gains and losses and includes principal payments receivable on such MBS. For GAAP reporting purposes, MBS 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 bonds and continues to be earned on sold bonds until settlement date. Includes Non-Agency MBS transferred to consolidated VIEs.
(2) Includes average interest-earning cash, cash equivalents and restricted cash.
(3) Average cost of repurchase agreements includes the cost of Swaps allocated based on the proportionate share of the overall estimated weighted average portfolio duration.
(4) Net interest rate spread reflects the difference between the yield on average interest-earning assets and average cost of funds.
(5) Net interest margin reflects net interest income divided by average interest-earning assets.

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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.

	Year Ended December 31, 2013 Compared to Year Ended December 31, 2012 Increase/(Decrease) due to			Year Ended December 31, 2012 Compared to Year Ended December 31, 2011 Increase/(Decrease) due to		
(In Thousands)	Volume	Rate	Total Net Change in Interest Income/Expense	Volume	Rate	Total Net Change in Interest Income/Expense
Interest-earning assets:						
Agency MBS	$(2,375)	$(37,637)	$ (40,012)	$157	$(46,093)	$ (45,936)
Non-Agency MBS	1,714	22,084	23,798	77,051	(28,696)	48,355
Cash and cash equivalents	27	(30)	(3)	(25)	16	(9)
Total net change in income from interest-earning assets	$(634)	$(15,583)	$ (16,217)	$77,183	$(74,773)	$ 2,410
Interest-bearing liabilities:						
Agency repurchase agreements	$(1,894)	$(22,344)	$ (24,238)	$1,317	$(17,285)	$ (15,968)
Non-Agency repurchase agreements	13,380	5,976	19,356	14,363	12,633	26,996
Securitized debt	(8,422)	3,416	(5,006)	1,088	4,346	5,434
Senior Notes	2,214	17	2,231	—	5,797	5,797
Total net change in expense of interest-bearing liabilities	$5,278	$(12,935)	$ (7,657)	$16,768	$5,491	$ 22,259
Net change in net interest income	$(5,912)	$(2,648)	$ (8,560)	$60,415	$(80,264)	$ (19,849)

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

	Total Interest-Earning Assets and Interest-Bearing Liabilities	
Quarter Ended	Net Interest Spread (1)	Net Interest Margin (2)
December 31, 2013	2.34 %	2.75 %
September 30, 2013	2.24	2.63
June 30, 2013	2.38	2.73
March 31, 2013	2.32	2.69
December 31, 2012	2.32	2.69
September 30, 2012	2.22	2.61
June 30, 2012	2.45	2.87

March 31, 2012	2.54	2.96

(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.

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The following table presents the components of the net interest spread earned on our Agency and Non-Agency MBS for the quarterly periods presented:

	Agency MBS			Non-Agency MBS			Total MBS		
Quarter Ended	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, 2013	2.37 %	1.26 %	1.11 %	7.77 %	3.01 %	4.76 %	4.48 %	1.85 %	2.63 %
September 30, 2013	2.13	1.12	1.01	7.33	2.91	4.42	4.20	1.74	2.46
June 30, 2013	2.19	1.15	1.04	7.15	2.41	4.74	4.18	1.56	2.62
March 31, 2013	2.42	1.24	1.18	6.80	2.45	4.35	4.17	1.63	2.54
December 31, 2012	2.59	1.36	1.23	6.70	2.42	4.28	4.23	1.71	2.52
September 30, 2012	2.66	1.53	1.13	6.65	2.41	4.24	4.25	1.82	2.43
June 30, 2012	2.95	1.63	1.32	6.77	2.32	4.45	4.47	1.85	2.62
March 31, 2012	3.15	1.71	1.44	6.95	2.17	4.78	4.57	1.85	2.72

(1) Reflects annualized interest income on MBS divided by average amortized cost of MBS.
(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. Non-Agency cost of funding includes 72 and 57 basis points associated with Swaps to hedge additional interest rate sensitivity on these assets for the quarters ended December 31, 2013 and September 30, 2013, respectively.
(3) Reflects the difference between the net yield on average MBS and average cost of funds on MBS.

Interest Income

Interest income on our Agency MBS for 2013 decreased by $40.0 million, or 20.4% to $156.0 million from $196.1 million for 2012. This change primarily reflects a decrease in the net yield on our Agency MBS to 2.28% for 2013 from 2.83% for 2012 and an $84.9 million decrease in the average amortized cost of our Agency MBS portfolio to $6.841 billion for 2013 from $6.926 billion for 2012. At the end of 2013, the average coupon on mortgages underlying our Agency MBS was lower compared to the end of 2012, due to acquisition of assets in the marketplace at generally lower coupons reflecting current market conditions and as a result of prepayments on higher yielding assets and downward resets on Hybrid and ARM-MBS within the portfolio. As a result, the coupon yield on our Agency MBS portfolio declined 45 basis points to 3.13% for 2013 from 3.58% for 2012. Although our Agency MBS portfolio experienced a decline in CPR to 17.9% for 2013 compared to a CPR of 19.8% for 2012, we recognized an increase of net premium amortization to $57.9 million in 2013 compared to $52.0 million for 2012. The increase in premium amortization was the result of prepayments on Agency MBS that were purchased with high premiums. At December 31, 2013, we had net purchase premiums on our Agency MBS of $226.8 million, or 3.6% of current par value, compared to net purchase premiums of $227.3 million and 3.3% of par value at December 31, 2012.

Interest income on our Non-Agency MBS (which includes Non-Agency MBS transferred to consolidated VIEs) increased $23.8 million, or 7.9%, for 2013 to $326.8 million compared to $303.0 million for 2012, primarily due to the increase in the net yield on our Non-Agency MBS portfolio. Our Non-Agency MBS portfolio yielded 7.25% for 2013 compared to 6.76% for 2012. For 2013, the average amortized cost of our Non-Agency MBS increased by $25.2 million or 0.6%, to $4.508 billion, from $4.482 billion for 2012. The increase in the yield on our Non-Agency MBS is

primarily due to increases in accretable discount and changes in the forward yield curve, partially offset by the addition of newly acquired assets at yields less than our overall portfolio yield. During 2013, we recognized net purchase discount accretion of $73.2 million on our Non-Agency MBS, compared to $38.0 million for 2012. At December 31, 2013, we had net purchase discounts of $1.502 billion, including Credit Reserve and previously recognized OTTI of $1.043 billion, on our Non-Agency MBS, or 26.8% of par value. During 2013 we reallocated $207.9 million of purchased discount designated as Credit Reserve to accretable purchase discount.

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The following table presents the components of the coupon yield and net yields earned on our Agency MBS and Non-Agency MBS and weighted average CPR experienced for such MBS for the quarterly periods presented:

	Agency MBS			Non-Agency MBS			Total MBS		
Quarter Ended	Coupon Yield (1)	Net Yield (2)	Weighted Average CPR	Coupon Yield (1)	Net Yield (2)	Weighted Average CPR	Coupon Yield (1)	Net Yield (2)	Weighted Average CPR
December 31, 2013	3.04 %	2.37 %	12.87 %	5.40 %	7.77 %	14.16 %	3.96 %	4.48 %	13.42 %
September 30, 2013	3.07	2.13	19.25	5.59	7.33	18.15	4.07	4.20	18.77
June 30, 2013	3.14	2.19	20.19	5.71	7.15	16.37	4.17	4.18	18.53
March 31, 2013	3.25	2.42	19.08	5.78	6.80	15.06	4.26	4.17	17.34
December 31, 2012	3.38	2.59	19.23	5.85	6.70	15.53	4.37	4.23	17.67
September 30, 2012	3.49	2.66	21.62	5.90	6.65	15.42	4.45	4.25	19.08
June 30, 2012	3.68	2.95	20.39	5.89	6.77	14.87	4.57	4.47	18.20
March 31, 2012	3.78	3.15	17.90	6.02	6.95	14.05	4.62	4.57	16.48

(1) Reflects the annualized coupon interest income divided by the average amortized cost. The discounted purchase price on Non-Agency MBS causes the coupon yield to be higher than the pass-through coupon interest rate. (Does not include MBS underlying our Linked Transactions. See Note 5 to the accompanying consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.)
(2) Reflects annualized interest income on MBS divided by average amortized cost of MBS.

Interest Expense

Our interest expense for 2013 decreased by $7.7 million, or 4.5% to $164.0 million, from $171.7 million for 2012. This decrease primarily reflects the lower effective interest rate paid on borrowings to finance Agency MBS and a decrease in the average balance of securitized debt which was partially offset by an increase in our average borrowings to finance Non-Agency MBS.

At December 31, 2013, we had repurchase agreement borrowings of $8.339 billion and securitized debt of $366.2 million, of which $4.045 billion was hedged with Swaps. At December 31, 2013, our Swaps had a weighted average fixed-pay rate of 1.91% and extended 49 months on average with a maximum remaining term of approximately 116 months.

The following table presents information about our securitized debt at December 31, 2013:

	At December 31, 2013		
Benchmark Interest Rate	Securitized Debt	Interest Rate	
(Dollars in Thousands)			
30 Day LIBOR + 100 basis points	$99,943	1.17	%
30 Day LIBOR + 125 basis points	61,711	1.42	
Fixed Rate	93,556	2.85	
Weighted Average Coupon Rate	110,995	4.02	
Total	$366,205	2.50	%

The effective interest rate paid on our borrowings decreased to 1.76% for 2013 from 1.85% for 2012. This decrease reflects the maturity of Swaps with higher fixed-pay rates partially offset by additional higher cost financing associated with our Non-Agency MBS portfolio. Payments made and/or received on our Swaps are a component of

our borrowing costs and accounted for interest expense of $59.0 million or 63 basis points, for 2013, compared to interest expense of $73.3 million, or 79 basis points, for 2012. Certain of our Swaps have fixed interest rates that are significantly higher than current market interest rates. The weighted average fixed-pay rate on our Swaps decreased to 2.08% for 2013 from 2.68% for 2012. The weighted average variable interest rate received on our Swaps decreased to 0.19% for 2013 from 0.27% for 2012. During 2013, we entered into 23 new Swaps with an aggregate notional amount of $2.501 billion, a weighted average fixed-pay rate of 1.85% with initial maturities ranging from two months to ten years, and had Swaps with an aggregate notional amount of $975.4 million and a weighted average fixed-pay rate of 2.78% amortize and/or expire.

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We expect that our interest expense and funding costs for 2014 will be impacted by market interest rates, the amount of our borrowings and incremental hedging activity, our existing and future interest rates on our hedging instruments and the extent to which we execute additional financing transactions, such as resecuritizations. As a result of these variables, our borrowing costs cannot be predicted with any certainty. (See Notes 5, 6 and 14 to the accompanying consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.)

The following table presents our leverage multiples, as measured by debt-to-equity, at the dates presented:

At the Period Ended	GAAP Leverage Multiple (1)	Non-GAAP Leverage Multiple (2)
December 31, 2013	2.9	3.0
September 30, 2013	3.0	3.1
June 30, 2013	3.1	3.1
March 31, 2013	3.1	3.1
December 31, 2012	3.0	3.0
September 30, 2012	3.2	3.2
June 30, 2012	3.6	3.6
March 31, 2012	3.4	3.5

(1) Represents the sum of borrowings under repurchase agreements, securitized debt, payable for unsettled purchases, and obligations to return securities obtained as collateral and Senior Notes divided by stockholders' equity.
(2) The Non-GAAP Leverage Multiple reflects the sum of our borrowings under repurchase agreements, securitized debt, payable for unsettled purchases, obligations to return securities obtained as collateral, Senior Notes and borrowings that are reported on our consolidated balance sheets as a component of Linked Transactions of $102.7 million, $82.4 million, $33.2 million, $34.1 million, $35.3 million, $36.4 million, $51.2 million and $84.8 million December 31, 2013, September 30, 2013, June 30, 2013, March 31, 2013, December 31, 2012, September 30, 2012, June 30, 2012 and March 31, 2012 respectively. We present a Non-GAAP leverage multiple since repurchase agreement borrowings that are a component of Linked Transactions may not be linked in the future and, if no longer linked, will be reported as repurchase agreement borrowings, which will increase our leverage multiple. (See Note 5 to the accompanying consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.)

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During 2013, we did not recognize any OTTI charges through earnings against our Non-Agency MBS. During 2012, we recognized OTTI charges through earnings of $1.2 million against our Non-Agency MBS. The impairment charges during 2012 reflected changes in our estimated cash flows for such securities based on an updated assessment of the estimated future performance of the underlying collateral, including the expected principal loss over the term of the security and changes in the expected timing of receipt of cash flows. At December 31, 2013, we had 308 Agency MBS with a gross unrealized loss of $92.3 million and 30 Non-Agency MBS with a gross unrealized loss of $3.7 million. Impairments on Agency MBS in an unrealized loss position at December 31, 2013 are considered temporary and not credit related. Unrealized losses on Non-Agency MBS for which no OTTI was recorded during the year are considered temporary based on an assessment of changes in the expected cash flows for such MBS, which considers recent bond performance and expected future performance of the underlying collateral. Significant judgment is used both in the Company's analysis of expected cash flows for its Non-Agency MBS and any determination of the credit component of OTTI. (See "Critical Accounting Policies and Estimates" for more information regarding OTTI.)

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Other Income, net

For 2013, Other income, net, increased slightly by $131,000 to $21.8 million, from $21.6 million for 2012. 2013 Other income, net primarily reflects $25.8 million of net gains realized on the sale of certain Non-Agency MBS and U.S. Treasury securities and unrealized net gains and net interest income of $3.2 million on our Linked Transactions, which was partially offset by $7.5 million of losses realized on the sale of $350.0 million notional of TBA Securities. During 2013, we sold Non-Agency MBS for $152.6 million, realizing gross gains of $25.8 million and sold U.S. Treasury securities for $422.2 million, realizing net losses of approximately $24,000. During 2012, we realized $9.0 million of gains on the sale of certain Agency MBS for proceeds of $168.9 million. The unrealized net gains and net interest income from Linked Transactions of $3.2 million for 2013 included interest income of $3.9 million on the underlying Non-Agency MBS, interest expense of $925,000 on the borrowings under repurchase agreements and an increase of $281,000 in the fair value of the underlying securities. The unrealized net gains and net interest income on Linked Transactions of $12.6 million for 2012 included interest income of $5.1 million on the underlying Non-Agency MBS, interest expense of $1.1 million on borrowings under repurchase agreements and an increase of $8.6 million in the fair value of the underlying securities. Changes in the market value of the securities underlying our Linked Transactions, the amount of bond purchases recorded as Linked Transactions in the future and the amount of Linked Transactions that become unlinked in the future, none of which can be predicted with any certainty, will impact future gains/(losses) on our Linked Transactions.

Operating and Other Expense

For 2013, we had compensation and benefits and other general and administrative expense of $33.7 million, or 1.03% of average equity, compared to $33.6 million, or 1.14% of average equity, for 2012. The $1.8 million decrease in our compensation and benefits expense to $20.3 million for 2013, compared to $22.1 million for 2012, primarily reflects lower equity-based compensation expense and payroll taxes partially offset by an increase in salary expense. Our other general and administrative expenses increased by $1.9 million to $13.4 million for 2013 compared to $11.5 million for 2012. The increase was primarily comprised of increases in professional services, including auditing and legal fees, recruitment costs, the cost of data and analytical systems, and lease expense.

During 2013, we recorded an excise tax and interest accrual of $2.0 million reflecting an updated estimate of excise tax payable in respect of undistributed REIT taxable income for the 2012 tax year and an additional accrual of interest with respect to prior years undistributed taxable income and recorded $250,000 reflecting an estimate of excise tax payable in respect of undistributed REIT taxable income for the 2013 tax year. In addition, for 2013, we realized a $2.0 million charge related to the impairment of resecuritization related costs.

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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)	Total Average Stockholders' Equity to Total Average Assets (3)	Dividend Payout Ratio (4)	Book Value per Share of Common Stock (5)
December 31, 2013	2.37 %	9.55 %	24.80 %	0.98 %	$8.06
September 30, 2013	2.10	8.71	24.12	1.18 (6)	7.85
June 30, 2013	2.10	8.29	25.35	1.16	8.19
March 31, 2013	2.20	8.92	24.63	1.05 (7)	8.84
December 31, 2012	1.96	8.12	24.16	1.06	8.99
September 30, 2012	2.26	10.14	22.32	0.99	8.80
June 30, 2012	2.33	10.41	22.36	1.13	7.45
March 31, 2012	2.73	12.36	22.07	1.03	7.49

(1) Reflects annualized net income divided by average total assets.
(2) Reflects annualized net income divided by average total stockholders' equity.
(3) Reflects total average stockholders' equity divided by total average assets.
(4) Reflects dividends declared per share of common stock divided by earnings per share.
(5) Reflects total stockholders' equity less the preferred stock liquidation preference divided by total shares of common stock outstanding.
(6) Excludes the special common stock dividend declared on August 1, 2013.
(7) Excludes the special common stock dividend declared on March 4, 2013.

Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011

Our results for 2012 were generally influenced by the impact of declining net interest rate spreads. These declining spreads were primarily attributable to lower net yields on both Agency and Non-Agency MBS. Yields on Agency MBS were impacted, particularly in the second half of the year, by the lower interest rate environment and marginally higher CPRs, while yields on Non-Agency MBS were primarily impacted by the addition of lower yielding assets and changes in expected future interest rates. In addition, our holdings of Non-Agency MBS increased by approximately $1.607 billion throughout 2012, primarily due to the addition of $1.351 billion of newly acquired assets which was partially offset by $740.3 million of principal repayments on the entire Non-Agency MBS portfolio and an increase in net unrealized gains of $784.6 million for the portfolio as a result of market price appreciation.

For 2012, we had net income available to our common stock and participating securities of $298.7 million, or $0.83 per basic and diluted common share, compared to net income available to common stock and participating securities of $308.3 million, or $0.90 per basic and diluted common share, for 2011. The decrease in net income available to our common stock and participating securities, and the decrease of this item on a per share basis, were generally influenced by the impact of declining net interest rate spreads. These declining spreads were primarily attributable to lower net yields on both Agency and Non-Agency MBS. For Agency MBS, the spread impact of declining net yields was partially offset by decreased funding costs, particularly in the second half of the year. For Non-Agency MBS, in addition to yield declines, spreads were also impacted to some extent by incrementally higher funding costs resulting from longer terms of financing. Yields on Agency MBS were impacted by the lower interest rate environment and higher CPRs, while yields on Non-Agency MBS were primarily impacted by the addition of lower yielding assets and changes in expected future interest rates.

Interest income on our Agency MBS for 2012 decreased $45.9 million, or 19.0% to $196.1 million from $242.0 million for 2011. This change primarily reflects a decrease in the net yield on our Agency MBS to 2.83% for 2012 from 3.50% for 2011 partially offset by an increase in the average amortized cost of our Agency MBS portfolio to $6.926 billion for 2012 from $6.921 billion for 2011. During 2012, our Agency MBS portfolio experienced a 19.8% CPR and we recognized $52.0 million of net premium amortization compared to a CPR of 19.0% and $38.2 million of net premium amortization for 2011. At the end of 2012, the average coupon on mortgages underlying our Agency MBS was lower compared to the end of 2011, due to acquisition of assets in the marketplace at generally lower coupons reflecting current market conditions and as a result of prepayments on higher yielding assets and resets on Hybrid and ARM-MBS within the portfolio. As a result, the coupon yield on our Agency MBS portfolio declined 47 basis points to 3.58% for 2012 from 4.05% for 2011. At December 31, 2012, we had net purchase premiums

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on our Agency MBS of $227.3 million, or 3.3% of current par value, compared to net purchase premiums of $177.7 million and 2.6% of par value at December 31, 2011.

Interest income on our Non-Agency MBS (which includes Non-Agency MBS transferred to consolidated VIEs) increased $48.4 million, or 19.0% for 2012 to $303.0 million compared to $254.6 million for 2011, principally due to the increase in the amortized cost of our Non-Agency MBS portfolio. For 2012, the average amortized cost of our Non-Agency MBS increased by $1.109 billion, or 32.9%, to $4.482 billion, from $3.374 billion for 2011. The growth in our Non-Agency MBS has primarily been funded with longer term forms of repurchase agreement financings. In addition, certain of our Non-Agency MBS underlying Linked Transactions became delinked during 2012, due to the repayment of the repurchase agreement financing. These delinkings resulted in Non-Agency MBS of $175.2 million, previously included as a component of Linked Transactions, being recognized as Non-Agency MBS on our consolidated balance sheet at December 31, 2012. Our Non-Agency MBS portfolio yielded 6.76% for 2012 compared to 7.55% for 2011. The decrease in the yield on our Non-Agency MBS is primarily due to the impact of lower yields on assets purchased during 2012 as well as the flattening (downward movement in the later years) of the forward yield curve, which causes us to lower the projected future coupons and therefore the expected yields on our Hybrid Non-Agency MBS. During 2012, we recognized net purchase discount accretion of $38.0 million on our Non-Agency MBS, compared to $42.2 million for 2011. At December 31, 2012, we had net purchase discounts of $1.751 billion, including Credit Reserve and previously recognized OTTI of $1.381 billion, on our Non-Agency MBS, or 26.9% of par value. During 2012 we reallocated $152.5 million of purchase discount designated as Credit Reserve to accretable purchase discount.

The following table presents the components of the coupon yield and net yields earned on our Agency MBS and Non-Agency MBS and weighted average CPR experienced for such MBS for the quarterly periods presented:

	Agency MBS (1)			Non-Agency MBS (1)			Total MBS (1)		
Quarter Ended	Coupon Yield (2)	Net Yield (3)	Weighted Average CPR	Coupon Yield (2)	Net Yield (3)	Weighted Average CPR	Coupon Yield (2)	Net Yield (3)	Weighted Average CPR
December 31, 2012	3.38 %	2.59 %	19.23 %	5.85 %	6.70 %	15.53 %	4.37 %	4.23 %	17.67 %
September 30, 2012	3.49	2.66	21.62	5.90	6.65	15.42	4.45	4.25	19.08
June 30, 2012	3.68	2.95	20.39	5.89	6.77	14.87	4.57	4.47	18.20
March 31, 2012	3.78	3.15	17.90	6.02	6.95	14.05	4.62	4.57	16.48
December 31, 2011	3.79	3.14	19.35	6.07	7.02	13.07	4.60	4.51	17.19
September 30, 2011	3.98	3.37	19.29	6.15	7.25	14.66	4.75	4.75	17.97
June 30, 2011	4.14	3.68	16.57	6.41	7.84	14.63	4.87	5.01	16.03
March 31, 2011	4.32	3.84	20.95	6.83	8.58	14.80	5.00	5.12	19.39

(1) Yields presented throughout this Annual Report on Form 10-K are calculated using average amortized cost data. For GAAP reporting purposes, MBS 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 bonds and continues to be earned on sold bonds until settlement date.
(2) Reflects annualized coupon interest income divided by the average amortized cost. The discounted purchase price on Non-Agency MBS causes the coupon yield to be higher than the pass-through coupon interest rate. (Does not include MBS underlying our Linked Transactions. See Note 5 to the accompanying consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.)
(3) Reflects annualized interest income divided by average amortized cost.

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The following table presents information about average balances of our MBS portfolio by category and associated income for the years ended December 31, 2012 and 2011.

(Dollars in Thousands)	Average Amortized Cost (1)	Interest Income	Weighted Average Coupon	Coupon Yield (2)	Net Asset Yield (3)
Year Ended December 31, 2012					
Agency MBS	$6,925,973	$196,058	3.76 %	3.58 %	2.83 %
Non-Agency MBS, including transfers to a consolidated VIE	4,482,281	302,972	4.34	5.91	6.76
Total	$11,408,254	$499,030	4.04 %	4.50 %	4.37 %
Year Ended December 31, 2011					
Agency MBS	$6,921,494	$241,994	4.22 %	4.05 %	3.50 %
Non-Agency MBS, including transfers to a consolidated VIE	3,373,534	254,617	4.64	6.30	7.55
Total	$10,295,028	$496,611	4.39 %	4.79 %	4.82 %

(1) Includes principal payments receivable.
(2) Reflects coupon interest income divided by the average amortized cost. The discounted purchase price on Non-Agency MBS causes the coupon yield to be higher than the pass-through coupon interest rate. (Does not include MBS underlying our Linked Transactions. See Note 5 to the accompanying consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.)
(3) Reflects interest income divided by the average amortized cost.

Interest income from our cash investments, which are comprised of money market investments and are not a material source of income, as the yields on such funds remain at historically low levels, decreased to $127,000 for 2012 from $136,000 for 2011. Our average cash investments were $382.4 million and yielded 0.03% for 2012 compared to average cash investments of $459.4 million that yielded 0.03% for 2011. In general, we manage our cash investments relative to our investing, financing and operating requirements, investment opportunities and current and anticipated market conditions.

At December 31, 2012, we had repurchase agreement borrowings of $8.752 billion and securitized debt of $646.8 million, of which $2.520 billion was hedged with Swaps. At December 31, 2012, our Swaps had a weighted average fixed-pay rate of 2.31% and extended 17 months on average with a maximum remaining term of approximately 48 months.

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Our interest expense for 2012 increased by $22.3 million, or 14.9%, to $171.7 million, from $149.4 million for 2011. This increase primarily reflects the combined impact of an increase in our average borrowings and the higher effective interest rate paid particularly on borrowings to finance Non-Agency MBS, as well as on securitized debt and Senior Notes. The following table presents information regarding the components of our interest expense for the years ended 2012 and 2011:

(Dollars in Thousands)	Average Balance	Interest Expense	Average Cost of Funds (1)	
Year Ended December 31, 2012				
Agency Repurchase Agreements	$6,241,623	$97,094	1.56	%
Non-Agency Repurchase Agreements	2,090,031	51,673	2.47	
Total Repurchase Agreements	8,331,654	148,767	1.79	
Securitized Debt	852,656	17,106	2.01	
Senior Notes (2)	72,404	5,797	8.01	
Total	$9,256,714	$171,670	1.85	%
Year Ended December 31, 2011				
Agency Repurchase Agreements	$6,168,092	$113,062	1.83	%
Non-Agency Repurchase Agreements	1,416,663	24,677	1.74	
Total Repurchase Agreements	7,584,755	137,739	1.82	
Securitized Debt	784,120	11,672	1.49	
Total	$8,368,875	$149,411	1.79	%

(1) Reflects interest expense divided by the average balance and includes the cost of Swaps designated as hedges against repurchase agreements.
(2) We did not have any Senior Notes prior to April 11, 2012.

