

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from _____ to _____

Commission File Number: 1-13991

MFA FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

350 Park Avenue, 21st Floor, New York, New York
(Address of principal executive offices)

10022
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

222,768,526 shares of the registrant's common stock, \$0.01 par value, were outstanding as of July 23, 2009.

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MFA FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2009	December 31, 2008
<i>(In Thousands, Except Per Share Amounts)</i>	(Unaudited)	
Assets:		
Investment securities at fair value (including pledged mortgage-backed securities ("MBS") of \$8,766,779 and \$10,026,638 at June 30, 2009 and December 31, 2008, respectively) (Notes 2(b), 3, 5, 7, 8 and 14)	\$ 9,417,042	\$ 10,122,583
Cash and cash equivalents (Notes 2(c), 7 and 8)	282,492	361,167
Restricted cash (Notes 2(d), 5 and 8)	39,930	70,749
Interest receivable (Note 4)	45,549	49,724
Real estate, net (Note 6)	11,188	11,337
Securities held as collateral, at fair value (Notes 7, 8 and 14)	-	17,124
Goodwill (Note 2(e))	7,189	7,189
Prepaid and other assets	2,804	1,546
Total Assets	\$ 9,806,194	\$ 10,641,419
Liabilities:		
Repurchase agreements (Notes 7 and 8)	\$ 7,951,931	\$ 9,038,836
Accrued interest payable	14,851	23,867
Mortgage payable on real estate (Note 6)	9,224	9,309
Interest rate swap agreements ("Swaps"), at fair value (Notes 2(l), 5, 8 and 14)	173,410	237,291
Obligations to return cash and security collateral, at fair value (Notes 8 and 14)	-	22,624
Dividends and dividend equivalents payable (Note 10(b))	-	46,351
Accrued expenses and other liabilities	6,196	6,064
Total Liabilities	\$ 8,155,612	\$ 9,384,342
Commitments and contingencies (Note 9)		
Stockholders' Equity:		
Preferred stock, \$.01 par value; series A 8.50% cumulative redeemable; 5,000 shares authorized; 3,840 shares issued and outstanding at June 30, 2009 and December 31, 2008 (\$96,000 aggregate liquidation preference) (Note 10)	\$ 38	\$ 38
Common stock, \$.01 par value; 370,000 shares authorized; 222,459 and 219,516 issued and outstanding at June 30, 2009 and December 31, 2008, respectively (Note 10)	2,225	2,195
Additional paid-in capital, in excess of par	1,793,315	1,775,933
Accumulated deficit	(141,296)	(210,815)
Accumulated other comprehensive loss (Note 12)	(3,700)	(310,274)
Total Stockholders' Equity	\$ 1,650,582	\$ 1,257,077
Total Liabilities and Stockholders' Equity	\$ 9,806,194	\$ 10,641,419

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

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

<i>(In Thousands, Except Per Share Amounts)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(Unaudited)			
Interest Income:				
Investment securities (Note 3)	\$ 126,477	\$ 118,542	\$ 258,630	\$ 243,607
Cash and cash equivalent investments	260	2,151	871	5,182
Interest Income	126,737	120,693	259,501	248,789
Interest Expense (Notes 5 and 7)	58,006	76,661	130,143	170,133
Net Interest Income	68,731	44,032	129,358	78,656
Other-Than-Temporary Impairments: (Note 3)				
Total other-than-temporary impairment losses	(76,586)	(4,017)	(78,135)	(4,868)
Portion of loss recognized in other comprehensive income	69,126	-	69,126	-
Net Impairment Losses Recognized in Earnings	(7,460)	(4,017)	(9,009)	(4,868)
Other Income/(Loss):				
Net gain/(loss) on sale of MBS (Note 3)	13,495	-	13,495	(24,530)
Revenue from operations of real estate (Note 6)	384	398	767	812
Loss on early termination of Swaps, net (Note 5)	-	-	-	(91,481)
Miscellaneous other (loss)/income, net	(1)	87	43	179
Other Income/(Loss)	13,878	485	14,305	(115,020)
Operating and Other Expense:				
Compensation and benefits (Note 13)	3,612	2,687	7,114	5,331
Real estate operating expense and mortgage interest (Note 6)	453	424	915	873
New business initiative	-	998	-	998
Other general and administrative expense	1,978	1,353	3,846	2,471
Operating and Other Expense	6,043	5,462	11,875	9,673
Net Income/(Loss) Before Preferred Stock Dividends	69,106	35,038	122,779	(50,905)
Less: Preferred Stock Dividends (Note 10(a))	2,040	2,040	4,080	4,080
Net Income/(Loss) to Common Stockholders	\$ 67,066	\$ 32,998	\$ 118,699	\$ (54,985)
Income/(Loss) Per Share of Common Stock-Basic and Diluted (Note 11)				
	\$ 0.30	\$ 0.20	\$ 0.53	\$ (0.35)
Dividends Declared Per Share of Common Stock (Note 10(b))				
	\$ 0.22	\$ 0.18	\$ 0.22	\$ 0.18

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

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

<i>(In Thousands, Except Per Share Amounts)</i>	For the Six Months Ended June 30, 2009
	(Unaudited)
Preferred Stock, Series A 8.50% Cumulative