The following table presents information about our securitized debt at December 31, 2012:

Benchmark Interest Rate	At December 31, 2012 Securitized Debt	Interest Rate	
(Dollars in Thousands)			
30 Day LIBOR + 100 basis points	$237,258	1.21	%
30 Day LIBOR + 125 basis points	265,539	1.46	
Fixed Rate	144,019	2.85	
Total	$646,816	1.68	%

The effective interest rate paid on our borrowings increased to 1.85% for 2012 from 1.79% for 2011. This increase reflects additional higher cost longer-term financing associated with our Non-Agency MBS portfolio, the issuance of fixed-rate securitized debt in February 2012, the issuance of our Senior Notes in April 2012 partially offset by the maturity of Swaps with higher fixed-pay rates. Payments made and/or received on our Swaps are a component of our borrowing costs and accounted for interest expense of $73.3 million, or 79 basis points, for 2012, compared to interest expense of $95.7 million, or 114 basis points, for 2011. Certain of our Swaps have fixed interest rates that are significantly higher than current market interest rates. As these Swaps continue to amortize and/or expire, the Swap component of our borrowing costs is expected to continue to decrease. The weighted average fixed-pay rate on our Swaps decreased to 2.68% for 2012 from 3.13% for 2011. The weighted average variable interest rate received on our Swaps increased slightly to 0.27% for 2012 from 0.25% for 2011. During 2012, we entered into one new Swap with a

notional amount of $100.0 million, a fixed-pay rate of 0.48% and an initial maturity of four years, and had Swaps with an aggregate notional amount of $958.3 million and a weighted average fixed-pay rate of 3.87% amortize and/or expire.

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We expect that our interest expense and funding costs for 2013 will be impacted by market interest rates, the amount of our borrowings and incremental hedging activity, our existing and future interest rates on our hedging instruments and the extent to which we execute additional financing transactions, such as resecuritizations. As a result of these variables, our future borrowing costs cannot be predicted with any certainty. (See Notes 5, 6 and 14 to the accompanying consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.)

The following table presents our leverage multiples, as measured by debt-to-equity, at the dates presented:

At the Period Ended	GAAP Leverage Multiple (1)		Non-GAAP Leverage Multiple (2)
December 31, 2012	3.0	(3)	3.0
September 30, 2012	3.2	(3)	3.2
June 30, 2012	3.6	(4)	3.6
March 31, 2012	3.4	(3)	3.5
December 31, 2011	3.6	(5)	3.7
September 30, 2011	3.4	(6)	3.5
June 30, 2011	3.2	(7)	3.3
March 31, 2011	2.9		3.0

(1) Represents the sum of borrowings under repurchase agreements, securitized debt, payable for unsettled purchases, obligation to return securities obtained as collateral, and Senior Notes, divided by stockholders' equity.
(2) The Non-GAAP Leverage Multiple reflects the sum of our borrowings under repurchase agreements, securitized debt, payable for unsettled purchases, obligation to return securities obtained as collateral, Senior Notes and borrowings that are reported on our consolidated balance sheet as a component of Linked Transactions of $35.3 million, $36.4 million, $51.2 million, $84.8 million, $170.9 million, $193.0 million, $225.4 million and $304.1 million at December 31, 2012, September 30, 2012, June 30, 2012, and March 31, 2012, December 31, 2011, September 30, 2011, June 30, 2011, March 31, 2011, respectively. We present a Non-GAAP leverage multiple since repurchase agreement borrowings that are a component of Linked Transactions may not be linked in the future and, if no longer linked, will be reported as repurchase agreement borrowings, which will increase our leverage multiple. (See Note 5 to the accompanying consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.)
(3) The decrease compared to the prior quarter primarily reflects an increase in the market value of our Non-Agency MBS.
(4) The increase compared to the prior quarter primarily reflects a higher use of financing structures and the issuance of Senior Notes during the quarter.
(5) The increase compared to the prior quarter primarily reflects a decline in the market value of our Non-Agency MBS and increased use of structured financing to acquire Non-Agency MBS.
(6) The increase compared to the prior quarter primarily reflects a decline in the market value of our Non-Agency MBS.
(7) The increase compared to the prior quarter primarily reflects the use of resecuritization to finance a portion of our Non-Agency MBS portfolio.

For 2012, our net interest income decreased by $19.8 million, or 5.7%, to $327.5 million from $347.3 million for 2011. This decrease primarily reflects the impact of additional lower yielding MBS and increases in our average borrowings and the higher effective interest rate paid on such borrowings. Our net interest spread and margin for 2012 were 2.38% and 2.78%, respectively, compared to a net interest spread and margin of 2.83% and 3.23%, respectively, for 2011.

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The following table presents information regarding our average balances, interest income and expense, yields on average interest-earning assets, average cost of funds and net interest income for the quarters presented:

Quarter Ended	Average Amortized Cost of MBS (1)	Interest Income on MBS	Average Interest Earning Cash (2)	Total Interest Income	Yield on Average Interest-Earning Assets (3)	Average Balance of Financing Arrangements (4)	Interest Expense	Average Cost of Funds	Net Interest Income
(Dollars in Thousands)									
December 31, 2012	$11,807,038	$124,925	$405,490	$124,968	4.09 %	$9,654,253	$43,054	1.77 %	$81,914
September 30, 2012	11,778,939	125,097	406,488	125,135	4.11	9,660,381	45,801	1.89	79,334
June 30, 2012	11,219,055	125,504	292,302	125,531	4.36	8,981,553	42,688	1.91	82,843
March 31, 2012	10,819,531	123,504	424,691	123,523	4.39	8,721,868	40,127	1.85	83,396
December 31, 2011	11,000,704	123,964	402,958	123,994	4.35	8,899,013	38,811	1.73	85,183
September 30, 2011	11,010,686	130,741	548,339	130,766	4.53	9,034,044	38,752	1.70	92,014
June 30, 2011	10,545,419	132,082	432,005	132,109	4.81	8,473,314	37,195	1.76	94,914
March 31, 2011	8,587,526	109,824	453,730	109,878	4.86	7,041,406	34,653	1.99	75,225

(1) Unrealized gains and losses are not reflected in the average amortized cost of MBS.
(2) Includes average interest-earning cash, cash equivalents and restricted cash.
(3) Reflects annualized interest income divided by average amortized cost of interest-earning assets.
(4) Includes repurchase agreements, securitized debt and Senior Notes.

The following table presents our net interest spread and net interest margin for the quarters presented:

	Total Interest-Earning Assets and Interest-Bearing Liabilities	
Quarter Ended	Net Interest Spread (1)	Net Interest Margin (2)
December 31, 2012	2.32 %	2.69 %
September 30, 2012	2.22	2.61
June 30, 2012	2.45	2.87
March 31, 2012	2.54	2.96
December 31, 2011	2.62	3.00
September 30, 2011	2.83	3.20
June 30, 2011	3.05	3.46
March 31, 2011	2.87	3.31

(1) Reflects the difference between the yield on average interest-earning assets and average cost of funds.
(2) Annualized net interest income divided by average interest-earning assets.

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The following table presents the components of the net interest spread earned on our Agency and Non-Agency MBS for the quarters presented:

	Agency MBS			Non-Agency MBS			Total MBS		
Quarter Ended	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, 2012	2.59 %	1.36 %	1.23 %	6.70 %	2.42 %	4.28 %	4.23 %	1.71 %	2.52 %
September 30, 2012	2.66	1.53	1.13	6.65	2.41	4.24	4.25	1.82	2.43
June 30, 2012	2.95	1.63	1.32	6.77	2.32	4.45	4.47	1.85	2.62
March 31, 2012	3.15	1.71	1.44	6.95	2.17	4.78	4.57	1.85	2.72
December 31, 2011	3.14	1.71	1.43	7.02	1.78	5.24	4.51	1.73	2.78
September 30, 2011	3.37	1.74	1.63	7.25	1.61	5.64	4.75	1.70	3.05
June 30, 2011	3.68	1.82	1.86	7.84	1.57	6.27	5.01	1.76	3.25
March 31, 2011	3.84	2.10	1.74	8.58	1.62	6.96	5.12	1.99	3.13

(1) Reflects annualized interest income on MBS divided by average amortized cost of MBS.
(2) Reflects annualized interest expense divided by average balance of repurchase agreements and securitized debt.
(3) Reflects the difference between the net yield on average MBS and average cost of funds on MBS.

During 2012, we recognized OTTI charges through earnings of $1.2 million against our Non-Agency MBS compared to $10.6 million during the year ended 2011. These impairment charges reflected changes in our estimated cash flows for such securities based on an updated assessment of the estimated future performance of the underlying collateral, including the expected principal loss over the term of the security and changes in the expected timing of receipt of cash flows. At December 31, 2012, we had 33 Non-Agency MBS with a gross unrealized loss of $6.3 million and 53 Agency MBS with a gross unrealized loss of $1.5 million. Impairments on Agency MBS in an unrealized loss position at December 31, 2012 are considered temporary and not credit related. Unrealized losses on Non-Agency MBS for which no OTTI was recorded during the year are considered temporary based on an assessment of changes in the expected cash flows for such MBS, which considers recent bond performance and expected future performance of the underlying collateral. Significant judgment is used both in the Company's analysis of expected cash flows for its Non-Agency MBS and any determination of the credit component of OTTI. (See "Critical Accounting Policies and Estimates" for more information regarding OTTI.)

For 2012, we had other income, net of $21.6 million compared to $10.8 million for 2011. The 2012 income primarily reflects the net gains of $12.6 million on our Linked Transactions and $9.0 million of gains realized on the sale of certain Agency MBS. The gains on Linked Transactions for 2012 included interest income of $5.1 million on the underlying Non-Agency MBS, interest expense of $1.1 million on borrowings under repurchase agreements and an increase of $8.6 million in the fair value of the underlying securities. The gains on Linked Transactions for 2011 included interest income of $25.6 million on the underlying Non-Agency MBS, interest expense of $4.8 million on borrowings under repurchase agreements and a decrease of $17.8 million in the fair value of the underlying securities. Changes in the market value of the securities underlying our Linked Transactions, the amount of bond purchases recorded as Linked Transactions in the future and the amount of Linked Transactions that become unlinked in the future, none of which can be predicted with any certainty, will impact future gains/(losses) on our Linked Transactions. During 2012, certain of our Linked Transactions became unlinked, resulting in our recording

Non-Agency MBS with a fair value of $175.2 million on our consolidated balance sheet.

During 2012, we realized $9.0 million of gains on the sale of certain Agency MBS for proceeds of $168.9 million. During the 2011, we realized $6.7 million of gains on the sale of certain Agency MBS for proceeds of $150.6 million.

During 2012, we had compensation and benefits and other general and administrative expense of $33.6 million, or 1.14% of average equity, compared to $30.2 million, or 1.12% of average equity, for 2011. The increase in our compensation and benefits expense to $22.1 million for 2012, compared to $19.0 million for 2011, primarily reflects vesting of equity-based compensation awards and an increase in the level of incentive compensation awards to our employees. Our other general and administrative expenses increased slightly to $11.5 million for 2012 compared to $11.3 million for 2011.

During 2012, we recorded an accrual of $7.5 million for potential federal excise tax on our current estimate of 2012 REIT taxable income and interest for prior years undistributed taxable income.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements include our accounts and all majority owned and controlled subsidiaries. In addition, we consolidated the special purpose entities (or SPEs) created to facilitate the resecuritization transactions that we completed in February 2012, June 2011, February 2011, and October 2010. The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts reported in the consolidated financial statements. In preparing these consolidated financial statements, management has made estimates and judgments of certain amounts included in the consolidated financial statements, giving due consideration to materiality. Application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, 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 more significant of these to be as follows:

Classifications of Investment Securities and Assessment for Other-Than-Temporary Impairments

Our investments in securities are primarily comprised of Agency MBS and Non-Agency MBS, as discussed and detailed in Notes 2(b) and 3 to the consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K. With the exception of MBS accounted for as a component of our Linked Transactions, all of our MBS are designated as available-for-sale and carried on the balance sheet at their fair value with unrealized gains and losses excluded from earnings (except when an OTTI is recognized, as discussed below) and recorded in AOCI, a component of stockholders' equity. We do not intend to hold any of our investment securities for trading purposes; however, if available-for-sale securities were classified as trading securities, there could be substantially greater volatility in our earnings.

When the fair value of an available-for-sale security is less than its amortized cost at the balance sheet date, the security is considered impaired. We assess our impaired securities on at least a quarterly basis and designate such impairments as either "temporary" or "other-than-temporary." 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 its anticipated recovery, an OTTI is recognized 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 we do not expect to sell an other-than-temporarily impaired security, only the portion of the OTTI related to credit losses is recognized through charges to earnings with the remainder recognized through AOCI on the consolidated balance sheets.

In making our assessments about OTTIs, we review and consider certain information relating to our financial position and the impaired securities, including the nature of such securities, the contractual collateral requirements impacting us and our investment and leverage strategies, as well as subjective information, including our current and targeted liquidity position, the credit quality and expected cash flows of the underlying assets collateralizing such securities, and current and anticipated market conditions. In determining the OTTI related to credit losses for securities that were purchased at significant discounts to par and/or are otherwise assessed to be of less than high credit quality, the Company compares the present value of the remaining cash flows expected to be collected at the purchase date (or last date previously revised) against the present value of the cash flows expected to be collected at the current financial reporting date. The determination as to whether an OTTI exists and, if so, the amount of credit impairment recognized in earnings is subjective, as such determinations are based on factual information available at the time of assessment as well as management's estimates of the future performance and cash flow projections. As a result, the timing and amount of OTTIs constitute material estimates that are susceptible to significant change.

During 2013, we did not recognize any credit-related OTTI losses through earnings related to our MBS. At December 31, 2013, we did not intend to sell any MBS that were in an unrealized loss position, and it is "more likely than not" that we will not be required to sell these MBS before recovery of their amortized cost basis, which may be at their maturity.

Gross unrealized losses on our Agency MBS were $92.3 million at December 31, 2013. Agency MBS are issued by GSEs that enjoy either the implicit or explicit backing of the full faith and credit of the U.S. Government. While our Agency MBS are not rated by any rating agency, they are currently perceived by market participants to be of high credit quality, with risk of default limited to the unlikely event that the U.S. Government would not continue to support the GSEs. In addition the GSEs are currently profitable on a stand-alone basis with such profits being remitted to the U.S. Treasury. Given the credit quality inherent in Agency MBS, we do not consider any of the current impairments on our Agency MBS to be credit related. In assessing whether it is more likely than not that we will be required to sell any impaired security before its anticipated recovery, which may be at their maturity, we consider for each impaired security, the significance of each investment, the amount of impairment, the projected future performance of such impaired securities, as well as our current and anticipated leverage capacity and liquidity position. Based on these analyses, we determined that at December 31, 2013 any unrealized losses on our Agency MBS were temporary.

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The payments of principal and interest we receive on our Agency MBS, which depend directly upon payments on the mortgages underlying such securities, are guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae. Fannie Mae and Freddie Mac are GSEs, but their guarantees are not explicitly backed by the full faith and credit of the United States. Ginnie Mae is part of a U.S. Government agency and its guarantees are explicitly backed by the full faith and credit of the United States. We believe that the stronger backing for the guarantors of Agency MBS resulting from the conservatorship of Fannie Mae and Freddie Mac has further strengthened their credit worthiness; however, there can be no assurance that these actions will be adequate for their needs. Accordingly, if these government actions are inadequate and the GSEs continue to suffer losses or cease to exist, our view of the credit worthiness of our Agency MBS could materially change, which may affect our assessment of OTTI for Agency MBS in future periods. (See Part I, Item 1A., Risk Factors, "The federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. Government, may materially adversely affect our business.")

Unrealized losses on our Non-Agency MBS (including Non-Agency MBS transferred to consolidated VIEs) were $3.7 million at December 31, 2013. Based upon the most recent evaluation, we do not consider these unrealized losses to be indicative of OTTI and do not believe that these unrealized losses are credit related, but are rather due to non-credit related factors. We have reviewed our Non-Agency MBS that are in an unrealized loss position to identify those securities with losses that are other-than-temporary based on an assessment of changes in expected cash flows for such MBS, which considers recent bond performance and expected future performance of the underlying collateral.

Our expectations with respect to our securities in an unrealized loss position may change over time, given, among other things, the dynamic nature of markets and other variables. Future sales or changes in our expectations with respect to securities in an unrealized loss position could result in us recognizing OTTI charges or realizing losses on sales of MBS in the future. (See Notes 2(b) and 3 to the consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.)

Fair Value Measurements

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 our financial instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities Obtained and Pledged as Collateral/Obligation to Return Securities Obtained as Collateral

The fair value of U.S. Treasury securities obtained as collateral and the associated obligation to return securities obtained as collateral are based upon prices obtained from a third-party pricing service, which are indicative of market activity. Securities obtained as collateral are classified as Level 1 in the fair value hierarchy.

Agency MBS, Non-Agency MBS and Securitized Debt

We determine the fair value of our 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 our third-party pricing services incorporate commonly used market pricing methods, trading activity observed in the market place 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 market place.

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In determining the fair value of its Non-Agency MBS and 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. In valuing Non-Agency MBS, we understand that pricing services use observable inputs that include, in addition to trading activity observed in the market place, 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 that are cross-collateralized, performance of all collateral groups involved in the tranche are considered. We collect and consider current market intelligence on all major markets, including benchmark security evaluations and bid list results from various sources, when available.

Our MBS and securitized debt are valued using various market data points as described above, which management considers to be directly or indirectly observable parameters. Accordingly, our MBS and securitized debt are classified as Level 2 in the fair value hierarchy.

Derivative Instruments

Linked Transactions

The Non-Agency MBS underlying our Linked Transactions are valued using similar techniques to those used for our other Non-Agency MBS. The value of the underlying MBS is then netted against the carrying amount (which approximates fair value) of the repurchase agreement borrowing at the valuation date. The fair value of Linked Transactions also includes accrued interest receivable on the MBS and accrued interest payable on the underlying repurchase agreement borrowings. Our Linked Transactions are classified as Level 2 in the fair value hierarchy.

Swaps

For non-centrally cleared Swaps, we determine the fair value of our derivative hedging instruments considering valuations obtained from a third-party pricing service. For Swaps that are cleared by a central clearing house, valuations provided by the clearing house are used. All valuations obtained are tested with internally developed models that apply readily observable market parameters. In valuing our derivative hedging instruments, we consider both our creditworthiness and that of our counterparties, along with collateral provisions contained in each derivative agreement, from the perspective of both us and our counterparties. All of our derivative hedging instruments are subject to bilateral collateral arrangements or for cleared Swaps, to the clearing house’s margin requirements. Consequently, no credit valuation adjustment was made in determining the fair value of such instruments. Our derivative hedging instruments are classified as Level 2 in the fair value hierarchy.

TBA Short Positions

We determine the fair value of our TBA short positions, based upon prices obtained from third party pricing services, which are indicative of market activity. Accordingly, our TBA short positions are classified as Level 2 in the fair value hierarchy.

Interest Income on our Non-Agency MBS

Interest income on the Non-Agency MBS that were purchased at a discount to par value and/or are considered to be of lower credit quality is recognized based on the security’s effective interest rate. The effective interest rate is based on management’s estimate of the projected cash flows for each security, which are based on our observation of current information and events and include assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, we review and, if appropriate, make adjustments to our cash flow projections based on input and analysis received from external sources, internal models, and our

judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on these securities and/or in the recognition of OTTIs.

Based on the projected cash flows for our Non-Agency MBS purchased at a discount to par value, a portion of the purchase discount may be designated as a Credit Reserve, which effectively mitigates our risk of loss on the mortgages collateralizing such MBS and is not expected to be accreted into interest income. The amount designated as Credit Reserve may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a Credit Reserve is more favorable than forecasted, a portion of the amount designated as Credit Reserve may be reallocated to accretable discount and recognized into interest income over time. Conversely, if the performance of a security with a Credit Reserve is less favorable than forecasted, the amounts designated as Credit Reserve maybe be increased, or impairment charges and write-downs of such securities to a new cost basis could result.

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Hedging Activities

We use a variety of derivative instruments to economically hedge a portion of our exposure to market risks, including interest rate risk, prepayment risk and extension risk. The objective of our risk management strategy is to reduce fluctuations in net book value over a range of interest rate scenarios. In particular, we attempt to mitigate the risk of the cost of our variable rate liabilities increasing during a period of rising interest rates. Our derivative instruments are primarily comprised of Swaps, which are designated as cash flow hedges against the interest rate risk associated with our borrowings. In prior years we have also used interest rate swaptions (or Swaptions) for hedging purposes. During 2013, we also entered into TBA short positions which are not designated as hedging instruments for GAAP reporting purposes, but are entered into by the Company to reduce interest rate risk associated with our investment activities.

We use Swaps to modify the repricing characteristics of our repurchase agreements and securitized debt and cash flows for such liabilities. Under each Swap, we agree to pay a fixed rate of interest and receive a variable interest rate, generally based on one-month or three-month LIBOR, on the notional amount of the Swap. Swaptions (when used) are used as a hedge against the risk of changes in the interest component above a specified level on a portion of forecasted one-month fixed rate borrowings. We document our risk-management policies, including objectives and strategies, as they relate to our hedging activities and the relationship between the hedging instrument and the hedged liability. We assess both at inception of a hedge and on a quarterly basis thereafter, whether or not the hedge relationship is “highly effective.”

We discontinue hedge accounting on a prospective basis and recognize changes in the fair value of the derivative 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.

Swaps are carried on our balance sheets at fair value, as assets, if their fair value is positive, or as liabilities, if their fair value is negative. Changes in the fair value of our Swaps are recorded in OCI provided that the hedge remains effective. Changes in fair value for any ineffective amount of a Swap are recognized in earnings. We have not recognized any change in the value of our existing Swaps through earnings as a result of hedge ineffectiveness.

Swaptions (when used) are carried as assets on our balance sheets at fair value. Changes in the intrinsic value of the Swap underlying the Swaption are recorded in OCI, a component of stockholders’ equity, provided that the hedge remains effective, while changes in the time value of the Swaption are recorded as gains/losses through earnings as a component of other income during the option period. We use the cumulative dollar-offset ratio to assess the hedge effectiveness of our Swaptions.

During 2013, we entered into TBA short positions as a means of managing interest rate risk and MBS basis risk associated with our investment and financing activities. A TBA short position is a forward contract for sale of Agency MBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency MBS that could be delivered into the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association (or SIFMA), are not known at the time of the transaction.

We account for TBA short positions as derivative instruments since we cannot assert that it is probable at inception and throughout the term of the TBA contract that we will physically deliver the agency security upon settlement of the contract. We present TBA short positions as either derivative assets or liabilities, at fair value on our consolidated balance sheets. Gains and losses associated with TBA short positions are reported in Other income on our consolidated statements of operations.

Although permitted under certain circumstances, we do not offset cash collateral receivables or payables against our net derivative positions.

Income Taxes

Our financial results generally do not reflect provisions for current or deferred income taxes. We believe that we operate in, and intend to continue to operate in, a manner that allows and will continue to allow us to be taxed as a REIT. Provided that we distribute all of our REIT taxable income in the timeframe permitted by the Code, we do not generally expect to pay corporate level taxes and/or excise taxes. However, such taxes may arise from time to time in the normal course of our business. Many of the REIT requirements, however, are highly technical and complex. In addition, REIT taxable income calculated at the time our financial statements are prepared is based on certain estimates that may be revised as our tax return, which is not required to be filed until the third quarter in the following year, is completed. If we were to fail to meet certain of the REIT requirements, we would be subject to U.S. federal, state and local income taxes.

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Accounting for Stock-Based Compensation

We expense our equity based compensation awards ratably over the vesting period of such awards, based upon the fair value of such awards at the grant date. Equity-based awards for which there is no risk of forfeiture are expensed upon grant or at such time that there is no longer a risk of forfeiture. (See Notes 2(j) and 13 to the consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.)

During 2010, we granted certain RSUs that vest after either two or four years of service and provided that certain criteria are met, which are based on a formula that includes changes in our closing common stock price over a two- or four-year period and dividends declared on our common stock during those periods. In each year in the three-year period ended December 31, 2013, we granted certain RSUs that vest annually over a one or three-year period, provided that certain criteria are met, which are based on a formula that includes changes in our closing stock price over the annual vesting period and dividends declared on our common stock during those periods. Such criteria constitute a "market condition" which impacts the amount of compensation expense recognized for these awards. Specifically, the uncertainty regarding whether the market condition will be achieved is reflected in the grant date fair valuation of the RSUs, which in addition to estimates regarding the amount of RSUs expected to be forfeited during the associated service period, determines the amount of compensation expense that is recognized. Compensation expense is not reversed should the market condition not be achieved, while differences in actual forfeiture experience relative to estimated forfeitures will result in adjustments to the timing and amount of compensation expense recognized.

We have awarded DERs that may be attached to or awarded separately from other equity based awards. Compensation expense for separately awarded DERs is based on the grant date fair value of such awards and is recognized over the vesting period. Payments pursuant to these DERs are charged to stockholders' equity. Payments pursuant to DERs that are attached to equity based awards are charged to stockholders' equity to the extent that the attached equity awards are expected to vest. Compensation expense is recognized for payments made for DERs to the extent that the attached equity awards do not or are not expected to vest and grantees are not required to return payments of dividends or DERs to us.

RECENT ACCOUNTING STANDARDS TO BE ADOPTED IN FUTURE PERIODS

Financial Services - Investment Companies

In June 2013, the FASB issued Accounting Standards Update (or ASU) 2013-08, Financial Services - Investment Companies: Amendments to the Scope, Measurement, and Disclosure Requirements, (or ASU 2013-08). In general, the amendments of this ASU: (i) revise the definition of an investment company; (ii) require an investment company to measure non-controlling ownership interests in other investment companies at fair value rather than using the equity method of accounting; and (iii) require information to be disclosed concerning the status of the entity and any financial support provided, or contractually required to be provided, by the investment company to its investees. ASU 2013-08 is effective for interim and annual periods that begin after December 15, 2013 and early application is prohibited. As the FASB has decided to retain the current U.S. GAAP scope exception from investment company accounting and financial reporting for real estate investment trusts, the adoption of this ASU will not have a material impact on our consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of cash generally consist of borrowings under repurchase agreements, payments of principal and interest we receive on our MBS portfolio, cash generated from our operating results and, depending on market conditions, proceeds from capital market and resecuritization transactions. Our most significant uses of cash are generally to pay principal and pay interest on our borrowings under repurchase agreements and securitized debt, to purchase MBS, to make dividend payments on our capital stock, to fund our operations 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 or 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 MBS, consistent with our investment policy, and for working capital, which may include, among other things, the repayment of our repurchase agreements. 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, depositary shares representing preferred stock, warrants, debt securities, rights and/or units pursuant to our automatic shelf registration statement and, at December 31, 2013, we had 11.5 million shares of common stock available for issuance pursuant to our DRSPP shelf registration statement. During 2013, we issued 9,511,739 shares of common stock through our DRSPP, raising net proceeds of approximately $77.6 million.

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On April 15, 2013, we completed the issuance of 8.0 million shares of our Series B Preferred Stock, liquidation preference $25.00 per share, in an underwritten public offering. The aggregate net proceeds to us from the offering of the Series B Preferred Stock were approximately $193.3 million, after deducting the underwriting discount and related offering expenses. We used a portion of the net proceeds to redeem all of our outstanding Series A Preferred Stock (as discussed below), and used the remaining net proceeds of the offering for general corporate purposes, including, without limitation, to acquire additional MBS consistent with our investment policy, and for working capital, which may include, among other things, the repayment of its repurchase agreements.

On May 16, 2013, we redeemed all 3,840,000 outstanding shares of our Series A Preferred Stock, at an aggregate redemption price of approximately $97.0 million, or $25.27153 per share, including all accrued and unpaid dividends to the redemption date. The redemption value of the Series A Preferred Stock exceeded its carrying value by $3.9 million, which represents the original offering costs for the Series A Preferred Stock.

During the year ended December 31, 2013, we repurchased 2,143,354 shares of our common stock under the Repurchase Program at a total cost of approximately $15.4 million and an average cost of $7.20 per share. (See Part II, Item 5., “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities,” of this Annual Report on Form 10-K, for further discussion regarding our Repurchase Program.)

Our borrowings under repurchase agreements are uncommitted and 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 related to repayment, margin requirements and the segregation of all securities that are the subject of repurchase transactions generally conform to the terms in the standard master repurchase agreement as published by 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 (as defined below), 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.

With respect to margin maintenance requirements for repurchase agreements with Non-Agency MBS as collateral, 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 repurchase 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 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.

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The following table presents information regarding the margin requirements, or the percentage amount by which the collateral value is contractually required to exceed the loan amount (this difference is referred to as the "haircut"), on our repurchase agreements at December 31, 2013 and December 31, 2012:

	Weighted Average Haircut	Low	High
December 31, 2013			
Repurchase agreement borrowings secured by:			
Agency MBS	4.89 %	3.00 %	6.00 %
Non-Agency MBS	32.48	10.00	63.00
U.S. Treasury securities	1.65	1.00	2.00
December 31, 2012			
Repurchase agreement borrowings secured by:			
Agency MBS	4.80 %	3.00 %	7.00 %
Non-Agency MBS	30.49	10.00	63.00
U.S. Treasury securities	1.74	1.00	2.00

The haircut requirements for the respective underlying collateral types for our repurchase agreements have not significantly changed since December 31, 2012.

During 2013, the financial market environment was impacted by continued accommodative monetary policy. Repurchase agreement funding for both Agency MBS and Non-Agency MBS has been available to us at generally attractive market terms from multiple counterparties. Typically, due to the credit risk inherent to Non-Agency MBS, repurchase agreement funding involving Non-Agency MBS is available from fewer counterparties, at terms requiring higher collateralization and higher interest rates, than does repurchase agreement funding secured by Agency MBS and U.S. Treasury securities. Therefore, we generally expect to be able to finance our acquisitions of Agency MBS (which we expect will continue to comprise the majority of our assets) on more favorable terms than financing for Non-Agency MBS.

We maintain cash and cash equivalents, unpledged Agency MBS and collateral in excess of margin requirements held by our counterparties (or collectively, our Cushion) to meet routine margin calls and protect against unforeseen reductions in our borrowing capabilities. Our ability to meet future margin calls will be impacted by our Cushion, which varies based on the market value of our securities, 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, 2013, we had a total of $10.2 billion of MBS and U.S. Treasury securities and $37.5 million of restricted cash pledged against our repurchase agreements and Swaps. At December 31, 2013, we had a Cushion of $970.9 million available to meet potential margin calls, comprised of cash and cash equivalents of $565.4 million, unpledged Agency MBS of $369.1 million, and excess Agency MBS collateral of $36.4 million. In addition, at December 31, 2013, we had unpledged Non-Agency MBS with a fair value of $53.4 million and Non-Agency MBS with a fair value of $245.3 million pledged in excess of contractual requirements.

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The table below presents certain information about our borrowings under repurchase agreements and securitized debt:

	Repurchase Agreements			Securitized Debt				
Quarter Ended (1)	Quarterly Average Balance	End of Quarter Balance	Maximum Balance at Any Month-End	Quarterly Average Balance	End of Quarter Balance		Maximum Balance at Any Month-End	
(In Thousands)								
December 31, 2013	$8,462,138	$ 8,339,297	$ 8,504,593	$399,762	$366,205		$ 398,384	
September 30, 2013	8,679,410	8,568,171	8,721,573	440,665	419,693		462,207	
June 30, 2013	8,842,018	8,909,283	8,909,283	505,409	443,748		508,893	
March 31, 2013	8,873,852	8,902,827	8,956,951	606,858	542,014		609,707	
December 31, 2012	8,841,994	8,752,472	8,966,468	712,259	646,816		718,326	
September 30, 2012	8,741,020	8,832,326	8,832,326	819,361	749,471		821,256	
June 30, 2012	7,961,497	8,368,407	8,368,407	931,045	861,255		935,051	
March 31, 2012	7,772,000	7,908,932	7,908,932	949,868	967,422	(2)	1,000,787	
December 31, 2011	7,969,178	7,813,159	7,996,749	929,836	875,520		932,239	
September 30, 2011	8,007,343	8,017,663	8,084,098	1,026,701	958,406		1,027,701	
June 30, 2011	7,742,223	7,870,251	7,870,251	731,091	1,062,040	(3)	1,062,040	(3)
March 31, 2011	6,600,592	7,652,713	(4) 7,652,713	440,814	663,367	(5)	680,794	(5)

(1) The information presented in the table above excludes Senior Notes issued in April 2012. The outstanding balance of Senior Notes has been unchanged at $100.0 million since issuance.
(2) The higher end of the period balance reflects the securitized debt from our resecuritization transactions in February 2012.
(3) The higher end of the period balance reflects the securitized debt from our resecuritization transactions in June 2011.
(4) On March 11, 2011, the Company raised net equity of approximately $605.0 million, which was invested on a leveraged basis and, as a result, increased the Company's borrowings under repurchase agreements.
(5) Reflects securitized debt from our resecuritization transactions in February 2011 and October 2010.

Cash Flows and Liquidity For the Year Ended December 31, 2013

Our cash and cash equivalents increased by $164.1 million during the year ended December 31, 2013, reflecting: $1.601 billion provided by our investing activities, primarily from payments on our MBS; $298.1 million provided by our operating activities; and $1.735 billion used by our financing activities.

At December 31, 2013, our debt-to-equity multiple was 2.9x, compared to 3.0x at December 31, 2012. At December 31, 2013, we had borrowings under repurchase agreements of $8.339 billion with 26 counterparties, of which $5.750 billion was secured by Agency MBS, $2.207 billion was secured by Non-Agency MBS and $382.7 million was secured by U.S. Treasuries. In addition, at such date, we had $102.7 million of borrowings under repurchase agreements that were a component of our Linked Transactions. (See Note 5 to the consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.) We continue to have available capacity under our repurchase agreement credit lines. At December 31, 2012, we had borrowings under repurchase agreements of $8.752 billion with 26 counterparties and had borrowings under repurchase agreements of $35.3 million that were a

component of our Linked Transactions.

At December 31, 2013, outstanding securitized debt was $366.2 million, which had a weighted average expected remaining term of 0.74 years. During the year ended December 31, 2013, securitized debt was reduced by principal payments of $409.6 million. During 2013, the principal balance for the DMSI 2010-RS2 Senior Bond (A1 tranche) was paid off and the A2 and A3 tranches were sold to third parties for aggregate proceeds of $129.3 million.

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During 2013, we issued 8.0 million shares of our Series B Preferred Stock in an underwritten public offering. The aggregate net proceeds to us from the offering of the Series B Preferred Stock were approximately $193.3 million, after deducting the underwriting discount and estimated offering expenses. A portion of such net proceeds were used during 2013 to redeem all 3,840,000 outstanding shares of our Series A Preferred Stock at an aggregate redemption price of approximately $97.0 million, or $25.27153 per share, including all accrued and unpaid dividends to the redemption date. (See Note 11 to the accompanying consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.)

During 2013, we received $1.601 billion through our investing activities. We received cash of $2.771 billion from prepayments and scheduled amortization on our MBS portfolio, of which $1.846 billion was attributable to Agency MBS and $924.4 million was from Non-Agency MBS. We purchased $1.411 billion of Agency MBS and $333.4 million of Non-Agency MBS funded with cash and repurchase agreement borrowings. While we generally intend to hold our MBS as long-term investments, we may sell certain MBS in order to manage our interest rate risk and liquidity needs, meet other operating objectives and adapt to market conditions. In addition, we sold certain of our Non-Agency MBS and U.S. Treasury securities for $574.9 million, realizing net gains of $25.8 million.

In connection with our repurchase agreement borrowings and Swaps, 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 for MBS; (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 securities and/or cash.

The table below summarizes our margin activity with respect to our repurchase agreement financings (including underlying Linked Transactions) and derivative hedging instruments for the quarterly periods presented:

	Collateral Pledged to Meet Margin Calls			Cash and Securities Received For Reverse Margin Calls	Net Assets Received/ (Pledged) For Margin Activity
For the Quarter Ended	Fair Value of Securities Pledged	Cash Pledged	Aggregate Assets Pledged For Margin Calls		
(In Thousands)					
December 31, 2013	$282,521	$8,500	$291,021	$242,652	$(48,369)
September 30, 2013	395,970	61,400	457,370	506,703	49,333
June 30, 2013	421,744	2	421,746	294,067	(127,679)
March 31, 2013	631,265	—	631,265	575,083	(56,182)

We are subject to various financial covenants under our repurchase agreements and derivative contracts, which include minimum net worth and/or profitability requirements, maximum debt-to-equity ratios and minimum market capitalization requirements. We have maintained compliance with all of our financial covenants to date.

During 2013, we paid $594.8 million for cash dividends on our common stock and DERs which included (i) a special cash dividend paid on April 10, 2013 of $0.50 per share of common stock, or $179.9 million, including DERs of approximately $641,000 and (ii) a special cash dividend paid on August 30, 2013 of $0.28 per share of common stock, or $102.2 million, including DERs of approximately $355,000. In addition, during 2013, we paid cash dividends of $13.8 million on our preferred stock. On December 11, 2013, we declared our fourth quarter 2013 dividend on our common stock of $0.20 per share; on January 31, 2014, we paid this dividend, which totaled $73.2 million, including DERs of approximately $169,000.

We believe that we have adequate financial resources to meet our current obligations, including margin calls, as they come due, to fund dividends we declare and to actively pursue our investment strategies. However, should the value of our MBS suddenly decrease, significant margin calls on our repurchase agreement borrowings could result and our liquidity position could be materially and adversely affected. Further, should market liquidity tighten, our repurchase agreement counterparties may increase our margin requirements on new financings, reducing our ability to use leverage. Access to financing may also be negatively impacted by the ongoing volatility in the world financial markets, potentially adversely impacting our current or potential lenders' ability or willingness to provide us with financing. In addition, there is no assurance that favorable market conditions will continue permit us to consummate additional securitization transactions if we determine to seek that form of financing.

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OFF-BALANCE SHEET ARRANGEMENTS

We do not have any material off-balance-sheet arrangements. Our Linked Transactions are comprised of MBS, associated repurchase agreements and interest receivable/payable on such accounts. The extent to which these transactions become unlinked in the future, the underlying MBS and the borrowings under repurchase agreements and associated interest income and expense will be presented on a gross basis on our consolidated balance sheet and statement of operations, prospectively. (See page 47 for information about our leverage multiple and Note 5 to the accompanying consolidated financial statements, included under Item 8 of this Annual Report on Form 10-K.)

AGGREGATE CONTRACTUAL OBLIGATIONS

The following table summarizes the effect on our liquidity and cash flows of contractual obligations for the principal and interest amounts due at December 31, 2013:

	Due During the Year Ending December 31,						
(In Thousands)	2014	2015	2016	2017	2018	Thereafter	Total
Repurchase agreements	$8,097,772	$241,525	$—	$—	$—	$—	$8,339,297
Interest expense on repurchase agreements (1)	18,240	19,615	36,018	—	—	—	73,873
Linked Transactions (2)	102,923	—	—	—	—	—	102,923
Securitized debt (3)	40,185	48,112	53,151	63,797	43,081	116,155	364,481
Interest expense on securitized debt (1)	8,719	8,377	8,229	7,353	5,737	12,134	50,549
Senior Notes (4)	—	—	—	—	—	100,000	100,000
Interest expense on Senior Notes (1)	8,000	8,000	8,000	8,000	8,000	187,911	227,911
Payable for unsettled purchases	6,737	—	—	—	—	—	6,737
Long-term lease obligations	2,382	2,397	2,552	2,522	2,522	3,572	15,947
Total	$8,284,958	$328,026	$107,950	$81,672	$59,340	$419,772	$9,281,718

(1) Interest expense based on the interest rate in effect at December 31, 2013.
(2) Reflect payments of principal and interest due on repurchase agreements that are a component of our Linked Transactions.
(3) Securitized debt is contractually scheduled to mature by December 2024. However, the weighted average life of the securitized debt is estimated to be 0.74 years assuming a 11.1% weighted average CPR. Excludes $1.7 million of premium on securitized debt issued.
(4) Senior Notes mature April 2042 but may be redeemed, in whole or in part, at any time on or after April 15, 2017.

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INFLATION

Substantially all of our assets and liabilities are financial in nature. As a result, changes in interest rates and other factors impact our performance far more than does inflation. Our financial statements are prepared in accordance with GAAP and dividends declared are based upon net ordinary income as calculated for tax purposes. In each case, our results of operations and reported assets, liabilities and equity are measured with reference to historical cost or fair value without considering inflation.

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,” “ 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: changes in interest rates and the market value of our MBS; changes in the prepayment rates on the mortgage loans securing our MBS, an increase of which could result in a reduction of the yield on MBS in our portfolio and an increase of which could require us to reinvest the proceeds received by us as a result of such prepayments in MBS with lower coupons; changes in the default rates and management’s assumptions regarding default rates on the mortgage loans securing our Non-Agency MBS; 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 Non-Agency MBS and the extent of prepayments, realized losses and changes in the composition of our Agency MBS and Non-Agency MBS portfolios that may occur during the applicable tax period, including gain or loss on any MBS disposals; the timing and amount of distributions to stockholders, which are declared and paid at the discretion of our Board of Directors 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 qualification as a REIT for federal income tax purposes; our ability to maintain our exemption from registration under 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 in engaged in the business of acquiring mortgages and mortgage-related interests; 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 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)

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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 hedged with Swaps. We are exposed to interest rate risk on our assets, both Agency and Non-Agency MBS, and our liabilities, repurchase agreements and securitized debt. Changes in interest rates can affect our net interest income and the fair value of our assets and liabilities.

We finance the majority of our investments in Agency and Non-Agency MBS with short-term repurchase agreements. In general, the borrowing cost of our repurchase agreements changes more quickly, including the impact of Swaps, than the yield on our assets when interest rates change. In a rising interest rate environment the borrowing cost of our repurchase agreements may increase faster than the interest income on our assets, lowering our net income. In order to mitigate compression in net income based on such interest rate movements, we use Swaps and other hedging instruments to lock in a portion of the net interest spread between assets and liabilities.

The fair value of our MBS assets could change at a different rate than the fair value of our liabilities when interest rates change. 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 and other hedging instruments to reduce the gap in duration between our assets and liabilities.

In calculating the duration of our Agency MBS we take into account the characteristics of the underlying mortgage loans including whether the underlying loans are fixed rate, adjustable or hybrid; coupon, expected prepayment rates and lifetime and periodic caps. We use third-party financial models, combined with management's assumptions and observed empirical data when estimating the duration of our Agency MBS.

Over the past few years, as the expected yields on Non-Agency MBS were significantly greater than expected yields on non-credit sensitive assets, changes in Non-Agency MBS prices were generally not highly correlated to changes in market interest rates. We believe that this low sensitivity to increases in interest rates was due to the fact that periods of rising interest rates had been generally accompanied by an improvement in economic expectations and therefore, more positive scenarios for Non-Agency MBS. Also, wide risk premiums for Non-Agency MBS meant that spreads could tighten to allow Non-Agency MBS to retain value despite increases in interest rates.

Non-Agency prices have generally trended up during the last eight quarters. As with other financial assets, this has been driven by very accommodative Federal Reserve monetary policy. It has also been driven by strong mortgage credit fundamentals with increasing home prices, declining defaults, stable severities and higher voluntary prepayment rates.

At these higher prices and therefore lower yields, we believe that our Non-Agency MBS have become more interest rate sensitive and now exhibit positive duration. In analyzing the interest rate sensitivity of our Non-Agency MBS we take into account the characteristics of the underlying mortgage loans including credit quality and whether the underlying loans are fixed-rate, adjustable or hybrid. We estimate the duration of our Non-Agency MBS using management's assumptions.

We use Swaps as part of our overall interest rate risk management strategy. Such derivative financial instruments are intended to act as a hedge against future interest rate increases on our repurchase agreement financings, which rates are typically highly correlated with LIBOR. While our derivatives do not extend the maturities of our borrowings under repurchase agreements, they do, however, in effect, lock in a fixed rate of interest over their term for a

corresponding amount of our repurchase agreements that are hedged. In addition to Swaps, we have entered into TBA short positions as a means of managing interest rate risk and MBS basis risk associated with our investment and financing activities.

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At December 31, 2013, MFA's $11.502 billion of Agency MBS and Non-Agency MBS, which includes MBS underlying Linked Transactions, were backed by Hybrid, adjustable and fixed-rate mortgages. Additional information about these MBS, including months to reset and three-month average CPR, is presented below:

	Agency MBS			Non-Agency MBS			Total		
Time to Reset	Fair Value	Average Months to Reset (1)	Average CPR (2)	Fair Value	Average Months to Reset (1)	Average CPR (2)	Fair Value	Average Months to Reset (1)	Average CPR (2)
(Dollars in Thousands)									
< 2 years (3)	$1,994,323	10	16.3 %	$3,072,603	4	12.3 %	$5,066,926	6	13.8 %
2-5 years	1,155,070	43	18.5	410,635	35	22.6	1,565,705	41	19.7
> 5 years	909,762	76	12.1	—	—	—	909,762	76	12.1
ARM-MBS Total	$4,059,155	34	15.9 %	$3,483,238	8	13.6 %	$7,542,393	22	14.8 %
15-year fixed (4)	$2,460,066		8.8 %	$16,756		18.6 %	$2,476,822		8.1 %
30-year fixed (4)	—		—	1,477,099		15.1	1,477,099		15.1
40-year fixed (4)	—		—	5,834		10.5	5,834		10.5
Fixed-Rate Total	$2,460,066		8.8 %	$1,499,689		15.1 %	$3,959,755		10.6 %
MBS Total	$6,519,221		12.9 %	$4,982,927		14.0 %	$11,502,148		13.4 %

(1) Months to reset is the number of months remaining before the coupon interest rate resets. At reset, the MBS coupon will adjust based upon the underlying benchmark interest rate index, margin and periodic or lifetime caps. The months to reset do not reflect scheduled amortization or prepayments.
(2) Average CPR weighted by positions as of the beginning of each month in the quarter.
(3) Includes floating rate MBS that may be collateralized by fixed-rate mortgages.
(4) Information presented based on data available at time of loan origination.

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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 derivative hedging instruments, over the next 12 months based on the assets in our investment portfolio at December 31, 2013 and December 31, 2012. All changes in income and value are measured as the percentage change from the projected net interest income and portfolio value at the base interest rate scenario at December 31, 2013 and 2012.

December 31, 2013

Change in Interest Rates	Estimated Value of Assets (1)	Estimated Value of Derivative Hedging Instruments	Estimated Value of Financial Instruments Carried at Fair Value	Estimated Change in Fair Value	Percentage Change in Net Interest Income (2)	Percentage Change in Portfolio Value
(Dollars in Thousands)						
+100 Basis Point Increase	$11,792,815	$135,505	$11,928,320	$(123,981)	(0.94)%	(1.03)%
+ 50 Basis Point Increase	$11,934,159	$60,144	$11,994,303	$(57,998)	(0.67)%	(0.48)%
Actual at December 31, 2013	$12,067,518	$(15,217)	$12,052,301	$—	—	—
- 50 Basis Point Decrease	$12,192,892	$(90,577)	$12,102,315	$50,014	(2.34)%	0.41 %
-100 Basis Point Decrease	$12,310,282	$(165,938)	$12,144,344	$92,043	(8.58)%	0.76 %

December 31, 2012

Change in Interest Rates	Estimated Value of Assets (1)	Estimated Value of Derivative Hedging Instruments	Estimated Value of Financial Instruments Carried at Fair Value	Estimated Change in Fair Value	Percentage Change in Net Interest Income (2)	Percentage Change in Portfolio Value
(Dollars in Thousands)						
+100 Basis Point Increase	$12,503,450	$(29,802)	$12,473,648	$(118,975)	(7.71)%	(0.95)%
+ 50 Basis Point Increase	$12,586,943	$(46,316)	$12,540,627	$(51,996)	(4.00)%	(0.41)%
Actual at December 31, 2012	$12,655,453	$(62,830)	$12,592,623	$—	—	—
- 50 Basis Point Decrease	$12,708,979	$(79,344)	$12,629,635	$37,012	(0.19)%	0.29 %
-100 Basis Point Decrease	$12,747,521	$(95,858)	$12,651,663	$59,040	(5.94)%	0.46 %

(1) Such assets include MBS, including linked MBS that are reported as a component of our Linked Transactions on our consolidated balance sheets, and cash and cash equivalents. Such linked MBS may not be linked in future periods.
(2) Includes underlying interest income and interest expense associated with MBS and repurchase agreement borrowings underlying our Linked Transactions. Such MBS and repurchase agreements may not be linked in future periods.

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, 2013 and December 31, 2012. The analysis presented utilizes assumptions and estimates based on management's judgment and experience. Furthermore, while we generally expect to retain the majority of such 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 Securities Act of 1933, as amended (or 1933 Act) and Section 21E of the Securities Exchange Act of 1934, as amended (or 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 derivative hedging instruments (which are carried at fair value), should interest rates immediately change (i.e., 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 of MBS 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 on the interest rate sensitive liabilities, which are assumed to be repurchase financings and securitized debt, include anticipated interest rates, collateral requirements as a percent of the repurchase agreement, amount and term of borrowing. At December 31, 2013 and December 31, 2012, 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 our premium amortization on our Agency MBS and discount accretion on our Non-Agency MBS and the reinvestment of

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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 the fair value of our financial instruments and our net interest income to decline.

At December 31, 2013, the impact on portfolio value was approximated using estimated effective duration (i.e., the price sensitivity to changes in interest rates), including the effect of derivative hedging instruments, of 0.90 which is the weighted average of 2.84 for our Agency MBS, 1.48 for our Non-Agency MBS, (3.74) for our derivative hedging instruments and zero for our cash and cash equivalents. Estimated convexity (i.e., the approximate change in duration relative to the change in interest rates) of the portfolio was (0.26), which is the weighted average of (0.49) for our Agency MBS, zero for our derivative hedging instruments, zero for our Non-Agency MBS and zero for our cash and cash equivalents. At December 31, 2012, the impact on portfolio value was approximated using a calculated effective duration (i.e., the price sensitivity to changes in interest rates), including the effect of derivative hedging instruments, of 0.70, which is the weighted average of 1.69 for our Agency MBS, (1.34) for our derivative hedging instruments and zero for our Non-Agency MBS, and expected convexity (i.e., the approximate change in duration relative to the change in interest rates) of (0.47), which is the weighted average of (0.83) for our Agency MBS, zero for our derivative hedging instruments and zero for our Non-Agency MBS. The impact on our net interest income is driven mainly by the difference between portfolio yield and cost of funding of our repurchase agreements (including those underlying our Linked Transactions), which includes the cost and/or benefit from derivative hedging instruments. 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.

MARKET VALUE RISK

Our MBS are designated as "available-for-sale" and, as such, are reported at their fair value. The difference between amortized cost and fair value of our MBS is reflected in AOCI, a component of stockholders' equity, except that credit related impairments that are identified as other-than-temporary are recognized through earnings. Changes in the fair value of our Linked Transactions are reported in earnings. At December 31, 2013, our investment portfolio was comprised of Agency MBS and Non-Agency MBS. While changes in the fair value of our Agency MBS are generally not credit-related, changes in the fair value of our Non-Agency MBS and Linked Transactions may reflect both market and interest rate conditions as well as credit risk. At December 31, 2013, our Non-Agency MBS had a fair value of $4.852 billion and an amortized cost of $4.114 billion, comprised of gross unrealized gains of $742.3 million and gross unrealized losses of $3.7 million. At December 31, 2013, our Linked Transactions included MBS with a fair value of $130.8 million, including net unrealized gains of $4.3 million, which have been reflected through earnings to date as a component of unrealized net gains and net interest income from Linked Transactions.

Generally, in a rising interest rate environment, the fair value of our MBS would be expected to decrease; conversely, in a decreasing interest rate environment, the fair value of such MBS would be expected to increase. If the fair value of our MBS collateralizing our repurchase agreements decreases, we may receive margin calls from our repurchase agreement counterparties for additional MBS collateral or cash due to such decline. If such margin calls are not met, our lender could liquidate the securities collateralizing our repurchase agreements with such lender, potentially resulting in a loss to us. To avoid forced liquidations, we could apply a strategy of reducing borrowings and assets, by selling assets or not replacing securities as they amortize and/or prepay. Such an action would likely reduce our 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 price at which such assets are sold. Such a decrease in our net interest income could negatively impact cash available for dividend distributions, which in turn could reduce the market price of our issued and outstanding common stock and preferred stock.

In evaluating our asset/liability management and Non-Agency MBS credit performance, we consider the credit characteristics underlying our Non-Agency MBS, including those that are a component of our Linked Transactions. The following table presents certain information about our Non-Agency MBS portfolio and Non-Agency MBS underlying our Linked Transactions at December 31, 2013. Information presented with respect to weighted average Fair Isaac Corporation (or FICO) scores and other information aggregated based on information reported at the time of mortgage origination are historical and, as such, does not reflect the impact of the general decline in home prices or changes in a borrower's credit score or the current use of the mortgaged property.

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The information in the table below is presented as of December 31, 2013:

	Securities with Average Loan FICO of 715 or Higher (1)			Securities with Average Loan FICO Below 715 (1)			
Year of Securitization (2)	2007	2006	2005 and Prior	2007	2006	2005 and Prior	Total
(Dollars in Thousands)							
Number of securities	104	91	105	16	44	56	416
MBS current face (3)	$1,730,621	$1,192,808	$1,269,762	$192,839	$620,208	$648,108	$5,654,346
Total purchase discounts, net (3)	$(450,798)	$(356,431)	$(245,490)	$(72,717)	$(222,255)	$(161,917)	$(1,509,608)
Purchase discount designated as Credit Reserve and OTTI (4)	$(336,850)	$(208,065)	$(119,031)	$(51,990)	$(219,770)	$(112,052)	$(1,047,758)
Purchase discount designated as Credit Reserve and OTTI as percentage of current face	19.5%	17.4%	9.4%	27.0%	35.4%	17.3%	18.5%
MBS amortized cost (3)	$1,279,823	$836,377	$1,024,272	$120,122	$397,953	$486,191	$4,144,738
MBS fair value (3)	$1,496,951	$1,019,060	$1,158,146	$154,044	$481,697	$577,629	$4,887,527
Weighted average fair value to current face	86.5%	85.4%	91.2%	79.9%	77.7%	89.1%	86.4%
Weighted average coupon (5)	4.51%	3.63%	3.36%	4.09%	4.65%	4.18%	4.03%
Weighted average loan age (months) (5)(6)	81	90	104	85	91	105	92
Weighted average current loan size (5)(6)	$538	$513	$341	$445	$283	$287	$429
Percentage amortizing (7)	36%	58%	62%	45%	56%	68%	53%
Weighted average FICO score at origination (5)(8)	733	729	727	704	704	705	723
Owner-occupied loans	89.9%	89.3%	85.9%	79.0%	84.8%	83.4%	87.2%
Rate-term refinancings	27.8%	19.0%	15.7%	19.8%	15.9%	13.7%	20.0%
Cash-out refinancings	32.7%	33.7%	26.2%	44.3%	41.2%	37.2%	33.3%
3 Month CPR (6)	17.9%	14.4%	12.7%	8.0%	12.1%	12.8%	14.4%
3 Month CRR (6)(9)	14.3%	12.2%	9.3%	5.4%	6.4%	9.1%	11.0%
3 Month CDR (6)(9)	3.8%	2.5%	2.7%	2.6%	5.3%	3.9%	3.4%
3 Month loss severity	47.8%	48.0%	52.3%	63.8%	57.6%	44.7%	50.3%

60+ days delinquent (8)	16.0	% 15.9	% 12.9	% 23.9	% 24.2	% 16.7	% 16.5	%
Percentage of always current borrowers (Lifetime) (10)	47.2	% 46.7	% 52.7	% 36.1	% 32.4	% 39.4	% 45.4	%
Percentage of always current borrowers (12M) (11)	70.9	% 71.7	% 75.7	% 61.2	% 59.0	% 65.4	% 69.9	%
Weighted average credit enhancement (8)(12)	0.5	% 1.5	% 5.3	% 0.5	% 0.9	% 6.6	% 2.5	%

(1) FICO score is used by major credit bureaus to indicate a borrower's creditworthiness at time of loan origination.
(2) Information presented based on the initial year of securitization of the underlying collateral. Certain of our Non-Agency MBS have been resecuritized. The historical information presented in the table is based on the initial securitization date and data available at the time of original securitization (and not the date of resecuritization). No information has been updated with respect to any MBS that have been resecuritized.
(3) Excludes Non-Agency MBS issued in 2013 in which the underlying collateral consists of re-performing loans that were originated in prior years. These Non-Agency MBS are a component of our re-performing deals and have a current face of $96.1 million, amortized cost of $95.4 million, fair value of $95.4 million and purchase discounts of $763,000 at December 31, 2013.
(4) Purchase discounts designated as Credit Reserve and OTTI are not expected to be accreted into interest income.
(5) Weighted average is based on MBS current face at December 31, 2013.
(6) Information provided is based on loans for individual groups owned by us.
(7) Percentage of face amount for which the original mortgage note contractually calls for principal amortization in the current period.
(8) Information provided is based on loans for all groups that provide credit enhancement for MBS with credit enhancement.
(9) CRR represents voluntary prepayments and CDR represents involuntary prepayments.
(10) Percentage of face amount of loans for which the borrower has not been delinquent since origination.
(11) Percentage of face amount of loans for which the borrower has not been delinquent in the last twelve months.
(12) Credit enhancement for a particular security is expressed as a percentage of all outstanding mortgage loan collateral. A particular security will not be subject to principal loss as long as its credit enhancement is greater than zero. As of December 31, 2013, a total of 255 Non-Agency MBS in our portfolio representing approximately $3.774 billion or 67% of the current face amount of the portfolio had no credit enhancement.

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The mortgages securing our Non-Agency MBS are located in many geographic regions across the United States. The following table presents the six largest geographic concentrations of the mortgages collateralizing our Non-Agency MBS, including Non-Agency MBS underlying our Linked Transactions, at December 31, 2013:

Property Location	Percent	
Southern California	28.1	%
Northern California	17.1	%
Florida	8.0	%
New York	5.2	%
Virginia	3.8	%
Maryland	3.3	%

LIQUIDITY RISK

The primary liquidity risk we face arises from financing long-maturity assets with shorter-term borrowings primarily in the form of repurchase agreements. We pledge MBS and cash to secure our repurchase agreements, including repurchase agreements that are reported as a component to our Linked Transactions, and Swaps. At December 31, 2013, we had a Cushion of $970.9 million available to meet potential margin calls, comprised of cash and cash equivalents of $565.4 million, unpledged Agency MBS of $369.1 million and Agency MBS with a fair value of $36.4 million pledged in excess of contractual requirements. In addition, at December 31, 2013, we had unpledged Non-Agency MBS with a fair value of $53.4 million and Non-Agency MBS with a fair value of $245.3 million pledged in excess of contractual requirements. Should the value of our MBS pledged as collateral suddenly decrease, margin calls relating to our repurchase agreements could increase, causing an adverse change in our liquidity position. As such, we cannot be assured that we will always be able to roll over our repurchase agreements. Further, should market liquidity tighten, our repurchase agreement counterparties may increase our margin requirements on new financings, including repurchase agreement borrowings that we roll with the same counterparty, reducing our ability to use leverage.

CREDIT RISK

Although we do not believe that we are exposed to credit risk in our Agency MBS portfolio, we are exposed to credit risk in our Non-Agency MBS portfolio. In the event of the return of less than 100% of par on our Non-Agency MBS, credit support contained in the MBS deal structures and the discount purchase prices we paid mitigate our risk of loss on these investments. Over time, we expect the level of credit support remaining in MBS deal structures to decrease, which will result in an increase in the amount of realized credit loss experienced by our Non-Agency MBS portfolio. Our Non-Agency investment process involves analysis focused primarily on quantifying and pricing credit risk. When we purchase Non-Agency MBS, we assign certain assumptions to each of the MBS, including but not limited to, future interest rates, voluntary prepayment rates, mortgage modifications, default rates and loss severities, and generally allocate a portion of the purchase discount as a Credit Reserve which provides credit protection for such securities. As part of our surveillance process, we review our Non-Agency MBS by tracking their actual performance compared to the security's expected performance at purchase or, if we have modified our original purchase assumptions, compared to our revised performance expectations. To the extent that actual performance of a Non-Agency MBS is less favorable than the expected performance of the security, we may revise our performance expectations. As a result, we could reduce the accretable discount on such security and/or recognize an other-than-temporary impairment through earnings, which could have a material adverse impact on our operating results. In addition, as discussed in Part I, Item 1A., "Risk Factors," and in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of this Annual Report on Form 10-K, we are potentially exposed to repurchase agreement counterparties should they default on their obligations and we are unable to recover any excess collateral pledged to them.

PREPAYMENT AND REINVESTMENT RISK

Premiums arise when we acquire MBS at a price in excess of the principal balance of the mortgages securing such MBS (i.e., par value). Conversely, discounts arise when we acquire MBS at a price below the principal balance of the mortgages securing such MBS. Premiums paid on our MBS are amortized against interest income and accretable purchase discounts on our MBS are accreted to interest income. Purchase premiums on our MBS, which are primarily carried on our Agency MBS, are amortized against interest income over the life of each security 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 yield/interest income earned on such assets. Generally, if prepayments on our Non-Agency MBS are less than anticipated, we expect that the income recognized on such assets would be reduced and impairments could result.

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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.

Financial statements of subsidiaries have been omitted because such entities do not individually or in the aggregate exceed the 20% threshold under either the investment or income tests. The Company owns 100% of each of its subsidiaries.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
MFA Financial, Inc.:

We have audited the accompanying consolidated balance sheets of MFA Financial, Inc. and subsidiaries (the Company) as of December 31, 2013 and 2012, and 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, 2013. 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of MFA Financial, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2013, 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), the Company's internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 13, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

New York, New York
February 13, 2014

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MFA FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Per Share Amounts)	December 31, 2013	December 31, 2012
Assets:		
Mortgage-backed securities ("MBS"):		
Agency MBS, at fair value ($6,142,306 and $6,747,299 pledged as collateral, respectively)	$6,519,221	$7,225,460
Non-Agency MBS, at fair value ($1,778,067 and $1,602,953 pledged as collateral, respectively)	2,569,766	2,762,006
Non-Agency MBS transferred to consolidated variable interest entities ("VIEs") (1)	2,282,371	2,620,159
Securities obtained and pledged as collateral, at fair value	383,743	408,833
Cash and cash equivalents	565,370	401,293
Restricted cash	37,520	5,016
Interest receivable	35,828	44,033
Derivative instruments:		
MBS linked transactions, net ("Linked Transactions"), at fair value	28,181	12,704
Derivative hedging instruments, at fair value	13,000	203
Goodwill	7,189	7,189
Prepaid and other assets	29,719	30,654
Total Assets	$12,471,908	$13,517,550
Liabilities:		
Repurchase agreements	$8,339,297	$8,752,472
Securitized debt (2)	366,205	646,816
Obligation to return securities obtained as collateral, at fair value	383,743	508,827
8% Senior Notes due 2042 ("Senior Notes")	100,000	100,000
Accrued interest payable	14,726	16,104
Derivative hedging instruments, at fair value	28,217	63,034
Dividends and dividend equivalents rights ("DERs") payable	73,643	72,222
Payable for unsettled purchases	6,737	33,479
Excise tax and interest payable	6,398	7,500
Accrued expenses and other liabilities	10,691	6,090
Total Liabilities	$9,329,657	$10,206,544
Commitments and contingencies (Note 10)		
Stockholders' Equity:		
Preferred stock, $.01 par value; 8.50% Series A cumulative redeemable 5,000 shares authorized; 0 and 3,840 shares issued and outstanding, respectively ($0 and $96,000 aggregate liquidation preference, respectively)	$—	$38
Preferred stock, $.01 par value; 7.50% Series B cumulative redeemable 8,050 and 0 shares authorized; 8,000 and 0 shares issued and outstanding, respectively ($200,000 and $0 aggregate liquidation preference, respectively)	80	—
Common stock, $.01 par value; 886,950 and 895,000 shares authorized; 365,125 and 357,546 shares issued and outstanding, respectively	3,651	3,575
Additional paid-in capital, in excess of par	2,972,369	2,805,724
Accumulated deficit	(571,544)	(260,308)
Accumulated other comprehensive income	737,695	761,977

Total Stockholders' Equity	$3,142,251	$3,311,006
Total Liabilities and Stockholders' Equity	$12,471,908	$13,517,550

(1) Non-Agency MBS transferred to consolidated VIEs represent assets of consolidated VIEs that can be used only to settle the obligations of each respective VIE.
(2) Securitized Debt represents third-party liabilities of consolidated VIEs and excludes liabilities of the VIEs acquired 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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MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Amounts)	For the Year Ended December 31, 2013	2012	2011
Interest Income:			
Agency MBS	$156,046	$196,058	$241,994
Non-Agency MBS	170,485	134,901	101,054
Non-Agency MBS transferred to consolidated VIEs	156,285	168,071	153,563
Cash and cash equivalent investments	124	127	136
Interest Income	$482,940	$499,157	$496,747
Interest Expense:			
Repurchase agreements	$143,885	$148,767	$137,739
Securitized debt	12,100	17,106	11,672
Senior Notes	8,028	5,797	—
Total Interest Expense	$164,013	$171,670	$149,411
Net Interest Income	$318,927	$327,487	$347,336
Other-Than-Temporary Impairments:			
Total other-than-temporary impairment losses	$—	$(879)	$(45,144)
Portion of loss (reclassed from)/recognized in other comprehensive income/(loss)	—	(321)	34,574
Net Impairment Losses Recognized in Earnings	$—	$(1,200)	$(10,570)
Other Income, net:			
Unrealized net gains and net interest income from Linked Transactions	$3,225	$12,610	$3,015
Losses on TBA short positions	(7,517)	—	—
Gain on sales of MBS and U.S. Treasury securities, net	25,825	9,001	6,730
Revenue from operations of real estate held-for-sale	—	—	1,566
Gain on sale of properties, net	—	—	430
Other, net	219	10	(914)
Other Income, net	$21,752	$21,621	$10,827
Operating and Other Expense:			
Compensation and benefits	$20,328	$22,089	$18,959
Other general and administrative expense	13,361	11,480	11,250
Excise tax and interest	2,250	7,500	—
Impairment of resecuritization related costs	2,031	—	—
Real estate held-for-sale operating expense	—	—	970
Operating and Other Expense	$37,970	$41,069	$31,179
Net Income	$302,709	$306,839	$316,414
Less Preferred Stock Dividends	13,750	8,160	8,160
Less Issuance Costs of Redeemed Preferred Stock	3,947	—	—
Net Income Available to Common Stock and Participating Securities	$285,012	$298,679	$308,254

Earnings per Common Share - Basic and Diluted	$0.78	$0.83	$0.90

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

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

(In Thousands)	For the Year Ended December 31, 2013	2012	2011
Net Income	$302,709	$306,839	$316,414
Other Comprehensive Income/(Loss):			
Unrealized (loss)/gain on Agency MBS, net	(186,568)	(7,820)	61,149
Unrealized gain/(loss) on Non-Agency MBS, net	134,505	785,830	(381,410)
Reclassification adjustment for MBS sales included in net income	(19,833)	(7,493)	(7,500)
Reclassification adjustment for other-than-temporary impairments included in net income	—	(1,200)	(10,570)
Unrealized gain on derivative hedging instruments, net	47,614	51,363	24,948
Other Comprehensive (Loss)/Income	(24,282)	820,680	(313,383)
Comprehensive Income before preferred stock dividends and issuance costs of redeemed preferred stock	$278,427	$1,127,519	$3,031
Dividends declared on preferred stock	(13,750)	(8,160)	(8,160)
Issuance costs of redeemed preferred stock	(3,947)	—	—
Comprehensive Income/(Loss) Available to Common Stock and Participating Securities	$260,730	$1,119,359	$(5,129)

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

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

	For the Year Ended December 31,					
	2013		2012		2011	
(In Thousands, Except Per Share Amounts)	Dollars	Shares	Dollars	Shares	Dollars	Shares
Preferred Stock, 8.50% Series A Cumulative Redeemable - Liquidation Preference $25.00 per Share:						
Balance at beginning of year	$38	3,840	$38	3,840	$38	3,840
Redemption of Series A Preferred Stock	(38)	(3,840)	—	—	—	—
Balance at end of year	$—	—	$38	3,840	$38	3,840
Preferred Stock, 7.50% Series B Cumulative Redeemable - Liquidation Preference $25.00 per Share:						
Balance at beginning of year	$—	—	$—	—	$—	—
Issuance of Series B Preferred Stock, net of expenses	80	8,000	—	—	—	—
Balance at end of year	$80	8,000	$—	—	$—	—
Common Stock, Par Value $.01:						
Balance at beginning of year	$3,575	357,546	$3,561	356,112	$2,805	280,481
Issuance of common stock (1)	97	9,855	30	2,966	756	75,631
Repurchase of shares of common stock (1)	(21)	(2,276)	(16)	(1,532)	—	—
Balance at end of year	$3,651	365,125	$3,575	357,546	$3,561	356,112
Additional Paid-in Capital, in excess of Par:						
Balance at beginning of year	$2,805,724		$2,795,925		$2,184,493	
Issuance of common stock, net of expenses (1)	77,528		15,432		607,047	
Redemption of Series A Preferred Stock	(92,015)		—		—	
Issuance of Series B Preferred Stock, net of expenses	193,236		—		—	
Shares issued for common stock option exercises	—		35		—	
Equity-based compensation expense	4,156		6,488		4,385	
Repurchase of shares of common stock (1)	(16,260)		(12,156)		—	
Balance at end of year	$2,972,369		$2,805,724		$2,795,925	
Accumulated Deficit:						
Balance at beginning of year	$(260,308)		$(243,061)		$(191,569)	
Net income	302,709		306,839		316,414	
Dividends declared on common stock	(594,318)		(314,553)		(358,104)	
Dividends declared on preferred stock	(13,750)		(8,160)		(8,160)	
Dividends attributable to DERs	(1,930)		(1,373)		(1,642)	
Issuance costs of redeemed Preferred Stock	(3,947)		—		—	
Balance at end of year	$(571,544)		$(260,308)		$(243,061)	

Accumulated Other Comprehensive Income/(Loss):			
Balance at beginning of year	$761,977	$(58,703)	$254,680
Change in unrealized (losses)/gains on MBS, net	(71,896)	769,317	(338,331)
Change in unrealized gains on derivative hedging instruments, net	47,614	51,363	24,948
Balance at end of year	$737,695	$761,977	$(58,703)
Total Stockholders' Equity at end of the year	$3,142,251	$3,311,006	$2,497,760

(1) For the year ended December 31, 2013, includes approximately $15.4 million (2,143,354 shares) repurchased through the Company's publicly announced stock repurchase program and approximately $849,000 (132,276 shares) surrendered for tax purposes related to equity-based compensation awards. For the year ended December 31, 2012, includes approximately $9.7 million (1,240,291 shares) repurchased through the Company's publicly announced stock repurchase program and approximately $2.5 million (291,803 shares) surrendered for tax purposes related to equity-based compensation awards.

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

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MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,		
(In Thousands)	2013	2012	2011
Cash Flows From Operating Activities:			
Net income	$302,709	$306,839	$316,414
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sales of MBS and U.S. Treasury securities	(25,825)	(9,001)	(6,730)
Other-than-temporary impairment charges	—	1,200	10,570
Accretion of purchase discounts on MBS	(73,447)	(38,263)	(42,419)
Amortization of purchase premiums on MBS	58,207	52,298	38,466
Depreciation and amortization on real estate, fixed assets and other assets	5,831	3,534	2,664
Gain on sale of real estate	—	—	(430)
Equity-based compensation expense	4,158	6,488	4,385
Unrealized (gains)/losses on derivative instruments	(1,111)	(9,593)	14,855
(Increase)/decrease in interest receivable	8,180	(1,160)	(4,622)
(Increase)/decrease in prepaid and other assets	(5,549)	(12,767)	783
Realized loss on TBA short positions	7,517	—	—
Increase/(decrease) in accrued expenses and other liabilities, and excise tax and interest	3,610	3,820	(632)
Increase in accrued interest payable on financial instruments	13,808	6,992	1,105
Net cash provided by operating activities	$298,088	$310,387	$334,409
Cash Flows From Investing Activities:			
Principal payments on MBS	$2,770,710	$2,671,137	$2,291,153
Proceeds from sale of MBS and U.S. Treasury securities	574,869	268,859	150,630
Purchases of MBS	(1,744,605)	(3,589,981)	(4,834,169)
Proceeds from sale of real estate	—	—	11,370
Additions to leasehold improvements, furniture, fixtures and real estate investment	(373)	(443)	(2,343)
Net cash provided by/(used in) investing activities	$1,600,601	$(650,428)	$(2,383,359)
Cash Flows From Financing Activities:			
Principal payments on repurchase agreements	$(69,851,602)	$(63,237,681)	$(54,050,542)
Proceeds from borrowings under repurchase agreements	69,438,427	64,176,994	55,824,734
Proceeds from issuance of securitized debt	129,314	186,691	963,255
Principal payments on securitized debt	(409,606)	(415,395)	(308,668)
Payments made on obligation to return securities obtained as collateral	(246,850)	—	—
Maturity of obligation to return securities obtained as collateral	(275,402)	—	—
Payments made for resecuritization related costs	—	(1,814)	(6,981)
Proceeds from issuance of Senior Notes	—	100,000	—
Payments made for Senior Notes related costs	—	(3,415)	—
Cash disbursements on financial instruments underlying Linked Transactions	(419,802)	(585,393)	(2,327,609)
Cash received from financial instruments underlying Linked Transactions	405,436	462,889	1,710,520
Payments made for margin calls on repurchase agreements and interest rate swaps (“Swaps”)	(69,902)	(2,390)	(19,361)

Proceeds from reverse margin calls on repurchase agreements and Swaps	22,809	12,890	42,914
Payment made to purchase interest rate swaption ("Swaption")	—	—	(915)
Settlement of TBA short positions	(7,517)	—	—
Proceeds from issuances of common stock	77,625	13,038	607,803
Payments made for redemption of Series A Preferred Stock	(96,000)	—	—
Proceeds from issuance of Series B Preferred Stock	200,000	—	—
Payments made for preferred stock offering costs	(6,684)	—	—
Payments made to repurchase common stock	(16,281)	(9,713)	—
Dividends paid on preferred stock	(13,750)	(8,160)	(8,160)
Dividends paid on common stock and DERs	(594,827)	(341,229)	(329,261)
Net cash (used in)/provided by financing activities	$(1,734,612)	$347,312	$2,097,729
Net increase in cash and cash equivalents	$164,077	$7,271	$48,779
Cash and cash equivalents at beginning of period	$401,293	$394,022	$345,243
Cash and cash equivalents at end of period	$565,370	$401,293	$394,022
Supplemental Disclosure of Cash Flow Information:			
Interest paid	$162,186	$161,657	$148,306
Non-cash investing and financing activities:			
MBS recorded upon de-linking of Linked Transactions	$—	$175,194	$773,046
Repurchase agreements recorded upon de-linking of Linked Transactions	$—	$—	$46,698
Net increase in securities obtained as collateral/obligation to return securities obtained as collateral	$401,135	$202,432	$306,401
Dividends and DERs declared and unpaid	$73,643	$72,222	$97,525

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

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MFA FINANCIAL, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013

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. (See Note 11)

2. Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The accompanying consolidated financial statements 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 be worse than anticipated in those estimates, which could materially impact the Company's results of operations and its financial condition. Management has made significant estimates in several areas, including other-than-temporary impairment ("OTTI") on Agency and Non-Agency MBS (Note 3), valuation of Agency and Non-Agency MBS (Notes 3 and 14), derivative hedging instruments (Notes 5 and 14) and income recognition on certain Non-Agency MBS purchased at a discount (Note 3). 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 (Note 2(m)). Actual results could differ from those estimates.

The consolidated financial statements of the Company include the accounts of all subsidiaries; significant intercompany accounts and transactions have been eliminated.

(b) Agency and Non-Agency MBS (including Non-Agency MBS transferred to a consolidated VIE)

The Company has investments in residential MBS that are issued or guaranteed as to principal and/or interest by a federally chartered corporation, such as Fannie Mae or Freddie Mac, or any agency of the U.S. Government, such as Ginnie Mae (collectively, "Agency MBS"), and residential MBS that are not guaranteed by any U.S. Government agency or any federally chartered corporation ("Non-Agency MBS"), as described in Note 3.

Designation

The Company generally intends to hold its MBS until maturity; however, from time to time, it may sell any of its securities as part of the overall management of its business. As a result, all of the Company's MBS are designated as "available-for-sale" and, accordingly, are carried at their fair value with unrealized gains and losses excluded from earnings (except when an OTTI is recognized, as discussed below) and reported in accumulated other comprehensive income/(loss) ("AOCI"), a component of stockholders' equity.

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

Revenue Recognition, Premium Amortization and Discount Accretion

Interest income on securities is accrued based on the outstanding principal balance and their contractual terms. Premiums and discounts associated with Agency MBS and Non-Agency MBS rated AA and higher 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.

Interest income on the Non-Agency MBS that were purchased at a discount to par value and/or are considered to be of less than high credit quality is recognized based on the security's effective interest rate. The effective interest rate is based on management's estimate of the projected cash flows for each security, which are based on the Company's observation of current information and events and include assumptions related to fluctuations in interest rates, prepayment speeds and the timing and amount of credit losses. On at least a quarterly basis, the Company reviews and, if appropriate, makes adjustments to its cash flow projections based on input and analysis received from external sources, internal models, and its judgment about interest rates, prepayment rates, the timing and amount of credit losses, and other factors. Changes in cash flows from those originally projected, or from those estimated at the last evaluation, may result in a prospective change in the yield/interest income recognized on these securities or in the recognition of OTTIs. (See Note 3)

Based on the projected cash flows from the Company's Non-Agency MBS purchased at a discount to par value, a portion of the purchase discount may be designated as non-accretable purchase discount ("Credit Reserve"), which effectively mitigates the Company's risk of loss on the mortgages collateralizing such MBS and is not expected to be accreted into interest income. The amount designated as Credit Reserve may be adjusted over time, based on the actual performance of the security, its underlying collateral, actual and projected cash flow from such collateral, economic conditions and other factors. If the performance of a security with a Credit Reserve is more favorable than forecasted, a portion of the amount designated as Credit Reserve may be reallocated to accretable discount and recognized into interest income over time. Conversely, if the performance of a security with a Credit Reserve is less favorable than forecasted, the amount designated as Credit Reserve may be increased, or impairment charges and write-downs of such securities to a new cost basis could result.

Determination of MBS Fair Value

In determining the fair value of the Company's MBS, 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)

Impairments/OTTI

When the fair value of an investment security is less than its amortized cost at the balance sheet date, the security is considered impaired. The Company assesses its impaired securities on at least a quarterly basis and designates such impairments as either "temporary" or "other-than-temporary." 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 an OTTI 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 other-than-temporarily impaired security, only the portion of the OTTI related to credit losses is recognized through charges to earnings with the remainder recognized through AOCI on the consolidated balance sheets. Impairments recognized through other comprehensive income/(loss) ("OCI") do not impact earnings. Following the recognition of an OTTI through earnings, a new cost basis is established for the security and may not be adjusted for subsequent recoveries in fair value through earnings. However, OTTIs recognized through charges to earnings may be accreted back to the amortized cost basis of the security on a prospective basis through interest income. The determination as to whether an OTTI exists and, if so, the amount of credit impairment recognized in earnings is subjective, as such determinations are based on factual information available at the time of assessment as well as the Company's estimates of the future performance and cash flow projections. As a result, the timing and amount of OTTIs constitute material

estimates that are susceptible to significant change. (See Note 3)

Non-Agency MBS that are purchased at significant discounts to par/and are otherwise assessed to be of less than high credit quality on which impairments are recognized have experienced, or are expected to experience, credit-related adverse cash flow changes. The Company's estimate of cash flows for its Non-Agency MBS is based on its review of the underlying mortgage loans securing the MBS. The Company considers information available about the past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, Fair Isaac Corporation ("FICO") scores at loan origination, year of origination, loan-to-value ratios ("LTV"), geographic concentrations, as well as reports by credit rating agencies, such as Moody's Investors Services, Inc. ("Moody's"), Standard & Poor's Corporation ("S&P"), or Fitch, Inc. (collectively, "Rating Agencies"), general market assessments, and dialogue with market participants. As a result, significant judgment is used in the Company's analysis to determine the expected cash flows for its Non-Agency MBS. In determining the OTTI related to credit losses for securities that were purchased at significant discounts to par and/or are considered to be of less than high credit quality, the Company compares the present value of the remaining cash flows expected to be collected at the purchase date (or last date previously revised) against the present value

of the cash flows expected to be collected at the current financial reporting date. The discount rate used to calculate the present value of expected future cash flows is the current yield used for income recognition purposes. Impairment assessment for Non-Agency MBS that were purchased at prices close to par and are considered to be of high credit quality involves comparing the present value of the remaining cash flows expected to be collected against the amortized cost of the security at the assessment date. The discount rate used to calculate the present value of the expected future cash flows is based on the instrument's effective interest rate.

Balance Sheet Presentation

The Company's MBS pledged as collateral against repurchase agreements and Swaps are included in MBS on the consolidated balance sheets with the fair value of the MBS pledged disclosed parenthetically. Purchases and sales of securities are recorded on the trade date. However, if on the purchase settlement date, a repurchase agreement is used to finance the purchase of an MBS with the same counterparty and such transactions are determined to be linked, then the MBS and linked repurchase borrowing will be reported on the same settlement date as Linked Transactions. (See Notes 2(n) and 5)

(c) Securities Obtained and Pledged as Collateral/Obligation to Return Securities Obtained as Collateral

The Company has obtained securities as collateral under collateralized financing arrangements in connection with its financing strategy for Non-Agency MBS. Securities obtained as collateral in connection with these transactions are recorded on the Company's consolidated balance sheets as an asset along with a liability representing the obligation to return the collateral obtained, at fair value. While beneficial ownership of securities obtained remains with the counterparty, the Company has the right to sell the collateral obtained or to pledge it as part of a subsequent collateralized financing transaction. (See Note 2(i) for Repurchase Agreements and Reverse Repurchase Agreements)

(d) 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 repurchase agreement and/or Swap 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, 2013 or December 31, 2012. At December 31, 2013 and December 31, 2012, all of the Company's cash investments were comprised of overnight money market funds, which are not bank deposits and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. (See Notes 7 and 14)

(e) Restricted Cash

Restricted cash represents the Company's cash held by its counterparties as collateral against the Company's Swaps and/or repurchase agreements. Restricted cash, which earns interest, is not available to the Company for general corporate purposes, but may be applied against amounts due to counterparties to the Company's repurchase agreements and/or Swaps, or returned to the Company when the collateral requirements are exceeded or at the maturity of the Swap or repurchase agreement. The Company had aggregate restricted cash held as collateral against its Swaps of $37.5 million and $5.0 million at December 31, 2013 and December 31, 2012, respectively. (See Notes 5, 6, 7 and 14)

(f) Goodwill

At December 31, 2013 and December 31, 2012, the Company had goodwill of $7.2 million, which represents the unamortized portion of the excess of the fair value of its common stock issued over the fair value of net assets acquired in connection with its formation in 1998. Goodwill is tested for impairment at least annually, or more frequently under certain circumstances, at the entity level. Through December 31, 2013, the Company had not recognized any impairment against its goodwill.

(g) Depreciation

Real Estate

During 2011 the Company had 100% of the ownership interest in Lealand Place, a 191-unit apartment property located in Lawrenceville, Georgia, through Lealand Place, LLC ("Lealand"), an indirect, wholly-owned subsidiary. This property was acquired through a tax-deferred exchange under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"). This investment was sold for cash proceeds of $11.4 million, resulting in a gain on sale in the fourth quarter of 2011 of $430,000.

The property, capital improvements and other assets held in connection with this investment were carried at cost, net of accumulated depreciation and amortization. Maintenance, repairs and minor improvements were expensed in the period incurred, while real estate assets, except land, and capital improvements were depreciated over their useful life using the straight-line method. The estimated life was 27.5 years for buildings and five to seven years for furniture and fixtures.

Leasehold Improvements 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.

(h) Resecuritization and Senior Notes Related Costs

Resecuritization related costs are costs associated with the issuance of beneficial interests by consolidated VIEs and incurred by the Company in connection with various resecuritization transactions completed by the Company. Senior Notes related costs are costs incurred by the Company in connection with the issuance of its Senior Notes in April, 2012. These costs may include underwriting, rating agency, legal, accounting and other fees. Such costs, which reflect deferred charges, are included on the Company's consolidated balance sheets in Prepaid and other assets. These deferred charges are amortized as an adjustment to interest expense using the effective interest method, based upon the actual repayments of the associated beneficial interests issued to third parties and over the stated legal maturity of the Senior Notes. The Company periodically reviews the recoverability of these deferred costs and in the event an impairment charge is required, such amount shall be included within Operating and other expense on the Company's consolidated statement of operations.

(i) Repurchase Agreements and Reverse Repurchase Agreements

The Company finances the acquisition of a significant portion of its MBS with repurchase agreements. Under repurchase agreements, the Company sells securities to a lender and agrees to repurchase the same securities in the future for a price that is higher than the original 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, with the exception of certain repurchase agreements accounted for as components of Linked Transactions. (See Note 2(n) below) Under its repurchase agreements, the Company pledges its securities as collateral to secure the borrowing, which is equal in value 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 securities 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 MBS 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 typically have terms ranging from one month to six months at inception, but may also have longer or shorter terms. Should a counterparty decide not to renew a repurchase financing at maturity, the Company must either refinance elsewhere or be in a position to satisfy the obligation. If, during the term of a repurchase 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 2(n), 5, 6, 7 and 14)

In addition to the repurchase agreement financing arrangements discussed above, as part of its financing strategy for Non-Agency MBS, the Company has entered into contemporaneous repurchase and reverse repurchase agreements with a single counterparty. Under a typical reverse repurchase agreement, the Company buys securities from a borrower for cash and agrees to sell the same securities in the future for a price that is higher than the original purchase price. The difference between the purchase price the Company originally paid and the sale price represents interest received from the borrower. In contrast, the contemporaneous repurchase and reverse repurchase transactions effectively resulted in the Company pledging Non-Agency MBS as collateral to the counterparty in connection with the repurchase agreement financing and obtaining U.S. Treasury securities as collateral from the same counterparty in connection with the reverse repurchase agreement. No net cash was exchanged between the Company and counterparty at the inception of the transactions. Securities obtained and pledged as collateral are recorded as an asset on the Company's consolidated balance sheets. Interest income is recorded on the reverse repurchase agreement and interest expense is recorded on the repurchase agreement on an accrual basis. Both the Company and the counterparty have the right to make daily margin calls based on changes in the value of the collateral obtained and/or pledged. The Company's liability to the counterparty in connection with this financing arrangement is recorded on the Company's consolidated balance sheets and disclosed as "Obligation to return securities obtained as collateral." (See Note 2(c))

(j) Equity Based Compensation

Compensation expense for equity based awards is recognized ratably over the vesting period of such awards, based upon the fair value of such awards at the grant date. With respect to awards granted in 2009 and prior years, the Company has applied a zero forfeiture rate for these awards, as they were granted to a limited number of employees, and historical forfeitures have been minimal. Forfeitures, or an indication that forfeitures are expected to occur, may result in a revised forfeiture rate and would be accounted for prospectively as a change in estimate.

During 2010, the Company granted certain restricted stock units ("RSUs") that vest after either two or four years of service and provided that certain criteria are met, which are based on a formula that includes changes in the Company's closing stock price over a two- or four-year period and dividends declared on the Company's common stock during those periods. In each year in the three-year period ended December 31, 2013, the Company granted certain RSUs that vest annually over a one or three-year period, provided that certain criteria are met, which are based on a formula that includes changes in the Company's closing stock price over the annual vesting period and dividends declared on the Company's common stock during those periods. Such criteria constitute a "market condition" which impacts the amount of compensation expense recognized for these awards. Specifically, the uncertainty regarding whether the market condition will be achieved is reflected in the grant date fair valuation of the RSUs, which in addition to estimates regarding the amount of RSUs expected to be forfeited during the associated service period, determines the amount of compensation expense that is recognized. Compensation expense is not reversed should the market condition not be achieved, while differences in actual forfeiture experience relative to estimated forfeitures will result in adjustments to the timing and amount of compensation expense recognized.

The Company has awarded DERs that may be attached to or awarded separately from other equity based awards. Compensation expense for separately awarded DERs is based on the grant date fair value of such awards and is recognized over the vesting period. Payments pursuant to these DERs are charged to stockholders' equity. Payments pursuant to DERs that are attached to equity based awards are charged to stockholders' equity to the extent that the attached equity awards are expected to vest. Compensation expense is recognized for payments made for DERs to the extent that the attached equity awards do not or are not expected to vest and grantees are not required to return payments of dividends or DERs to the Company. (See Notes 2(k) and 13)

(k) 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 other securities that participate in dividends, such as the Company's unvested restricted stock and RSUs that have non-forfeitable rights to dividends and DERs attached to/associated with RSUs and vested stock options to arrive at total common equivalent shares. In applying the two-class method, earnings are allocated to both shares of common stock and 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 dilutive unexercised stock options and RSUs outstanding that are unvested and have dividends that are subject to forfeiture 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, are used to repurchase shares of the Company's outstanding common stock at the average market price during the reported period. (See Note 12)

(l) 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 MBS and Swaps, (to the extent that such changes are not recorded in earnings), adjusted by realized net gains/(losses) reclassified out of AOCI for MBS and is reduced by dividends declared on the Company's preferred stock and issuance costs of redeemed preferred stock.

(m) U.S. Federal Income Taxes

The Company has elected to be taxed as a REIT under the provisions of the Code and the corresponding provisions of state law. The Company expects to operate in a manner that will enable it to satisfy the various requirements to maintain its status as a REIT. In order to maintain its status a REIT, the Company must, among other things, distribute at least 90% of its REIT taxable income to stockholders in the timeframe permitted by the Code. The Company is not subject to tax to the extent that it distributes 100% of its REIT taxable income 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% 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 will be subject to a 4% nondeductible excise tax on the excess of such 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 shall be included within Operating and other expense on the Company's consolidated statements of operations.

Based on its analysis of any potential 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, 2013,

2012 or 2011. The Company filed its 2012 tax return prior to September 15, 2013. The Company's tax returns for tax years 2009 through 2012 are open to examination.

(n) Derivative Financial Instruments

The Company uses a variety of derivative instruments to economically hedge a portion of its exposure to market risks, including interest rate risk, prepayment risk and extension 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 are primarily comprised of Swaps, which are designated as cash flow hedges against the interest rate risk associated with its borrowings. During 2013, the Company also entered into forward contracts for the sale of Agency MBS securities on a generic pool, or to-be-announced basis ("TBA short positions") and Linked Transactions. TBA short positions and Linked Transactions are not designated as hedging instruments.

Linked Transactions

It is presumed that the initial transfer of a financial asset (i.e., the purchase of an MBS by the Company) and contemporaneous repurchase financing of such MBS with the same counterparty are considered part of the same arrangement, or a "linked transaction," unless certain criteria are met. The two components of a linked transaction (MBS purchase and repurchase financing) are not reported separately but are evaluated on a combined basis and reported as a forward (derivative) contract and are presented as "Linked Transactions" on the Company's consolidated balance sheets. Changes in the fair value of the assets and liabilities underlying Linked Transactions and associated interest income and expense are reported as "unrealized net gains/(losses) and net interest income from Linked Transactions" on the Company's consolidated statements of operations and are not included in OCI. However, if certain criteria are met, the initial transfer (i.e., the purchase of a security by the Company) and repurchase financing will not be treated as a Linked Transaction and will be evaluated and reported separately, as an MBS purchase and repurchase financing. When or if a transaction is no longer considered to be linked, the MBS and repurchase financing will be reported on a gross basis. In this case, the fair value of the MBS at the time the transactions are no longer considered linked will become the cost basis of the MBS, and the income recognition yield for such MBS will be calculated prospectively using this new cost basis. (See Notes 5 and 14)

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. The Company assesses, both at inception of a hedge and on a quarterly basis thereafter, whether or not the hedge is "highly effective."

The Company discontinues hedge accounting on a prospective basis and recognizes changes in the 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.

Although permitted under certain circumstances, the Company does not offset cash collateral receivables or payables against its net derivative positions. (See Notes 5, 7 and 14)

Swaps are carried on the Company's balance sheets at fair value, as assets, if their fair value is positive, or as liabilities, if their fair value is negative. Changes in the fair value of the Company's Swaps are recorded in OCI provided that the hedge remains effective. Changes in fair value for any ineffective amount of a Swap are recognized in earnings. The Company has not recognized any change in the value of its existing Swaps through earnings as a result of hedge ineffectiveness.

TBA Short Positions

During 2013, the Company entered into TBA short positions as a means of managing interest rate risk and MBS basis risk associated with its investment and financing activities. A TBA short position is a forward contract for sale of Agency MBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency MBS that could be delivered into the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association ("SIFMA"), are not known at the time of the transaction.

The Company accounts for TBA short positions as derivative instruments since it cannot assert that it is probable at inception and throughout the term of the TBA contract that it will physically deliver the agency security upon settlement of the contract. The Company presents TBA short positions as either derivative assets or liabilities, at fair value on its consolidated balance sheets. Gains and losses associated with TBA short positions are reported in Other income on the Company's consolidated statements of operations. (See Notes 5 and 14)

(o) 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. (See Note 14)

Although permitted under GAAP to measure many financial instruments and certain other items at fair value, the Company has not elected the fair value option for any of its assets or liabilities. If the fair value option is elected, unrealized gains and losses on such items for which fair value is elected would be recognized in earnings at each subsequent reporting date. 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.

(p) 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 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) have disproportional voting rights and the entity's activities are conducted on behalf of the investor that has disproportionally 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 resecuritization transactions which result in the Company consolidating the VIEs that were created to facilitate the transactions and to which the underlying assets in connection with the resecuritizations were transferred. In determining the accounting treatment to be applied to these resecuritization transactions, the Company evaluated whether the entities used to facilitate these transactions were VIEs and, if so, whether they should be consolidated. Based on its evaluation, the Company concluded that the VIEs should be consolidated. If the Company had determined that consolidation was not required, it would have then assessed whether the transfer of the underlying assets would qualify as a sale or should be accounted for as secured financings under GAAP.

Prior to the completion of its initial resecuritization transaction in October 2010, the Company had not transferred assets to VIEs or Qualifying Special Purpose Entities ("QSPEs") and other than acquiring MBS issued by such entities, had no other involvement with VIEs or QSPEs. (See Note 15)

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

Offering costs related to 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. (See Notes 11 and 12)

(r) New and Proposed Accounting Standards and Interpretations

Accounting Standards Adopted in 2013

Balance Sheet

In December 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2011-11, Disclosures about Offsetting Assets and Liabilities, ("ASU 2011-11") regarding disclosures concerning the offsetting of assets and liabilities. Under ASU 2011-11, an entity is required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The scope includes derivatives, sale and repurchase agreements and reverse

sale and repurchase agreements, and securities borrowing and securities lending arrangements. This disclosure is intended to support further the convergence of U.S. GAAP and International Financial Reporting Standards requirements. ASU 2011-11 was effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods.

In January 2013, the FASB issued ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, ("ASU 2013-01"). The main objective of this ASU is to limit the scope of the new balance sheet and offsetting disclosure requirements of ASU 2011-11 to certain derivatives (including bifurcated embedded derivatives), repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions. The amendments of ASU 2013-01 should be applied for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented.

The Company's adoption of ASU 2011-11 and ASU 2013-01 beginning on January 1, 2013 did not have a material impact on the Company's consolidated financial statements. (See Note 8)

Comprehensive Income

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, ("ASU 2013-02"). The amendments of this ASU do not change the current requirements for reporting net income or OCI in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of AOCI by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. ASU 2013-02 was effective prospectively for the Company for reporting periods beginning after December 15, 2012. The Company's adoption of ASU 2013-02 beginning on January 1, 2013 did not have a material impact on the Company's consolidated financial statements.

Derivatives and Hedging

In July 2013, the FASB issued ASU 2013-10, Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes (a consensus of the FASB Emerging Issues Task Force), ("ASU 2013-10"). The amendments of this ASU apply to all entities that elect to apply hedge accounting of the benchmark interest rate under Derivatives and Hedging (FASB Accounting Standards Codification Topic 815). ASU 2013-10 permits the Federal Funds Effective Rate (also referred to as the Overnight Index Swap Rate, or OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes in addition to the interest rates on direct Treasury obligations of the U.S. government and London Interbank Offered Rate. ASU 2013-10 was effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The Company's adoption of ASU 2103-10 did not have a material impact on the Company's consolidated financial statements.

Proposed Accounting Standards

The FASB has recently issued or discussed a number of proposed standards on such topics as repurchase agreements and similar transactions, measurement of credit impairment, financial instrument measurement and classification, revenue recognition, leases, hedging, disclosures about liquidity risk and interest rate risk, and disclosures of uncertainties about an Entity's going concern presumption. Some of the proposed changes are potentially significant and could have a material impact on the Company's reporting. The Company has not yet fully evaluated the potential impact of these proposals but will make such an evaluation as the standards are finalized.

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3. MBS

The Company's MBS are comprised of Agency MBS and 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"); (iii) mortgages that have interest rates that reset more frequently (collectively, "ARM-MBS"); and (iv) 15-year and longer-term fixed rate mortgages. MBS do not have a single maturity date, and further, the mortgage loans underlying ARM-MBS do not all reset at the same time.

The Company pledges a significant portion of its MBS as collateral against its borrowings under repurchase agreements and Swaps. Non-Agency MBS that are accounted for as components of Linked Transactions are not reflected in the tables set forth in this note, as they are accounted for as derivatives. (See Notes 5 and 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.

Non-Agency MBS (including Non-Agency MBS transferred to consolidated VIEs): The Company's Non-Agency MBS are secured by pools of residential mortgages, which are not guaranteed by an agency of the U.S. Government or any federally chartered corporation. Non-Agency MBS may be rated by one or more Rating Agencies or may be unrated (i.e., not assigned a rating by any Rating Agency). The rating indicates the opinion of the Rating Agency as to the creditworthiness of the investment, indicating the obligor's ability to meet its full financial commitment on the obligation. A rating of "D" is assigned when a security has defaulted on any of its contractual terms.

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The following tables present certain information about the Company's MBS at December 31, 2013 and 2012:

December 31, 2013

(In Thousands)	Principal/ Current Face	Purchase Premiums	Accretable Purchase Discounts	Discount Designated as Credit Reserve and OTTI (1)	Amortized Cost (2)	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealize Gain/(Los
Agency MBS:									
Fannie Mae	$5,092,410	$181,710	$(87)	$—	$5,274,033	$5,315,363	$96,516	$(55,186)	$41,330
Freddie Mac	1,171,841	44,967	—	—	1,217,927	1,190,670	9,842	(37,099)	(27,257
Ginnie Mae	12,668	218	—	—	12,886	13,188	302	—	302
Total Agency MBS	6,276,919	226,895	(87)	—	6,504,846	6,519,221	106,660	(92,285)	14,375
Non-Agency MBS (3)									
Rated AAA	14,162	60	(160)	—	14,062	14,389	327	—	327
Rated A	17,679	503	—	—	18,182	17,663	—	(519)	(519
Rated BBB	26,755	5	(1,091)	—	25,669	27,156	1,496	(9)	1,487
Rated BB	102,019	59	(7,220)	(598)	94,260	98,494	4,505	(271)	4,234
Rated B	265,488	—	(33,354)	(5,372)	226,762	253,208	26,446	—	26,446
Rated CCC	1,191,641	11	(133,607)	(179,239)	878,806	1,056,356	178,964	(1,414)	177,550
Rated CC	353,912	—	(33,498)	(80,300)	240,114	291,333	51,226	(7)	51,219
Rated C	203,153	—	(32,704)	(23,340)	147,109	182,424	35,508	(193)	35,315
Rated D	3,369,202	—	(213,238)	(736,308)	2,419,656	2,852,101	433,781	(1,336)	432,445
Not Rated	72,027	—	(5,167)	(17,880)	48,980	59,013	10,033	—	10,033
Total Non-Agency MBS	5,616,038	638	(460,039)	(1,043,037)	4,113,600	4,852,137	742,286	(3,749)	738,537
Total MBS	$11,892,957	$227,533	$(460,126)	$(1,043,037)	$10,618,446	$11,371,358	$848,946	$(96,034)	$752,912

December 31, 2012

(In Thousands)	Principal/ Current Face	Purchase Premiums	Accretable Purchase Discounts	Discount Designated as Credit Reserve and OTTI (1)	Amortized Cost (2)	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gain/(Loss
Agency MBS:									
Fannie Mae	$5,977,388	$196,686	$(58)	$—	$6,174,016	$6,351,621	$178,970	$(1,365)	$177,605
Freddie Mac	800,854	30,447	—	—	835,724	858,560	22,925	(89)	22,836
Ginnie Mae	14,526	251	—	—	14,777	15,279	502	—	502
Total Agency MBS	6,792,768	227,384	(58)	—	7,024,517	7,225,460	202,397	(1,454)	200,943
Non-Agency MBS (3)									

Rated AAA	25,209	158	(219)	—	25,148	25,905	757	—	757
Rated A	1,147	24	—	—	1,171	1,086	—	(85)	(85)
Rated BBB	49,301	637	(1,741)	(378)	47,819	48,563	1,806	(1,062)	744
Rated BB	118,031	39	(8,892)	(853)	108,325	112,905	4,937	(357)	4,580
Rated B	247,532	—	(31,133)	(12,462)	203,937	225,281	21,452	(108)	21,344
Rated CCC	1,235,638	14	(107,618)	(201,126)	926,908	1,055,757	131,826	(2,977)	128,849
Rated CC	579,632	—	(41,191)	(132,061)	406,380	468,017	61,739	(102)	61,637
Rated C	952,984	—	(55,294)	(166,529)	731,161	812,523	81,850	(488)	81,362
Rated D	3,219,744	—	(123,673)	(843,773)	2,252,298	2,573,238	321,048	(108)	320,940
Not Rated	80,342	—	(1,865)	(23,324)	55,153	58,890	4,748	(1,011)	3,737
Total Non-Agency MBS	6,509,560	872	(371,626)	(1,380,506)	4,758,300	5,382,165	630,163	(6,298)	623,865
Total MBS	$13,302,328	$228,256	$(371,684)	$(1,380,506)	$11,782,817	$12,607,625	$832,560	$(7,752)	$824,808

(1) Discount designated as Credit Reserve and amounts related to OTTI are generally not expected to be accreted into interest income. Amounts disclosed at December 31, 2013 reflect Credit Reserve of $998.5 million and OTTI of $44.5 million. Amounts disclosed at December 31, 2012 reflect Credit Reserve of $1.332 billion and OTTI of $48.7 million.
(2) Includes principal payments receivable of $1.1 million and $4.4 million at December 31, 2013 and 2012, respectively, which are not included in the Principal/Current Face.
(3) Non-Agency MBS, including Non-Agency MBS transferred to consolidated VIEs, are reported based on the lowest rating issued by a Rating Agency, if more than one rating is issued on the security, at the date presented.

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Unrealized Losses on MBS and Impairments

The following table presents information about the Company's MBS that were in an unrealized loss position at December 31, 2013:

	Unrealized Loss Position For:							
	Less than 12 Months			12 Months or more			Total	
(In Thousands)	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
Agency MBS:								
Fannie Mae	$1,778,144	$49,283	161	$141,118	$5,903	35	$1,919,262	$55,186
Freddie Mac	671,463	28,946	90	146,238	8,153	22	817,701	37,099
Total Agency MBS	2,449,607	78,229	251	287,356	14,056	57	2,736,963	92,285
Non-Agency MBS:								
Rated A	—	—	—	17,663	519	2	17,663	519
Rated BBB	6,354	4	1	40	5	1	6,394	9
Rated BB	—	—	—	2,572	271	4	2,572	271
Rated CCC	15,276	248	4	11,075	1,166	3	26,351	1,414
Rated CC	1,555	7	2	—	—	—	1,555	7
Rated C	8,661	193	1	—	—	—	8,661	193
Rated D	72,353	1,304	11	1	32	1	72,354	1,336
Total Non-Agency MBS	104,199	1,756	19	31,351	1,993	11	135,550	3,749
Total MBS	$2,553,806	$79,985	270	$318,707	$16,049	68	$2,872,513	$96,034

At December 31, 2013, the Company did not intend to sell any of its MBS that were in an unrealized loss position, and it is "more likely than not" that the Company will not be required to sell these MBS before recovery of their amortized cost basis, which may be at their maturity. With respect to Non-Agency MBS held by consolidated VIEs, the ability of any entity to cause the sale by the VIE prior to the maturity of these Non-Agency MBS is either specifically precluded, or is limited to specified events of default, none of which have occurred to date.

Gross unrealized losses on the Company's Agency MBS were $92.3 million at December 31, 2013. Agency MBS are issued by Government Sponsored Entities ("GSEs") that enjoy either the implicit or explicit backing of the full faith and credit of the U.S. Government. While the Company's Agency MBS are not rated by any rating agency, they are currently perceived by market participants to be of high credit quality, with risk of default limited to the unlikely event that the U.S. Government would not continue to support the GSEs. In addition the GSEs are currently profitable on a stand-alone basis with such profits being remitted to the U.S. Treasury. Given the credit quality inherent in Agency MBS, the Company does not consider any of the current impairments on its Agency MBS to be credit related. In assessing whether it is more likely than not that it will be required to sell any impaired security before its anticipated recovery, which may be at their maturity, the Company considers for each impaired security, the significance of each investment, the amount of impairment, the projected future performance of such impaired securities, as well as the Company's current and anticipated leverage capacity and liquidity position. Based on these analyses, the Company determined that at December 31, 2013 any unrealized losses on its Agency MBS were temporary.

Unrealized losses on the Company's Non-Agency MBS (including Non-Agency MBS transferred to consolidated VIEs) were $3.7 million at December 31, 2013. Based upon the most recent evaluation, the Company does not consider these unrealized losses to be indicative of OTTI and does not believe that these unrealized losses are credit related, but are rather due to non-credit related factors. The Company has reviewed its Non-Agency MBS that are in an unrealized loss position to identify those securities with losses that are other-than-temporary based on an assessment of changes in expected cash flows for such MBS, which considers recent bond performance and expected future performance of the underlying collateral.

The Company did not recognize any credit-related OTTI losses through earnings related to its MBS during the year ended December 31, 2013. During 2012, the Company recognized OTTI losses of $1.2 million in connection with Non-Agency MBS. Non-Agency MBS on which OTTI is recognized have experienced, or are expected to experience, credit-related adverse cash flow

changes. The Company's estimate of cash flows for its Non-Agency MBS is based on its review of the underlying mortgage loans securing these MBS. The Company considers information available about the structure of the securitization, including structural credit enhancement, if any, and the past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, FICO scores at loan origination, year of origination, loan-to-value ratios, geographic concentrations, as well as Rating Agency reports, general market assessments, and dialogue with market participants. Changes in the Company's evaluation of each of these factors impacts the cash flows expected to be collected at the OTTI assessment date. For Non-Agency MBS purchased at a discount to par that were assessed for OTTI during the quarter, such cash flow estimates indicated that the amount of expected losses decreased compared to the previous OTTI assessment date. These positive cash flow changes are primarily driven by recent improvements in loan-to-value ratios due to loan amortization and home price appreciation, which, in turn, positively impacts the Company's estimates of default rates and loss severities for the underlying collateral. In addition, voluntary prepayments (i.e. loans that prepay in full with no loss) have generally trended higher for these MBS which also positively impacts the Company's estimate of expected loss. Overall, the combination of higher voluntary prepayments and lower loan-to-value ratios supports the Company's assessment that such MBS are not other-than-temporarily impaired. Significant judgment is used in both the Company's analysis of the expected cash flows for its Non-Agency MBS and any determination of the credit component of OTTI.

The following table presents the composition of OTTI charges recorded by the Company for the years ended December 31, 2013, 2012 and 2011:

	For the Year Ended December 31,		
(In Thousands)	2013	2012	2011
Total OTTI losses	$—	$(879)	$(45,144)
OTTI (reclassified from)/recognized in OCI	—	(321)	34,574
OTTI recognized in earnings	$—	$(1,200)	$(10,570)

The following table presents a roll-forward of the credit loss component of OTTI on the Company's Non-Agency MBS for which a non-credit component of OTTI was previously recognized in OCI. Changes in the credit loss component of OTTI are presented based upon whether the current period is the first time OTTI was recorded on a security or a subsequent OTTI charge was recorded.

	For the Year Ended December 31,		
(In Thousands)	2013	2012	2011
Credit loss component of OTTI at beginning of period	$36,115	$34,915	$24,345
Additions for credit related OTTI not previously recognized	—	458	7,158
Subsequent additional credit related OTTI recorded	—	742	3,412
Credit loss component of OTTI at end of period	$36,115	$36,115	$34,915

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The significant inputs considered and assumptions made at time of impairment in determining the measurement of the component of OTTI recorded in earnings for the Company's Non-Agency MBS are summarized as follows:

	For the Year Ended December 31,		
	2013	2012	2011
Credit enhancement (1)(2)			
Weighted average (3)	—	3.26%	2.90%
Range (4)	—	0.00-16.50%	0.00-13.30%
Projected CPR (2)(5)			
Weighted average (3)	—	9.90%	10.70%
Range (4)	—	9.10-13.30%	1.90-13.80%
Projected Loss Severity (2)(6)			
Weighted average (3)	—	55.50%	52.10%
Range (4)	—	45.90-60.00%	41.90-70.00%
60+ days delinquent (2)(7)			
Weighted average (3)	—	24.40%	22.60%
Range (4)	—	18.20-32.40%	7.30-36.70%

(1) Represents a level of protection for these securities, expressed as a percentage of total current underlying loan balance.
(2) Information provided is based on loans for all groups that provide credit enhancement for MBS with credit enhancement. If an MBS no longer has credit enhancement, information provided is based on loans for the individual group owned by the Company.
(3) Calculated by weighting the relevant input/assumptions for each individual security by current outstanding face of the security.
(4) Represents the range of inputs/assumptions based on individual securities.
(5) CPR - conditional prepayment rate.
(6) Projected loss severity represents the projected amount of loss realized on liquidated properties as a percentage of the principal balance.
(7) Includes, for each security, underlying loans 60 or more days delinquent, foreclosed loans and other real estate owned.

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Purchase Discounts on Non-Agency MBS

The following table presents the changes in the components of the Company's purchase discount on its Non-Agency MBS between purchase discount designated as Credit Reserve and OTTI and accretable purchase discount for the years ended December 31, 2013 and 2012:

	For the Year Ended December 31,			
	2013		2012	
(In Thousands)	Discount Designated as Credit Reserve and OTTI (1)	Accretable Discount (1)(2)	Discount Designated as Credit Reserve and OTTI (3)	Accretable Discount (2)(3)
Balance at beginning of period	$(1,380,506)	$(371,626)	$(1,228,766)	$(250,479)
Accretion of discount	—	73,422	—	38,185
Realized credit losses	163,478	—	162,458	—
Purchases	(79,320)	32,152	(427,741)	3,497
Sales	45,371	13,953	—	—
Reclass discount for OTTI	—	—	866	(866)
Net impairment losses recognized in earnings	—	—	(1,200)	—
Unlinking of Linked Transactions	—	—	(38,662)	(9,424)
Transfers/release of credit reserve	207,940	(207,940)	152,539	(152,539)
Balance at end of period	$(1,043,037)	$(460,039)	$(1,380,506)	$(371,626)

(1) The Company reallocated $695,000 of purchase discount designated as Credit Reserve to accretable purchase discount on Non-Agency MBS underlying Linked Transactions for the year ended December 31, 2013.
(2) Together with coupon interest, accretable purchase discount is recognized as interest income over the life of the security.
(3) In addition, the Company reallocated $420,000 of purchase discount designated as accretable purchase discount to Credit Reserve on Non-Agency MBS underlying Linked Transactions for the year ended December 31, 2012.

Impact of MBS on AOCI

The following table presents the impact of the Company's MBS on its AOCI for the years ended December 31, 2013, 2012, and 2011:

	For the Year Ended December 31,		
(In Thousands)	2013	2012	2011
AOCI from MBS:			
Unrealized gain on MBS at beginning of period	$824,808	$55,491	$393,822
Unrealized (loss)/gain on Agency MBS, net	(186,568)	(7,820)	61,149
Unrealized gain/(loss) on Non-Agency MBS, net	134,505	785,830	(381,410)
Reclassification adjustment for MBS sales included in net income	(19,833)	(7,493)	(7,500)
Reclassification adjustment for OTTI included in net income	—	(1,200)	(10,570)
Change in AOCI from MBS	(71,896)	769,317	(338,331)
Balance at end of period	$752,912	$824,808	$55,491

Sales of MBS

During 2013, the Company sold certain Non-Agency MBS for $152.6 million, realizing gross gains of $25.8 million. During 2012, the Company sold $168.9 million of Agency MBS, realizing gross gains of $9.0 million. During 2011, the Company sold $150.6 million of Agency MBS realizing gross gains of $6.7 million. The Company has no continuing involvement with any of the sold MBS.

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MBS Interest Income

The following table presents components of interest income on the Company's Agency MBS for the years ended December 31, 2013, 2012 and 2011:

	For the Year Ended December 31,		
(In Thousands)	2013	2012	2011
Coupon interest	$213,995	$248,048	$280,206
Effective yield adjustment (1)	(57,949)	(51,990)	(38,212)
Agency MBS interest income	$156,046	$196,058	$241,994

(1) Includes amortization of premium paid net of accretion of purchase discount. For Agency MBS, interest income is recorded at an effective yield, which reflects net premium amortization based on actual prepayment activity.

The following table presents components of interest income for the Company's Non-Agency MBS (including MBS transferred to consolidated VIEs) for the years ended December 31, 2013, 2012 and 2011:

	For the Year Ended December 31,		
(In Thousands)	2013	2012	2011
Coupon interest	$253,581	$265,018	$212,452
Effective yield adjustment (1)	73,189	37,954	42,165
Non-Agency MBS interest income	$326,770	$302,972	$254,617

(1) The effective yield adjustment is the difference between the net interest income calculated using the net yield, which is based on management's estimates of future cash flows for Non-Agency MBS, less the current coupon yield.

4. Interest Receivable

The following table presents the Company's interest receivable by investment category at December 31, 2013 and 2012:

	December 31,	
(In Thousands)	2013	2012
MBS interest receivable:		
Fannie Mae	$13,760	$17,597
Freddie Mac	3,110	2,696
Ginnie Mae	19	24
Non-Agency MBS	18,917	23,707
Total MBS interest receivable	35,806	44,024
Money market and other investments	22	9
Total interest receivable	$35,828	$44,033

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5. Derivative Instruments

The Company's derivative instruments are primarily comprised of Swaps, which are designated as cash flow hedges against the interest rate risk associated with its borrowings. The Company has also entered into TBA short positions and Linked Transactions, both of which are not designated as hedging instruments. The following table presents the fair value of the Company's derivative instruments and their balance sheet location at December 31, 2013 and 2012:

			December 31, 2013		2012
Derivative Instrument	Designation	Balance Sheet Location	Notional Amount	Fair Value	
(In Thousands)					
Linked Transactions	Non-Hedging	Assets	N/A	$28,181	$12,704
Non-cleared legacy Swaps (1)	Hedging	Assets	$450,000	$4,925	$203
Cleared Swaps (2)	Hedging	Assets	$1,300,000	$8,075	$—
Non-cleared legacy Swaps (1)	Hedging	Liabilities	$1,445,212	$(24,437)	$(63,034)
Cleared Swaps (2)	Hedging	Liabilities	$850,000	$(3,780)	$—

(1) Non-cleared legacy Swaps include Swaps executed and settled bilaterally with counterparties without the use of an organized exchange or central clearing house.
(2) Cleared Swaps include 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.

Linked Transactions

The Company's Linked Transactions are evaluated on a combined basis, reported as forward (derivative) instruments and presented as assets on the Company's consolidated balance sheets at fair value. The fair value of Linked Transactions reflect the value of the underlying Non-Agency MBS, linked repurchase agreement borrowings and accrued interest receivable/payable on such instruments. The Company's Linked Transactions are not designated as hedging instruments and, as a result, the change in the fair value and net interest income from Linked Transactions is reported in other income on the Company's consolidated statements of operations.

The following tables present certain information about the Non-Agency MBS and repurchase agreements underlying the Company's Linked Transactions at December 31, 2013 and 2012:

Linked Transactions at December 31, 2013

Linked Repurchase Agreements			Linked MBS				
Maturity or Repricing	Balance	Weighted Average Interest Rate	Non-Agency MBS	Fair Value	Amortized Cost	Par/Current Face	Weighted Average Coupon Rate

(Dollars in Thousands)			
Within 30 days	$93,835	1.76	%
>30 days to 90 days	8,902	1.44	
Total	$102,737	1.73	%

(Dollars in Thousands)					
Rated AA	$9,054	$8,486	$8,790	5.00	%
Rated A	2,574	2,077	2,682	1.27	
Rated BBB	7,436	6,564	7,903	2.21	
Rated BB	6,476	6,067	6,608	2.47	
Rated D	13,740	11,834	16,216	5.20	
Not Rated	91,510	91,469	92,231	3.97	
Total	$130,790	$126,497	$134,430	3.96	%

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Linked Transactions at December 31, 2012

Linked Repurchase Agreements			Linked MBS				
Maturity or Repricing	Balance	Weighted Average Interest Rate	Non-Agency MBS	Fair Value	Amortized Cost	Par/Current Face	Weighted Average Coupon Rate
(Dollars in Thousands)			(Dollars in Thousands)				
Within 30 days	$13,672	1.57 %	Rated AA	$13,588	$12,817	$13,192	5.00 %
>30 days to 90 days	21,599	1.66	Rated A	3,075	2,548	3,342	0.76
Total	$35,271	1.63 %	Rated BBB	8,299	7,226	8,847	2.55
			Rated BB	7,365	6,854	7,593	2.75
			Rated D	15,501	14,372	19,303	5.80
			Total	$47,828	$43,817	$52,277	4.28 %

At December 31, 2013, Linked Transactions also included approximately $210,000 of associated accrued interest receivable and $82,000 of accrued interest payable. At December 31, 2012, Linked Transactions also included approximately $185,000 of associated accrued interest receivable and $38,000 of accrued interest payable.

The following table presents certain information about the components of the unrealized net gains and net interest income from Linked Transactions included in the Company's consolidated statements of operations for the years ended December 31, 2013, 2012 and 2011:

Components of Unrealized Net Gains and Net Interest Income from Linked Transactions	For the Year Ended December 31,		
(In Thousands)	2013	2012	2011
Interest income attributable to MBS underlying Linked Transactions	$3,869	$5,089	$25,592
Interest expense attributable to linked repurchase agreement borrowings underlying Linked Transactions	(925)	(1,113)	(4,794)
Change in fair value of Linked Transactions included in earnings	281	8,634	(17,783)
Unrealized net gains and net interest income from Linked Transactions	$3,225	$12,610	$3,015

Swaps

Consistent with market practice, the Company has agreements with its Swap counterparties that provide for the posting of collateral based on the fair values of its derivative contracts. Through this margining process, either the Company or its derivative counterparty may be required to pledge cash or securities as collateral. In addition, Swaps novated to and cleared by a central clearing house are subject to initial margin requirements. Certain derivative contracts provide for cross collateralization with repurchase agreements with the same counterparty.

A number of the Company's Swap contracts include financial covenants, which, if breached, could cause an event of default or early termination event to occur under such agreements. Such financial covenants include minimum net worth requirements and maximum debt-to-equity ratios. If the Company were to cause an event of default or trigger an early termination event pursuant to one of its Swap contracts, the counterparty to such agreement may have the option to terminate all of its outstanding Swap contracts with the Company and, if applicable, any close-out amount

due to the counterparty upon termination of the Swap contracts would be immediately payable by the Company. The Company was in compliance with all of its financial covenants through December 31, 2013. At December 31, 2013, the aggregate fair value of assets needed to immediately settle Swap contracts that were in a liability position to the Company, if so required, was approximately $31.0 million, including accrued interest payable of approximately $2.7 million.

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The following table presents the assets pledged as collateral against the Company's Swap contracts at December 31, 2013 and December 31, 2012:

	December 31,	
(In Thousands)	2013	2012
Agency MBS, at fair value	$73,859	$68,915
Restricted cash	37,520	5,016
Total assets pledged against Swaps	$111,379	$73,931

The use of derivative hedging instruments exposes the Company to counterparty credit risk. In the event of a default by a derivative counterparty, the Company may not receive payments to which it is entitled under its derivative agreements, and may have difficulty recovering its assets pledged as collateral against such agreements. If, during the term of a derivative contract, a counterparty should file for bankruptcy, the Company may experience difficulty recovering its assets pledged as collateral which could result in the Company having an unsecured claim against such counterparty's assets for the difference between the fair value of the derivative and the fair value of the collateral pledged to such counterparty. At December 31, 2013, all of the Company's derivative counterparties were rated A or better by a Rating Agency.

The Company's derivative hedging instruments, or a portion thereof, could become ineffective in the future if the associated repurchase agreements or securitized debt that such derivatives hedge fail to exist or fail to have terms that match those of the derivatives that hedge such borrowings. At December 31, 2013, all of the Company's derivatives were deemed effective for hedging purposes and no derivatives were terminated during the years ended December 31, 2013 and December 31, 2012.

The Company's Swaps have the effect of modifying the repricing characteristics of the Company's repurchase agreements and securitized debt and cash flows for such liabilities. To date, no cost has been incurred at the inception of a Swap (except for certain transaction fees related to entering in to Swaps cleared though a central clearing house), pursuant to which the Company agrees to pay a fixed rate of interest and receive a variable interest rate, generally based on one-month or three-month London Interbank Offered Rate ("LIBOR"), on the notional amount of the Swap. The Company has not recognized any change in the value of its derivative hedging instruments in earnings as a result of the hedge or a portion thereof being ineffective during any of the three years ended December 31, 2013.

At December 31, 2013, the Company had Swaps with an aggregate notional amount of $4.045 billion, which had net unrealized losses of $15.2 million, and extended 49 months on average with a maximum term of approximately 116 months.

The following table presents certain information with respect to the Company's Swap activity for the year ended December 31, 2013:

(Dollars in Thousands)	December 31, 2013	
New Swaps:		
Aggregate notional amount	$2,501,000	
Weighted average fixed-pay rate	1.85	%
Initial maturity date range	Two months to ten years	
Number of new Swaps	23	

Swaps amortized/expired:		
Aggregate notional amount	$975,352	
Weighted average fixed-pay rate	2.78	%

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The following table presents information about the Company's Swaps at December 31, 2013 and 2012:

	December 31, 2013			December 31, 2012		
Maturity (1)	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)						
Within 30 days	$17,635	3.90 %	0.21 %	$25,828	3.88 %	0.28 %
Over 30 days to 3 months	24,216	3.93	0.21	30,185	3.96	0.26
Over 3 months to 6 months	476,147	1.80	0.17	527,275	1.63	0.21
Over 6 months to 12 months	167,043	3.22	0.18	391,063	4.17	0.22
Over 12 months to 24 months	710,171	1.97	0.17	685,042	2.28	0.22
Over 24 months to 36 months	150,000	1.03	0.17	710,171	1.97	0.21
Over 36 months to 48 months	350,000	0.58	0.17	150,000	1.03	0.21
Over 48 months to 60 months	550,000	1.49	0.17	—	—	—
Over 72 months to 84 months	1,500,000	2.22	0.17	—	—	—
Over 84 months (3)	100,000	2.75	0.17	—	—	—
Total Swaps	$4,045,212	1.91 %	0.17 %	$2,519,564	2.31 %	0.22 %

(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.
(3) Reflects one Swap with a maturity date of July 2023.

The following table presents the net impact of the Company's derivative hedging instruments on its interest expense and the weighted average interest rate paid and received for such Swaps for the years ended December 31, 2013, 2012 and 2011:

	For the Year Ended December 31,		
(Dollars in Thousands)	2013	2012	2011
Interest expense attributable to Swaps	$59,031	$73,266	$95,677
Weighted average Swap rate paid	2.08 %	2.68 %	3.13 %
Weighted average Swap rate received	0.19 %	0.27 %	0.25 %

Swaptions

In June 2011, the Company purchased a Swaption, for which it paid a premium of $915,000, that provided the Company with the right but not the obligation to enter into a fixed-pay Swap at termination of the option period in January 2012. The terms of the Swap that the Company could have entered into were as follows: $100.0 million notional; four-year term; fixed strike rate 1.90%; variable index equal to one month LIBOR. Swaptions are used as a hedge against the risk of changes in the interest component above a specified level on a portion of forecasted one-month fixed rate borrowings. At the conclusion of the option period in January 2012, the Company allowed the Swaption to expire. At December 31, 2011, the Company's Swaption had a fair value of zero. During the year ended December 31, 2011, the Company recognized $915,000 of expense in other income, reflecting changes in the time-value component of the Swaption.

TBA Short Positions

The Company may also enter into TBA short positions as a means of managing interest rate risk and MBS basis risk associated with its investment and financing activities. A TBA short position is a forward contract for the sale of agency MBS at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific agency MBS that could be delivered into the contract upon the settlement date, published each month by SIFMA, are not known at the time of the transaction.

The Company accounts for TBA short positions as derivative instruments since it cannot assert that it is probable at inception and throughout the term of the TBA contract that it will physically deliver the agency security upon settlement of the contract. The Company presents TBA short positions as either derivative assets or liabilities, at fair value on its consolidated balance sheets. Gains and losses associated with TBA Securities are reported in Other income on the Company's consolidated statements of operations.

During 2013, the Company sold short $350.0 million notional of 15-year Agency MBS 2.5% TBA Securities and realized a loss of $7.5 million on close out of this position.

Impact of 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, 2013, 2012 and 2011:

	For the Year Ended December 31,		
(In Thousands)	2013	2012	2011
AOCI from derivative hedging instruments:			
Balance at beginning of period	$(62,831)	$(114,194)	$(139,142)
Unrealized gain on Swaps, net	47,614	51,363	24,948
Balance at end of period	$(15,217)	$(62,831)	$(114,194)

Counterparty Credit Risk

By using derivative hedging instruments, the Company is exposed to counterparty credit risk if counterparties to the derivative contracts do not perform as expected. If a counterparty fails to perform, the Company's counterparty credit risk is equal to the amount reported as a derivative asset on its balance sheets to the extent that amount exceeds collateral obtained from the counterparty or, if in a net liability position, the extent to which collateral posted exceeds the liability to the counterparty. The amounts reported as a derivative asset/(liability) are derivative contracts in a gain/(loss) position, and to the extent subject to master netting arrangements, net of derivatives in a loss/(gain) position with the same counterparty and collateral received/(pledged). The Company attempts to minimize counterparty credit risk through credit approvals, limits, monitoring procedures, executing master netting arrangements and obtaining collateral, where appropriate. Counterparty credit risk related to the Company's derivative hedging instruments is considered in determining fair value of such derivatives and its assessment of hedge effectiveness.

6. Repurchase Agreements

The Company's repurchase agreements are collateralized by the Company's MBS and U.S. Treasury securities (obtained as part of a reverse repurchase agreement) and cash and bear interest that is generally LIBOR-based. (See Note 7) At December 31, 2013, the Company's borrowings under repurchase agreements had a weighted average remaining term-to-interest rate reset of 25 days and an effective repricing period of 24 months, including the impact of related Swaps. At December 31, 2012, the Company's borrowings under repurchase agreements had a weighted average remaining term-to-interest rate reset of 28 days and an effective repricing period of five months, including the impact of related Swaps.

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The following table presents information with respect to the Company's borrowings under repurchase agreements and associated assets pledged as collateral at December 31, 2013 and 2012:

(Dollars in Thousands)	December 31, 2013		December 31, 2012	
Repurchase agreement borrowings secured by Agency MBS	$5,750,053		$6,353,489	
Fair Value of Agency MBS pledged as collateral under repurchase agreements	$6,068,447		$6,678,384	
Weighted average haircut on Agency MBS (1)	4.89	%	4.80	%
Repurchase agreement borrowings secured by Non-Agency MBS (2)	$2,206,586		$1,988,172	
Fair Value of Non-Agency MBS pledged as collateral under repurchase agreements (2)(3)	$3,663,523		$3,463,128	
Weighted average haircut on Non-Agency MBS (1)	32.48	%	30.49	%
Repurchase agreements secured by U.S. Treasuries	$382,658		$410,811	
Fair value of U.S. Treasuries pledged as collateral under repurchase agreements	$383,743		$408,833	
Weighted average haircut on U.S. Treasuries (1)	1.65	%	1.74	%

(1) Haircut represents the percentage amount by which the collateral value is contractually required to exceed the loan amount on the Company's repurchase agreements borrowings.
(2) Does not reflect Non-Agency MBS and repurchase agreement borrowings that are components of Linked Transactions.
(3) Includes $1.885 billion and $1.860 billion of Non-Agency MBS acquired from consolidated VIEs at December 31, 2013 and 2012, respectively, that are eliminated from the Company's consolidated balance sheets.

The following table presents repricing information about the Company's borrowings under repurchase agreements, which does not reflect the impact of associated derivative hedging instruments, at December 31, 2013 and 2012:

	December 31, 2013			December 31, 2012		
Time Until Interest Rate Reset	Balance (1)	Weighted Average Interest Rate		Balance (1)	Weighted Average Interest Rate	
(Dollars in Thousands)						
Within 30 days	$7,064,598	0.68	%	$6,293,802	0.71	%
Over 30 days to 3 months	1,274,699	1.31		2,458,670	1.21	
Total	$8,339,297	0.77	%	$8,752,472	0.85	%

(1) At December 31, 2013 and 2012, the Company had repurchase agreements of $102.7 million and $35.3 million, respectively, that were linked to Non-Agency MBS purchases and accounted for as Linked Transactions, and as such, the linked repurchase agreements are not included in the above table. (See Note 5)

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The following table at December 31, 2013 presents contractual maturity information about the Company's borrowings under repurchase agreements and does not reflect the impact of derivative contracts that hedge such repurchase agreements:

	December 31, 2013		
Contractual Maturity	Balance (1)	Weighted Average Interest Rate	
(Dollars in Thousands)			
Overnight	$—	—	%
Within 30 days	6,508,863	0.55	
Over 30 days to 90 days	1,245,007	1.25	
Over 90 days to 12 months	343,902	1.87	
Over 12 months	241,525	2.67	
Total	$8,339,297	0.77	%

(1) At December 31, 2013, the Company had repurchase agreements of $102.7 million that were linked to Non-Agency MBS purchases and accounted for as Linked Transactions, and as such, the linked repurchase agreements are not included in the above table. (See Note 5)

The Company had repurchase agreements with 26 counterparties at both December 31, 2013 and 2012. The following table presents information with respect to any counterparty for repurchase agreements and/or Linked Transactions for which the Company had greater than 5% of stockholders' equity at risk in the aggregate at December 31, 2013:

	December 31, 2013				
Counterparty	Counterparty Rating (1)	Amount at Risk (2)	Weighted Average Months to Maturity for Repurchase Agreements	Percent of Stockholders' Equity	
(Dollars in Thousands)					
Alpine Securitization Corporation/Credit Suisse (3)	A-1/P-1/F1	$751,132	2	23.9	%
Wells Fargo (4)	A+/A2/AA-	383,914	9	12.2	
RBS	BBB+/Baa1/A	251,273	2	8.0	
UBS (5)(6)	A/A2/A	242,613	22	7.7	

(1) As rated at December 31, 2013 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 repurchase agreements and repurchase agreements underlying Linked Transactions, including interest payable, and (b) the cash and the fair value of the securities pledged by the Company as collateral and MBS underlying Linked Transaction, including accrued interest receivable on such securities.
(3) Includes $732.7 million at risk with Alpine Securitization Corporation and $18.4 million at risk with Credit Suisse Securities (USA) LLC. Alpine Securitization Corporation is a special purpose funding vehicle that is a consolidated affiliate of Credit Suisse Group. Counterparty rating shown is the asset backed short term rating for Alpine

Securitization Corporation.
(4) Includes $258.4 million with Wells Fargo Bank, NA and $125.5 million at risk with Wells Fargo Securities LLC.
(5) Includes $238.1 million at risk with UBS AG and $4.5 million at risk with UBS Securities LLC.
(6) Includes Non-Agency MBS pledged as collateral with contemporaneous repurchase and reverse repurchase agreements.

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7. Collateral Positions

The Company pledges securities or cash as collateral to its counterparties pursuant to its borrowings under repurchase agreements and its derivative contracts that are in an unrealized loss position, and it receives securities or cash as collateral pursuant to financing provided under reverse repurchase agreements and certain of its derivative contracts in an unrealized gain position. The Company exchanges collateral with its counterparties based on changes in the fair value, notional amount and term of the associated repurchase and reverse repurchase agreements and derivative contracts, as applicable. Through this margining process, either the Company or its counterparty may be required to pledge cash or securities as collateral. In addition, Swaps novated to and cleared by a central clearing house are subject to initial margin requirements. 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 high-quality securities.

The following table summarizes the fair value of the Company's collateral positions, which includes collateral pledged and collateral held, with respect to its borrowings under repurchase agreements, reverse repurchase agreements and derivative hedging instruments at December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
(In Thousands)	Assets Pledged	Collateral Held	Assets Pledged	Collateral Held
Derivative Hedging Instruments:				
Agency MBS	$73,859	$—	$68,915	$—
Cash (1)	37,520	—	5,016	—
	111,379	—	73,931	—
Repurchase Agreement Borrowings:				
Agency MBS	$6,068,447	$—	$6,678,384	$—
Non-Agency MBS (2)(3)	3,663,523	—	3,463,128	—
U.S. Treasury securities	383,743	—	408,833	—
	10,115,713	—	10,550,345	—
Reverse Repurchase Agreements:				
U.S. Treasury securities	$—	$383,743	$—	$408,833
	—	383,743	—	408,833
Total	$10,227,092	$383,743	$10,624,276	$408,833

(1) Cash pledged as collateral is reported as "restricted cash" on the Company's consolidated balance sheets.
(2) Includes $1.885 billion and $1.860 billion of Non-Agency MBS acquired in connection with resecuritization transactions from consolidated VIEs at December 31, 2013 and 2012, respectively, that are eliminated from the Company's consolidated balance sheets.
(3) In addition, $738.3 million and $759.2 million of Non-Agency MBS are pledged as collateral in connection with contemporaneous repurchase and reverse repurchase agreements entered into with a single counterparty at December 31, 2013 and 2012, respectively.

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The following table presents detailed information about the Company's assets pledged as collateral pursuant to its borrowings under repurchase agreements and derivative hedging instruments at December 31, 2013:

	Assets Pledged Under Repurchase Agreements			Assets Pledged Against Derivative Hedging Instruments			Total Fair Value of MBS Pledged and Accrued Interest
(In Thousands)	Fair Value/ Carrying Value	Amortized Cost	Accrued Interest on Pledged MBS	Fair Value/ Carrying Value	Amortized Cost	Accrued Interest on Pledged MBS	
U.S. Treasuries	$383,743	$383,743	$—	$—	$—	$—	$383,743
Fannie Mae	$4,941,677	$4,903,089	$12,768	$54,825	$55,059	$136	$5,009,406
Freddie Mac	1,126,770	1,154,787	2,887	11,752	11,532	43	1,141,452
Ginnie Mae	—	—	—	7,282	7,095	11	7,293
Agency MBS	$6,068,447	$6,057,876	$15,655	$73,859	$73,686	$190	$6,158,151
Rated AAA	$14,389	$14,062	$50	$—	$—	$—	$14,439
Rated A	72,811	66,959	222	—	—	—	73,033
Rated BBB	65,272	55,828	226	—	—	—	65,498
Rated BB	75,523	64,098	223	—	—	—	75,746
Rated B	150,119	131,124	390	—	—	—	150,509
Rated CCC	387,346	326,517	1,362	—	—	—	388,708
Rated CC	85,219	72,065	319	—	—	—	85,538
Rated C	84,187	73,192	256	—	—	—	84,443
Rated D	1,046,134	925,621	4,954	—	—	—	1,051,088
Not Rated	1,682,523	1,125,014	6,425	—	—	—	1,688,948
Non-Agency MBS(1)(2)(3)	$3,663,523	$2,854,480	$14,427	$—	$—	$—	$3,677,950
Total	$10,115,713	$9,296,099	$30,082	$73,859	$73,686	$190	$10,219,844

(1) Includes $1.885 billion of Non-Agency MBS acquired in connection with resecuritization transactions from consolidated VIEs at December 31, 2013 that are eliminated from the Company's consolidated balance sheets.
(2) Reported based on the lowest rating issued by a Rating Agency, if more than one rating is issued on the security, at the date presented.
(3) In addition, $738.3 million of Non-Agency MBS are pledged as collateral in connection with contemporaneous repurchase and reverse repurchase agreements entered into with a single counterparty at December 31, 2013.

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8. Offsetting Assets and Liabilities

The following tables present information about certain assets and liabilities that are subject to master netting arrangements (or similar agreements) and can potentially be offset on the Company's consolidated balance sheets at December 31, 2013 and 2012:

Offsetting of Financial Assets and Derivative Assets

(In Thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received	
December 31, 2013						
Derivative hedging instruments, at fair value	$13,000	$ —	$ 13,000	$ (13,000)	$ —	$—
Total	$13,000	$ —	$ 13,000	$ (13,000)	$ —	$—
December 31, 2012						
Derivative hedging instruments, at fair value	$203	$ —	$ 203	$ (203)	$ —	$—
Total	$203	$ —	$ 203	$ (203)	$ —	$—

Offsetting of Financial Liabilities and Derivative Liabilities

(In Thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments (1)	Cash Collateral Pledged (1)	
December 31, 2013						
Derivative hedging instruments, at fair value (2)	$28,217	$ —	$ 28,217	$ —	$ (28,217)	$—
Repurchase agreements (3)	8,339,297	—	8,339,297	(8,339,297)	—	—
Total	$8,367,514	$ —	$ 8,367,514	$ (8,339,297)	$ (28,217)	$—
December 31, 2012						
Derivative hedging instruments, at fair value (2)	$63,034	$ —	$ 63,034	$ (58,018)	$ (5,016)	$—
	8,752,472	—	8,752,472	(8,752,472)	—	—

Repurchase agreements (3)						
Total	$8,815,506	$ —	$ 8,815,506	$ (8,810,490)	$ (5,016)	$ —

(1) Amounts disclosed in the Financial Instruments column of the table above represents collateral pledged that is available to be offset against liability balances associated with repurchase agreement and derivative transactions. Amounts disclosed in the Cash Collateral Pledged column of the table above represents amounts pledged as collateral against derivative transactions and as of December 31, 2013 excludes excess collateral of $9.3 million.
(2) The fair value of securities pledged against the Company's Swaps was $73.9 million and $68.9 million at December 31, 2013 and 2012, respectively.
(3) The fair value of securities pledged against the Company's repurchase agreements was $10.116 billion and $10.550 billion at December 31, 2013 and 2012, respectively.

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Nature of Setoff Rights

In the Company's consolidated balance sheets, all balances associated with the repurchase agreement and derivatives transactions are presented on a gross basis.

Certain of the Company's repurchase agreement 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. For one repurchase agreement counterparty, the underlying agreements provide for an unconditional right of setoff.

9. 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 total net proceeds to the Company from the offering of the Senior Notes were approximately $96.6 million, after deducting offering expenses and the underwriting discount. The Senior Notes bear interest at a fixed rate of 8.00% per year, paid quarterly in arrears on January 15, April 15, July 15 and October 15 of each year and will mature on April 15, 2042. The Company may redeem the Senior Notes, in whole or in part, at any time on or after April 15, 2017 at a redemption price equal to 100% of the principal amount redeemed plus accrued and unpaid interest to, but not excluding, the redemption date.

The Senior Notes are the Company's senior unsecured obligations and are subordinate to all of the Company's secured indebtedness, which includes the Company's repurchase agreements, securitized debt, obligation to return securities obtained as collateral, and other financing arrangements, to the extent of the value of the collateral securing such indebtedness.

10. Commitments and Contingencies

(a) Lease Commitments

The Company pays monthly rent pursuant to two operating leases. The lease term for the Company's headquarters in New York, New York extends through May 31, 2020. The lease provides for aggregate cash payments ranging over time from approximately $2.4 million to $2.5 million per year, paid on a monthly basis, exclusive of escalation charges. In addition, as part of this lease agreement, the Company has provided the landlord a $785,000 irrevocable standby letter of credit fully collateralized by cash. The letter of credit may be drawn upon by the landlord in the event that the Company defaults under certain terms of the lease. In addition, the Company has a lease through December 31, 2016 for its off-site back-up facility located in Rockville Centre, New York, which provides for, among other things, cash payments ranging over time from $28,000 to $30,000 per year, paid on a monthly basis.

The Company recognized lease expense of $2.7 million, $2.3 million and $1.7 million for the years ended December 31, 2013, 2012 and 2011, respectively, which is included in general and administrative expense within the consolidated statement of operations. At December 31, 2013, 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,	Minimum Rental Payments

(In Thousands)	
2014	$2,382
2015	2,397
2016	2,552
2017	2,522
2018	2,522
Beyond 2018	3,572
Total	$15,947

(b) Representations and Warranties in Connection with Resecuritization Transactions

In connection with the resecuritization transactions engaged in by the Company (See Note 15 for further discussion), the Company has the obligation under certain circumstances to repurchase assets from its VIEs upon breach of certain representations and warranties.

(c) MBS Purchase Commitments

At December 31, 2013, the Company had commitments to purchase Agency MBS at an estimated purchase price of $6.7 million. This commitment is included in the Agency MBS balances presented at fair value on the Company's consolidated balance sheet.

11. Stockholders' Equity

(a) Preferred Stock

Redemption of 8.50% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock")
On May 16, 2013 (the "Redemption Date"), the Company redeemed all 3,840,000 outstanding shares of its Series A Preferred Stock at an aggregate redemption price of approximately $97.0 million, or $25.27153 per share, including all accrued and unpaid dividends to the Redemption Date. The redemption value of the Series A Preferred Stock exceeded its carrying value by $3.9 million, which represents the original offering costs for the Series A Preferred Stock. This amount is included in the determination of net income available to common stock and participating securities for the year ended December 31, 2013.
From the time of original issuance of the Series A Preferred Stock through the Redemption Date, the Company had declared and paid all required quarterly dividends of $0.53125 per share on such stock. In addition, as part of the redemption price on its Series A Preferred Stock (discussed above), the Company paid a dividend of $0.27153 per share, which reflected accrued and unpaid dividends for the period from April 1, 2013, through and including the Redemption Date.

Issuance of 7.50% Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock")
On April 15, 2013, the Company amended its charter through filing of articles supplementary to its charter to reclassify 8,050,000 shares of the Company's authorized but unissued common stock as shares of the Company's 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 $25.00 per share, plus accrued and unpaid dividends, in an underwritten public offering. The aggregate net proceeds to the Company from the offering of the Series B Preferred Stock were approximately $193.3 million, after deducting the underwriting discount and related offering expenses. The Company used a portion of such net proceeds to redeem all of its outstanding Series A Preferred Stock (as discussed above), and used the remaining net proceeds of the offering for general corporate purposes, including, without limitation, to acquire additional MBS consistent with its investment policy, and for working capital, which may include, among other things, the repayment of its repurchase agreements.
The Company's Series B Preferred Stock, which is redeemable at $25.00 per share plus accrued and unpaid dividends (whether or not authorized or declared) exclusively at the Company's option commencing on April 15, 2018 (subject to the Company's right under limited circumstances to redeem the Series B Preferred Stock prior to that date in order to preserve its qualification as a REIT and upon certain specified change in control transactions in which the Company's common stock and the acquiring or surviving entity common securities would not be listed on the New York Stock

Exchange (the "NYSE"), the NYSE MKT or NASDAQ, or any successor exchanges), 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. On May 20, 2013, the Company declared the first dividend payable on the Series B Preferred Stock, which was paid on July 1, 2013 to preferred stockholders of record as of June 3, 2013. The amount of such dividend payable was $0.39583 per share, and was paid in respect of the partial period commencing on April 15, 2013, the date of original issue of the Series B Preferred Stock, and ending on, and including, June 30, 2013. The Company declared and paid all required quarterly dividends on its Series B Preferred Stock of $0.46875 per share during the third and fourth quarters of 2013.

The Series B 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 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.

(b) Dividends on Common Stock

The following table presents cash dividends declared by the Company on its common stock from January 1, 2011 through December 31, 2013:

Year	Declaration Date	Record Date	Payment Date	Dividend Per Share	
2013	December 11, 2013	December 31, 2013	January 31, 2014	$0.20	(1)
	September 26, 2013	October 11, 2013	October 31, 2013	0.22	
	August 1, 2013	August 12, 2013	August 30, 2013	0.28	(2)
	June 28, 2013	July 12, 2013	July 31, 2013	0.22	
	March 28, 2013	April 12, 2013	April 30, 2013	0.22	
	March 4, 2013	March 18, 2013	April 10, 2013	0.50	(3)
2012	December 12, 2012	December 28, 2012	January 31, 2013	$0.20	
	September 28, 2012	October 12, 2012	October 31, 2012	0.21	
	June 27, 2012	July 13, 2012	July 31, 2012	0.23	
	March 23, 2012	April 4, 2012	April 30, 2012	0.24	
2011	December 14, 2011	December 30, 2011	January 31, 2012	$0.27	(4)
	September 26, 2011	October 11, 2011	October 31, 2011	0.25	
	June 30, 2011	July 14, 2011	July 29, 2011	0.25	
	March 31, 2011	April 11, 2011	April 29, 2011	0.24	

(1) At December 31, 2013, the Company had accrued dividends and DERs payable of $73.6 million related to the common stock dividend declared on December 11, 2013.
(2) Reflects the special cash dividend on common stock declared on August 1, 2013.
(3) Reflects the special cash dividend on common stock declared on March 4, 2013.
(4) Includes a special dividend of $0.02 per share.

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 income tax purposes, for each of the years ended December 31, 2013, 2012 and 2011, all of the Company's common stock dividends were characterized as ordinary income to stockholders.

(c) Public Offering of Common Stock

The table below presents information with respect to shares of the Company's common stock issued through a public offering during the three years ended December 31, 2013:

Share Issue Date (1)	Shares Issued	Gross Proceeds Per Share	Gross Proceeds

(In Thousands, Except Per Share Amounts)				
March 11, 2011	74,750	$8.10	$605,475	(2)

(1) The Company did not issue any shares of common stock through public offerings during the years ended December 31, 2013 and 2012.
(2) The Company incurred approximately $438,000 of expenses in connection with this equity offering.

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

On August 8, 2013, the Company filed a shelf registration statement on Form S-3 with the Securities and Exchange Commission ("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) of 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 15 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, 2013, 11.5 million shares of common stock remained available for issuance pursuant to the DRSPP shelf registration statement.

During the years ended December 31, 2013, 2012 and 2011, the Company issued 9,511,739, 1,977,165 and 404,516 shares of common stock through the DRSPP, raising net proceeds of approximately $77.6 million, $15.5 million and $2.8 million, respectively. From the inception of the DRSPP in September 2003 through December 31, 2013, the Company issued 26,039,764 shares pursuant to the DRSPP, raising net proceeds of $221.4 million.

(e) Controlled Equity Offering Program

On August 20, 2004, the Company initiated a controlled equity offering program (the "CEO Program") through which it may, from time to time, publicly offer and sell shares of common stock through Cantor Fitzgerald & Co. ("Cantor") in privately negotiated and/or at-the-market transactions. During the three years ended December 31, 2013, the Company did not issue any shares through the CEO Program. From inception of the CEO Program through December 31, 2013, the Company issued 30,144,815 shares of common stock in at-the-market transactions through the CEO Program, raising net proceeds of approximately $194.9 million. In connection with such transactions, the Company paid Cantor aggregate fees and commissions of approximately $4.2 million. Shares for the CEO Program are issued through the automatic shelf registration statement on Form S-3 that was filed on October 22, 2013.

On December 12, 2008, the Company entered into its most recent Sales Agreement (the "Agreement") with Cantor, as sales agent. In accordance with the terms of the Agreement, the Company may offer and sell up to 40 million shares of common stock (the "CEO Shares") from time to time through Cantor. Sales of the CEO Shares, if any, may be made in privately negotiated transactions and/or by any other method permitted by law, including, but not limited to, sales at other than a fixed price made on or through the facilities of the NYSE, or sales made to or through a market maker or through an electronic communications network, or in any other manner that may be deemed to be an "at-the-market offering" as defined in Rule 415 of the 1933 Act. Cantor will make all sales on a best efforts basis using commercially reasonable efforts consistent with its normal trading and sales practices on mutually agreed terms between the Company and Cantor.

(f) Stock Repurchase Program

As previously disclosed, in August 2005, the Company's Board authorized a stock repurchase program ("Repurchase Program"), to repurchase up to 4.0 million shares of its outstanding common stock under the Repurchase Program. The Board reaffirmed such authorization in May 2010. In December 2013, the Board increased the number of shares authorized for repurchase to 10.0 million. Such authorization does not have an expiration date and, at present, there is no intention to modify or otherwise rescind such authorization. Subject to applicable securities laws, repurchases of

common stock under the Repurchase Program are made at times and in amounts as the Company deems appropriate, (including, in our discretion, through the use of one or more plans adopted under Rule 10b-5-1 promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act")) using available cash resources. Shares of common stock repurchased by the Company under the Repurchase Program are cancelled and, until reissued by the Company, are deemed to be authorized but unissued shares of the Company's common stock. The Repurchase Program may be suspended or discontinued by the Company at any time and without prior notice. During the year ended December 31, 2013, the Company repurchased 2,143,354 shares of its common stock at a total cost of approximately $15.4 million and an average cost of $7.20 per share. During the year ended December 31, 2012, the Company repurchased 1,240,291 shares of its common stock at a total cost of approximately $9.7 million and an average cost of $7.83 per share. At December 31, 2013, 6,616,355 shares remained authorized for repurchase.

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(g) 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, 2013, 2012 and 2011:

	For the Year Ended December 31,								
	2013			2012			2011		
(In Thousands)	Net Unrealized Gain/(Loss) on Available-for-Sale MBS	Net Unrealized Gain/(Loss) on Swaps	Total AOCI	Net Unrealized Gain/(Loss) on Available-for-Sale MBS	Net Unrealized Gain/(Loss) on Swaps	Total AOCI	Net Unrealized Gain/(Loss) on Available-for-Sale MBS	Net Unrealized Gain/(Loss) on Swaps	Total AOCI
Balance at beginning of period	$824,808	$(62,831)	$761,977	$55,491	$(114,194)	$(58,703)	$393,822	$(139,142)	$254,680
OCI before reclassifications	(52,063)	47,614	(4,449)	778,010	51,363	829,373	(320,261)	24,948	(295,313)
Amounts reclassified from AOCI (1)	(19,833)	—	(19,833)	(8,693)	—	(8,693)	(18,070)	—	(18,070)
Net OCI during period (2)	(71,896)	47,614	(24,282)	769,317	51,363	820,680	(338,331)	24,948	(313,383)
Balance at end of period	$752,912	$(15,217)	$737,695	$824,808	$(62,831)	$761,977	$55,491	$(114,194)	$(58,703)

(1) See separate table below for details about these reclassifications.
(2) For further information regarding changes in OCI, see the Company's consolidated statement of comprehensive income/(loss).

The following table presents information about the significant amounts reclassified out of the Company's AOCI for the years ended December 31, 2013, 2012, and 2011:

	For the Year Ended December 31,			
	2013	2012	2011	
Details about AOCI Components	Amounts Reclassified from AOCI			Affected Line Item in the Statement Where Net Income is Presented
(In Thousands)				
Available-for-sale MBS:				
Realized gain on sale of securities	$(19,833)	$(7,493)	$(7,500)	Gain on sales of MBS and U.S. Treasury securities, net
OTTI recognized in earnings	—	(1,200)	(10,570)	Net impairment losses recognized in earnings
Total reclassifications for period	$(19,833)	$(8,693)	$(18,070)	

At December 31, 2013 and 2012, the Company had OTTI recognized in AOCI of $609,000 and $2.6 million, respectively.

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12. EPS Calculation

The following table presents a reconciliation of the earnings and shares used in calculating basic and diluted EPS for years ended December 31, 2013, 2012 and 2011:

	For the Year Ended December 31,		
(In Thousands, Except Per Share Amounts)	2013	2012	2011
Numerator:			
Net income	$302,709	$306,839	$316,414
Dividends declared on preferred stock	(13,750)	(8,160)	(8,160)
Dividends, DERs and undistributed earnings allocated to participating securities	(1,080)	(1,517)	(1,684)
Issuance costs of redeemed preferred stock (1)	(3,947)	—	—
Net income allocable to common stockholders - basic and diluted	$283,932	$297,162	$306,570
Denominator:			
Weighted average common shares for basic and diluted earnings per share (2)	362,399	356,762	341,368
Basic and diluted earnings per share	$0.78	$0.83	$0.90

(1) Issuance costs of redeemed preferred stock represent the original offering costs related to the Series A Preferred Stock, which was redeemed on May 16, 2013. (See Note 11)
(2) At December 31, 2013, the Company had an aggregate of $1.2 million equity instruments outstanding that were not included in the calculation of diluted EPS for the year ended December 31, 2013, as their inclusion would have been anti-dilutive. These equity instruments were comprised of 5,000 stock options with a weighted average exercise price of $8.40 and a weighted average remaining contractual life of 0.6 years , approximately 444,000 shares of restricted common stock with a weighted average grant date fair value of $7.50 and approximately 778,000 RSUs with a weighted average grant date fair value of $6.48. These equity instruments may have a dilutive impact on future EPS.

13. Equity Compensation, Employment Agreements and Other Benefit Plans

(a) 2010 Equity Compensation Plan

In accordance with the terms of the Company's Amended and Restated 2010 Equity Compensation Plan (the "2010 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, DERs and other stock-based awards under the 2010 Plan.

Subject to certain exceptions, stock-based awards relating to a maximum of 13.5 million shares of common stock may be granted under the 2010 Plan; forfeitures and/or awards that expire unexercised do not count towards such limit. At December 31, 2013, approximately 9.7 million shares of common stock remained available for grant in connection with stock-based awards under the 2010 Plan. A participant may generally not receive stock-based awards in excess of 1,500,000 shares of common stock in any one year and no award may be granted to any person who, assuming

exercise of all Options and payment of all awards held by such person, would own or be deemed to own more than 9.8% of the outstanding shares of the Company's common stock. Unless previously terminated by the Board, awards may be granted under the 2010 Plan until May 20, 2020.

DERs

A DER 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. DERs may be granted separately or together with other awards and are paid in cash or other consideration at such times and in accordance with such rules, as the Compensation Committee of the Board (the "Compensation Committee") shall determine at its discretion. Payments made on the Company's existing DERs are charged to stockholders' equity when the common stock dividends are declared to the extent that such DERs are expected to vest. The Company made DER payments of approximately $2.1 million, $1.5 million and $1.5 million during the years ended December 31, 2013, 2012 and 2011, respectively. DER payments for the year ended December 31, 2013, reflect special cash dividends paid of $0.78 per share, or approximately $996,000. At December 31, 2013, the Company had 851,328 DERs outstanding, of which 850,078 were awarded in connection with, or attached

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to, RSUs and 1,250 were attached to common stock options. A 0% forfeiture rate was assumed with respect to DERs outstanding at December 31, 2013. At December 31, 2013, all outstanding DERs were entitled to receive non-forfeitable distributions and are scheduled to elapse over a weighted average period of 1.9 years.

The following table presents information about the Company's DERs at and for each of the years ended December 31, 2013, 2012 and 2011:

	For the Year Ended December 31,					
	2013		2012		2011	
	Number of DERs	Weighted Average Grant Date Fair Value (1)	Number of DERs	Weighted Average Grant Date Fair Value (1)	Number of DERs	Weighted Average Grant Date Fair Value (1)
Outstanding at beginning of year:	1,280,898	$ 7.08	1,655,848	$7.35	1,514,767	$ 8.40
Granted	40,324	9.14	21,938	8.17	305,000	2.71
Cancelled, forfeited or expired	(469,894)	9.32	(396,888)	8.24	(163,919)	8.48
Outstanding at end of year	851,328	$ 5.95	1,280,898	$7.08	1,655,848	$ 7.35

(1) The grant date fair value of DERs is based on the weighted average grant date fair value of the attached or associated equity award.

Options

Pursuant to Section 422(b) of the Code, in order for Options granted under the 2010 Plan and vesting in any one calendar year to qualify as an incentive stock option ("ISO") for tax purposes, the market value of the common stock to be received upon exercise of such Options as determined on the date of grant, shall not exceed $100,000 during such calendar year. The exercise price of an ISO may not be lower than 100% (110% in the case of an ISO granted to a 10% stockholder) of the fair market value of the Company's common stock on the date of grant. The exercise price for any other type of Option issued under the 2010 Plan may not be less than the fair market value on the date of grant. Each Option is exercisable after the period or periods specified in the award agreement, which will generally not exceed ten years from the date of grant.

As of December 31, 2013, the aggregate intrinsic value of total Options outstanding was zero. The following table presents information about the Company's Options at and for each of the years ended December 31, 2013, 2012 and 2011:

	For the Year Ended December 31,					
	2013		2012		2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year:	427,000	$ 10.14	482,000	$ 10.12	537,000	$ 10.11

Granted	—	—	—	—	—	—
Cancelled, forfeited or expired	(402,000)	10.25	(50,000)	10.25	(55,000)	10.06
Exercised (1)	(20,000)	8.40	(5,000)	6.99	—	—
Outstanding at end of year	5,000	$ 8.40	427,000	$ 10.14	482,000	$ 10.12
Options exercisable at end of year	5,000	$ 8.40	427,000	$ 10.14	482,000	$ 10.12

(1) The intrinsic value of Options exercised was approximately $19,000 and $6,000 for the years ended December 31, 2013 and 2012, respectively.

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The following table presents certain information about the Company's Options that were outstanding as of December 31, 2013:

Exercise Price or Price Range	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
$8.40	5,000	$8.40	0.6

Restricted Stock

At December 31, 2013 and December 31, 2012, the Company had unrecognized compensation expense of $3.3 million and $3.7 million, respectively, related to the unvested shares of restricted common stock. The Company had accrued dividends payable of $413,000 and $428,000 on unvested shares of restricted stock at December 31, 2013 and December 31, 2012, respectively. The total fair value of restricted shares vested during the years ended December 31, 2013, 2012 and 2011 was approximately $2.1 million, $5.1 million and $3.0 million, respectively. The unrecognized compensation expense at December 31, 2013 is expected to be recognized over a weighted average period of 2.7 years.

The following table presents information with respect to the Company's restricted stock for the years ended December 31, 2013, 2012 and 2011:

	For the Year Ended December 31,					
	2013		2012		2011	
	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:	483,442	$ 7.74	752,155	$7.33	792,824	$7.40
Granted	231,531	7.33	418,184	7.99	387,418	7.03
Vested (2)	(270,456)	7.77	(685,864)	7.45	(415,890)	7.19
Cancelled/forfeited	(550)	7.72	(1,033)	6.91	(12,197)	7.60
Outstanding at end of year	443,967	$ 7.50	483,442	$7.74	752,155	$7.33

(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.

Restricted Stock Units and Associated DERs

Under the terms of the 2010 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 2010 Plan permits the Company to issue RSUs settleable in cash, all of the Company's outstanding RSUs as of December 31, 2013 are designated to be settled in shares of the Company's common stock. All RSUs outstanding at December 31, 2012 had DERs attached or issued as separate associated instruments in connection with RSUs. At December 31, 2013 and December 31, 2012, the Company had unrecognized compensation expense of $1.6 million and $2.6 million, respectively, related to for RSUs and DERs. The unrecognized compensation expense at December 31, 2013 is expected to be recognized over a weighted average period of 1.6 years. A 0% forfeiture rate was assumed with respect to unvested RSUs at December 31, 2013.

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The following table presents information with respect to the Company's RSUs during the years ended December 31, 2013, 2012 and 2011:

	For the Year Ended December 31, 2013					
	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:	448,141	$7.61	279,507	$4.55	727,648	$6.43
Granted	64,483	8.23	(1) 48,341	2.59	(2) 112,824	5.82
Settled	(21,025)	6.20	(32,066)	2.80	(53,091)	4.15
Cancelled/forfeited	(1,500)	7.77	(8,063)	7.89	(9,563)	7.88
Outstanding at end of year	490,099	$7.75	287,719	$4.32	777,818	$6.48
RSUs vested but not settled at end of year	84,199	$8.50	14,625	$4.69	98,824	$7.93
RSUs unvested at end of year	405,900	(3) $7.60	273,094	(4) $4.30	678,994	$6.27

	For the Year Ended December 31, 2012					
	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:	722,132	$8.04	256,716	$4.78	978,848	$7.18
Granted	38,784	7.01	(5) 55,654	3.26	(6) 94,438	4.80
Settled	(297,775)	8.57	—	—	(297,775)	8.57
Cancelled/forfeited	(15,000)	7.77	(32,863)	4.17	(47,863)	5.30
Outstanding at end of year	448,141	$7.61	279,507	$4.55	727,648	$6.43
RSUs vested but not settled at end of year	29,250	$7.77	14,625	$4.69	43,875	$6.74
RSUs unvested at end of year	418,891	$7.60	264,882	$4.54	683,773	$6.41

	For the Year Ended December 31, 2011					
	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
	778,142	$8.15	225,875	$5.18	1,004,017	$7.49

Outstanding at beginning of year:						
Granted	39,159	6.13	(7) 48,341	3.08	(8) 87,500	4.44
Settled	(60,169)	8.40	—	—	(60,169)	8.40
Cancelled/forfeited	(35,000)	7.77	(17,500)	5.21	(52,500)	7.14
Outstanding at end of year	722,132	$8.04	256,716	$4.78	978,848	$7.18
RSUs vested but not settled at end of year	284,723	$8.68	—	$—	284,723	$8.68
RSUs unvested at end of year	437,409	$7.62	256,716	$4.78	694,125	$6.57

(1) For RSUs with a service condition, determination of the weighted average grant date fair value of the award requires the Company to estimate certain valuation inputs. In determining the fair value for awards granted in 2013, the Company applied: (i) a weighted average volatility estimate of approximately 23%, which was determined considering historic volatility in the price of Company's 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 common

stock at the grant date; (ii) a weighted average risk-free rate of 0.65% based on the continuously compounded constant maturity treasury rate corresponding to a maturity commensurate with the expected vesting term of the awards; and (iii) an estimated annual dividend yield of 13%. There are no post vesting conditions on these awards.

(2) For RSUs with both a market and service condition, determination of the weighted average grant date fair value of the award requires the Company to estimate certain valuation inputs. In determining the fair value for awards granted in 2013, the Company applied: (i) a weighted average volatility estimate of approximately 23%, which was determined considering historic volatility in the price of Company's 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 common stock at the grant date; (ii) a weighted average risk-free rate of 0.65% based on the continuously compounded constant maturity treasury rate corresponding to a maturity commensurate with the expected vesting term of the awards; and (iii) an estimated annual dividend yield of 13%. There are no post vesting conditions on these awards.

(3) Of which, approximately 8,053 are scheduled to vest annually over a three-year period beginning June 30, 2012, 5,000 are scheduled to vest annually over a three-year period beginning September 5, 2012, approximately 8,053 are scheduled to vest annually over a three-year period beginning June 30, 2013, 352,500 are scheduled to vest on December 31, 2014, and approximately 8,053 are scheduled to vest annually over a three-year period beginning June 30, 2014, or earlier in the event of death or disability of the grantee or termination of employment of the grantee by the Company for any reason other than "cause" or by the grantee under certain circumstances as defined in the related RSU award agreement.

(4) Of which, approximately 16,113 are scheduled to vest annually over a three-year period beginning June 30, 2012, approximately 16,113 are scheduled to vest annually over a three-year period beginning June 30, 2013, 176,250 are scheduled to vest on December 31, 2014, and approximately 16,113 are scheduled to vest annually over a three-year period beginning June 30, 2014, provided certain criteria related to total stockholder returns are met, which are based on a formula that includes changes in the Company's closing stock price over a one, or four-year period, respectively, and dividends declared on the Company's common stock during those periods. A portion of the RSUs may vest earlier in the event of death or disability of the grantee or termination of employment of the grantee by the Company for any reason other than "cause" or by the grantee under certain circumstances as defined in the related RSU award agreement.

(5) For RSUs with a service condition, determination of the weighted average grant date fair value of the award requires the Company to estimate certain valuation inputs. In determining the fair value for awards granted in 2012, the Company applied: (i) a weighted average volatility estimate of approximately 23%, which was determined considering historic volatility in the price of Company's 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 common stock at the grant date; (ii) a weighted average risk-free rate of 0.41% based on the continuously compounded constant maturity treasury rate corresponding to a maturity commensurate with the expected vesting term of the awards; and (iii) an estimated annual dividend yield of 12%. There are no post vesting conditions on these awards.

(6) For RSUs with both a market and service condition, determination of the weighted average grant date fair value of the award requires the Company to estimate certain valuation inputs. In determining the fair value for awards granted in 2012, the Company applied: (i) a weighted average volatility estimate of approximately 23%, which was determined considering historic volatility in the price of Company's 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 common stock at the grant date; (ii) a weighted average risk-free rate of 0.41%based on the continuously compounded constant maturity treasury rate corresponding to a maturity commensurate with the expected vesting term of the awards; and (iii) an estimated annual dividend yield of 12%. There are no post vesting conditions on these awards.

(7) For RSUs with a service condition, determination of the weighted average grant date fair value of the award requires the Company to estimate certain valuation inputs. In determining the fair value for awards granted in 2011, the Company applied: (i) weighted average volatility estimates ranging from approximately 31% to 36%, which were

determined considering historic volatility in the price of Company's common stock over the three or six-year period prior to the grant date and the implied volatility of certain exchange-traded options on the Company's common stock at the grant date; (ii) a weighted average risk-free rate of 0.33% and 2.23% based on the continuously compounded constant maturity treasury rate corresponding to a maturity commensurate with the expected vesting term of the awards; and (iii) an estimated annual dividend yield of 13%. There are no post vesting conditions on these awards.
(8) For RSUs with both a market and service condition, determination of the weighted average grant date fair value of the award requires the Company to estimate certain valuation inputs. In determining the fair value for awards granted in 2011, the Company applied: (i) a weighted average volatility estimate of approximately 31%, which was determined considering historic volatility in the price of Company's common stock over the six-year period prior to the grant date and the implied volatility of certain exchange-traded options on the Company's common stock at the grant date; (ii) a weighted average risk-free rate of 2.23% based on the continuously compounded constant maturity treasury rate corresponding to a maturity commensurate with the expected vesting term of the awards; and (iii) an estimated annual dividend yield of 13%. There are no post vesting conditions on these awards.

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, 2013, 2012 and 2011:

	For the Year Ended December 31,		
(In Thousands)	2013	2012	2011
Restricted shares of common stock	$2,150	$5,102	$2,996
RSUs	1,813	1,149	1,264
DERs	195	237	122
Stock options	—	—	3
Total	$4,158	$6,488	$4,385

(b) Employment Agreements

At December 31, 2013, the Company had employment agreements with five of its officers, with varying terms that provide for, among other things, base salary, bonus and change-in-control payments upon the occurrence of certain triggering events.

(c) 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 its non-employee directors and senior officers for the years ended December 31, 2013, 2012 and 2011:

	For the Year Ended December 31,		
(In Thousands)	2013	2012	2011
Non-employee directors	$17	$69	$(6)
Total	$17	$69	$(6)

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The Company distributed cash of $12,000, $21,000 and $248,000 to the participants of the Deferred Plans during the years ended December 31, 2013, 2012 and 2011, respectively. The following table presents the aggregate amount of income deferred by participants of the Deferred Plans through December 31, 2013 and 2012 that had not been distributed and the Company's associated liability for such deferrals at December 31, 2013 and 2012:

	December 31, 2013		December 31, 2012	
(In Thousands)	Undistributed Income Deferred (1)	Liability Under Deferred Plans	Undistributed Income Deferred (1)	Liability Under Deferred Plans
Non-employee directors	$270	$382	$199	$302
Total	$270	$382	$199	$302

(1) Represents the cumulative amounts that were deferred by participants through December 31, 2013 and 2012, which had not been distributed through such date.

(d) 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 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, 2013, 2012 and 2011, the Company recognized expenses for matching contributions of $250,000, $244,000 and $208,000, respectively.

14. Fair Value of Financial Instruments

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, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities Obtained and Pledged as Collateral/Obligation to Return Securities Obtained as Collateral

The fair value of U.S. Treasury securities obtained as collateral and the associated obligation to return securities obtained as collateral are based upon prices obtained from a third-party pricing service, which are indicative of market activity. Securities obtained as collateral are classified as Level 1 in the fair value hierarchy.

Agency MBS, Non-Agency MBS and Securitized Debt

The Company determines 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.

In determining the fair value of its Non-Agency MBS and 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. 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 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 throughout the day from various sources, when available.

The Company's MBS and securitized debt are valued using various market data points as described above, which management considers directly or indirectly observable parameters. Accordingly, the Company's MBS and securitized debt are classified as Level 2 in the fair value hierarchy.

Derivative Instruments

Linked Transactions

The Non-Agency MBS underlying the Company's Linked Transactions are valued using similar techniques to those used for the Company's other Non-Agency MBS. The value of the underlying MBS is then netted against the carrying amount (which approximates fair value) of the repurchase agreement borrowing at the valuation date. The fair value of Linked Transactions also includes accrued interest receivable on the MBS and accrued interest payable on the underlying repurchase agreement borrowings. The Company's Linked Transactions are classified as Level 2 in the fair value hierarchy.

Swaps

For non-centrally cleared Swaps, the Company determines the fair value of its derivative hedging instruments considering valuations obtained from a third party pricing service. For Swaps that are cleared by a central clearing house, valuations provided by the clearing house are used. All valuations obtained are tested with internally developed models that apply readily observable market parameters. In valuing its derivative hedging instruments, the Company considers the creditworthiness of both the Company and its counterparties, along with collateral provisions contained in each derivative agreement, from the perspective of both the Company and its counterparties. All of the Company's derivative hedging instruments are subject either to bilateral collateral arrangements, or for cleared Swaps, to the clearing house's margin requirements. Consequently, no credit valuation adjustment was made in determining the fair value of such instruments. The Company's derivative hedging instruments are classified as Level 2 in the fair value hierarchy.

TBA Short Positions

The Company determines the fair value of its TBA short positions, based upon prices obtained from third party pricing services, which are indicative of market activity. Accordingly, the Company's TBA short positions are classified as Level 2 in the fair value hierarchy.

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The following table presents the Company's financial instruments carried at fair value as of December 31, 2013, on the consolidated balance sheet by the valuation hierarchy, as previously described:

Fair Value at December 31, 2013

(In Thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Agency MBS	$—	$6,519,221	$—	$6,519,221
Non-Agency MBS, including MBS transferred to consolidated VIEs	—	4,852,137	—	4,852,137
Securities obtained and pledged as collateral	383,743	—	—	383,743
Linked Transactions	—	28,181	—	28,181
Derivative hedging instruments	—	13,000	—	13,000
Total assets carried at fair value	$383,743	$11,412,539	$—	$11,796,282
Liabilities:				
Derivative hedging instruments	$—	$28,217	$—	$28,217
Obligation to return securities obtained as collateral	383,743	—	—	383,743
Total liabilities carried at fair value	$383,743	$28,217	$—	$411,960

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. As markets and products develop and the pricing for certain products becomes more transparent, the Company continues to refine its valuation methodologies. 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, which could cause its financial instruments to be reclassified to a different level.

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The following table presents the carrying value and estimated fair value of the Company's financial instruments, at December 31, 2013 and December 31, 2012:

(In Thousands)	December 31, 2013 Carrying Value	December 31, 2013 Estimated Fair Value	December 31, 2012 Carrying Value	December 31, 2012 Estimated Fair Value
Financial Assets:				
Agency MBS	$6,519,221	$6,519,221	$7,225,460	$7,225,460
Non-Agency MBS, including MBS transferred to consolidated VIEs	4,852,137	4,852,137	5,382,165	5,382,165
Securities obtained and pledged as collateral	383,743	383,743	408,833	408,833
Cash and cash equivalents	565,370	565,370	401,293	401,293
Restricted cash	37,520	37,520	5,016	5,016
Linked Transactions	28,181	28,181	12,704	12,704
Derivative hedging instruments	13,000	13,000	203	203
Financial Liabilities:				
Repurchase agreements	8,339,297	8,339,071	8,752,472	8,754,521
Securitized debt	366,205	366,767	646,816	647,070
Obligation to return securities obtained as collateral	383,743	383,743	508,827	508,827
Senior Notes	100,000	98,000	100,000	103,040
Derivative hedging instruments	28,217	28,217	63,034	63,034

In addition to the methodologies used to determine the fair value of the Company's financial assets and liabilities reported at fair value, as previously described, the following methods and assumptions were used by the Company in arriving at the fair value of the Company's other financial instruments presented in the above table:

Cash and Cash Equivalents and Restricted Cash: Cash and cash equivalents and restricted cash are comprised of cash held in overnight money market investments and demand deposit accounts. At December 31, 2013 and December 31, 2012, the Company's money market funds were invested in securities issued by the U.S. Government, or its agencies, instrumentalities, and sponsored entities, and repurchase agreements involving the securities described above. Given the overnight term and assessed credit risk, the Company's investments in money market funds are determined to have a fair value equal to their carrying value.

Repurchase Agreements: The fair value of repurchase agreements reflects the present value of the contractual cash flows discounted at market interest rates at the valuation date for repurchase agreements with a term equivalent to the remaining term to interest rate repricing, which may be at maturity. Such interest rates are estimated based on LIBOR rates observed in the market. The Company's repurchase agreements are classified as Level 2 in the fair value hierarchy.

Senior Notes: The fair value of the Senior Notes is determined using the end of day market price quoted on the NYSE at the reporting date. The Company's Senior Notes are classified as Level 1 in the fair value hierarchy.

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 securitized 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 an 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.

Resecuritization transactions

Since October 2010, the Company has entered into several resecuritization transactions that resulted in the Company consolidating as VIEs the SPEs that were created to facilitate the transactions and to which the underlying assets in connection with the resecuritizations were transferred. (See Note 2(p) for a discussion of the accounting policies applied to the consolidation of VIEs and transfers of financial assets in connection with resecuritization transactions.)

The following table summarizes the key details of the resecuritization transactions the Company has been involved in to date:

(Dollars in Thousands)	February 2012	June 2011	February 2011	October 2010
Name of Trust (Consolidated as a VIE)	WFMLT Series 2012-RR1	CSMC Series 2011-7R	CSMC Series 2011-1R	DMSI 2010-RS2
Principal value of Non-Agency MBS sold	$433,347	$1,283,422	$1,319,969	$985,228
Face amount of Senior Bonds issued by the VIE and purchased by 3rd party investors (1)	$186,691	$474,866	$488,389	$373,577
Outstanding amount of Senior Bonds at December 31, 2013	$93,556	$61,711	$99,943	$110,995
Pass-through rate for Senior Bonds issued	2.85 %	One-month LIBOR plus 125 basis points	One-month LIBOR plus 100 basis points	Weighted Average Coupon Rate
Face amount of Senior Support Certificates received by the Company (2)	$222,921	$774,618	$790,563	$494,721
Cash received	$186,691	$474,866	$488,389	$375,621
Notional amount acquired of non-rated, interest only senior certificates (1)	$186,691	$474,866	$488,389	$—
Unamortized deferred costs (3)	$805	$428	$934	$362

(1) Amount disclosed reflects principal balance on the DMSI 2010-RS A1, A2, and A3 bonds. The DMSI 2010-RS2 A2 and A3 bonds were sold to third party investors during the year ended December 31, 2013. The principal balance for the DMSI 2010-RS2 A1 Bond and associated interest only Senior certificate was paid off during the three months ended June 30, 2013.
(2) Provides credit support for the sequential Senior Non-Agency MBS sold to third-party investors in resecuritization transactions (“Senior Bonds”).
(3) Amortized to interest expense based upon the actual repayments of the associated beneficial interests. During the year ended December 31, 2013, the Company realized a $2.0 million charge related to the impairment of resecuritization related deferred costs.

The Company engaged in these transactions primarily for the purpose of obtaining non-recourse financing on a portion of its Non-Agency MBS portfolio, as well as refinancing a portion of its Non-Agency MBS portfolio on improved terms. As a result of engaging 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 MBS transferred to the VIEs.

The activities that can be performed by an entity created to facilitate a resecuritization transaction are predominantly specified in the entity's formation documents. Those documents do not permit the entity, any beneficial interest holder in the entity, or any other party associated with the entity to cause the entity to sell or replace the assets held by the entity, or to limit such ability to specific events of default.

The Company concluded that the entities created to facilitate these transactions are VIEs. The Company then completed an analysis of whether each VIE created to facilitate the resecuritization transaction 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 these resecuritization transactions.

As of December 31, 2013 and December 31, 2012, the aggregate fair value of the Non-Agency MBS that were resecuritized as described above was $2.282 billion and $2.620 billion, respectively. These assets are included in the Company's consolidated balance sheets and disclosed as "Non-Agency MBS transferred to consolidated VIEs." As of December 31, 2013 and December 31, 2012, the aggregate outstanding balance of Senior Bonds issued by consolidated VIEs was $366.2 million and $646.8 million, respectively. These Senior Bonds are included in the Company's consolidated balance sheets and disclosed as "Securitized debt." The holders of the Senior Bonds 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 in relation to the Non-Agency MBS 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.

Prior to the completion of the Company's first resecuritization transaction in October 2010, the Company had not transferred assets to VIEs or QSPEs and other than acquiring MBS issued by such entities, had no other involvement with VIEs or QSPEs.

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16. Summary of Quarterly Results of Operations (Unaudited)

	2013 Quarter Ended			
(In Thousands, Except per Share Amounts)	March 31	June 30	September 30	December 31
Interest income	$122,738	$120,671	$118,482	$121,049
Interest expense	(40,158)	(38,478)	(41,950)	(43,427)
Net interest income	82,580	82,193	76,532	77,622
Gain on sales of MBS and U.S. Treasury securities, net	1,633	4,365	13,680	6,147
(Losses)/gains on TBA short positions	—	—	(8,724)	1,207
Unrealized net gains/(losses) and net interest income from Linked Transactions	1,536	(295)	544	1,440
Other income	55	55	55	54
Operating and other expense	(8,453)	(10,845)	(10,759)	(7,913)
Net income	77,351	75,473	71,328	78,557
Preferred stock dividends	(2,040)	(4,210)	(3,750)	(3,750)
Issuance costs of redeemed preferred stock	—	(3,947)	—	—
Net income available to common stock and participating securities	$75,311	$67,316	$67,578	$74,807
Earnings per Common Share - Basic and Diluted	$0.21	$0.19	$0.19	$0.20

	2012 Quarter Ended			
(In Thousands, Except per Share Amounts)	March 31	June 30	September 30	December 31
Interest income	$123,523	$125,531	$125,135	$124,968
Interest expense	(40,127)	(42,688)	(45,801)	(43,054)
Net interest income	83,396	82,843	79,334	81,914
Net impairment losses recognized in earnings	(920)	(280)	—	—
Gain on sales of MBS	2,953	—	4,279	1,769
Unrealized net gains and net interest income from Linked Transactions	7,699	568	3,177	1,166
Other income	—	1	1	8
Operating and other expense	(8,415)	(8,366)	(8,650)	(15,638)
Net income	84,713	74,766	78,141	69,219
Preferred stock dividends	(2,040)	(2,040)	(2,040)	(2,040)
Net income available to common stock and participating securities	$82,673	$72,726	$76,101	$67,179
Earnings per Common Share - Basic and Diluted	$0.23	$0.20	$0.21	$0.19

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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 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, 2013, of the design and operation of the Company's disclosure controls and procedures. Management had previously identified a material weakness in the Company's internal control over financial reporting as of December 31, 2012, which related to Company's process for calculating REIT taxable income including the reconciliation process to compare GAAP income to taxable income. Solely as a result of this material weakness, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2012.

During the third quarter of 2013, the Company implemented a number of changes in its internal control over financial reporting that have remediated the previously identified material weakness. Based on its 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, 2013. 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, 2013. 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 1992 (the "COSO Framework"). As a result of this assessment, management concluded that, as of December 31, 2013, our internal control over financial reporting was

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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, have issued an attestation report on the effectiveness of the Company's internal control over financial reporting. This report appears on page 127 of this Annual Report on Form 10-K.

(c) Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting during the fourth quarter of 2013 that materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
MFA Financial, Inc.:

We have audited MFA Financial, Inc.'s (the Company's) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 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.

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.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of MFA Financial, Inc. and subsidiaries as of December 31, 2013 and 2012, and 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, 2013, and our report dated February 13, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York
February 13, 2014

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Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

We expect to file with the SEC, in April 2014 (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 May 21, 2014. 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 "Company Information" 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.

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.

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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 73 through 124 of this Annual Report on Form 10-K and are incorporated herein by reference.

(b) Exhibits required by Item 601 of Regulation S-K

The information required by this Item is set forth on the Exhibit Index that follows the signature page of this report.

(c) Financial Statement Schedules required by Regulation S-X

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.

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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.

MFA Financial, Inc.

Date: February 13, 2014

By /s/ Stephen D. Yarad
Stephen D. Yarad
Chief Financial Officer

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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.

Date: February 13, 2014	By /s/ William S. Gorin William S. Gorin Chief Executive Officer and Director (Principal Executive Officer)
Date: February 13, 2014	By /s/ Stephen D. Yarad Stephen D. Yarad Chief Financial Officer (Principal Financial Officer)
Date: February 13, 2014	By /s/ Kathleen A. Hanrahan Kathleen A. Hanrahan Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)
Date: February 13, 2014	By /s/ George H. Krauss George H. Krauss Chairman and Director
Date: February 13, 2014	By /s/ Stephen R. Blank Stephen R. Blank Director
Date: February 13, 2014	By /s/ James A. Brodsky James A. Brodsky Director
Date: February 13, 2014	By /s/ Michael L. Dahir Michael L. Dahir Director
Date: February 13, 2014	By /s/ Alan L. Gosule Alan L. Gosule Director
Date: February 13, 2014	By /s/ Robin Josephs Robin Josephs Director

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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 10.19 are management contracts or compensatory plans or arrangements.

3.1 Amended and Restated Articles of Incorporation of the Company, dated April 8, 1988 (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 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 Amended and Restated Bylaws of the Company, effective January 1, 2014 (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K, dated December 18, 2013 (Commission File No. 1-13991)).

4.1 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)).

4.2 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)).

4.3 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)).

4.4 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)).

4.5 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)).

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10.1 Employment Agreement, entered into as of January 21, 2014, by and between the Company and William S. Gorin (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, dated January 24, 2014 (Commission File No. 1-13991)).

10.2 Employment Agreement, entered into as of January 21, 2014, by and between the Company and Craig L. Knutson (incorporated herein by reference to Exhibit 10.2 to the Company's Form 8-K, dated January 24, 2014 (Commission File No. 1-13991)).

10.3 Employment Agreement, entered into as of January 24, 2014, by and between the Company and Ronald A. Freydberg (incorporated herein by reference to Exhibit 10.6 to the Company's Form 8-K, dated January 24, 2014 (Commission File No. 1-13991)).

10.4 Consulting Services Agreement, entered into as of December 31, 2013, by MFA Financial, Inc. and Stewart Zimmerman (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, dated January 2, 2014, as amended by the Company's Form 8-K/A (Amendment No. 1), dated January 2, 2014 (Commission File No. 1-13991)).

10.5 Amended and Restated 2010 Equity Compensation Plan, dated May 10, 2010 (incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K, dated May 10, 2010 (Commission File No. 1-13991)).

10.6 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)).

10.7 Third Amended and Restated 2003 Non-Employee Directors Deferred Compensation Plan, as amended through November 1, 2012 (incorporated herein by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended September 30, 2012 (Commission File No. 1-13991)).

10.8 Form of Incentive Stock Option Award Agreement relating to the Company's Amended and Restated 2010 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.9 to the Company's Form 10-Q for the quarter ended September 30, 2004 (Commission File No. 1-13991)).

10.9 Form of Non-Qualified Stock Option Award Agreement relating to the Company's Amended and Restated 2010 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.10 to the Company's Form 10-Q for the quarter ended September 30, 2004 (Commission File No. 1-13991)).

10.10 Form of Restricted Stock Award Agreement relating to the Company's Amended and Restated 2010 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.11 to the Company's Form 10-Q for the quarter ended September 30, 2004 (Commission File No. 1-13991)).

10.11 Form of Phantom Share Award Agreement (Time-Based Vesting) relating to the Company's Amended and Restated 2010 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K, dated July 7, 2011 (Commission File No. 1-13991)).

10.12 Form of Phantom Share Award Agreement (Performance-Based Vesting) relating to the Company's Amended and Restated 2010 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.5 to the Company's Form 8-K, dated July 7, 2011 (Commission File No. 1-13991)).

10.13 Form of Phantom Share Award Agreement (Time-Based Vesting) (Gorin and Knutson) relating to the Company's Amended and Restated 2010 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) (Gorin and Knutson) relating to the Company's Amended and Restated 2010 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.4 to the Company's Form 8-K, dated January 24, 2014 (Commission File No. 1-13991)).

10.15 Form of Phantom Share Award Agreement (Vested Award) relating to the Company's Amended and Restated 2010 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)).

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10.16 Form of Phantom Share Award Agreement (Time-Based Vesting) relating to the Company's Amended and Restated 2010 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.7 to the Company's Form 8-K, dated January 24, 2014 (Commission File No. 1-13991)).

10.17 Form of Phantom Share Award Agreement (Performance-Based Vesting) relating to the Company's Amended and Restated 2010 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.8 to the Company's Form 8-K, dated January 24, 2014 (Commission File No. 1-13991)).

10.18 Form of Dividend Equivalent Rights Agreement relating to the Company's Amended and Restated 2010 Equity Compensation Plan (incorporated herein by reference to Exhibit 10.6 to the Company's Form 8-K, dated July 7, 2011 (Commission File No. 1-13991)).

10.19 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 September 30, 2011 (Commission File No. 1-13991)).

12.1* Computation of Ratio of Debt-to-Equity.

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.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

**These interactive data files are furnished and deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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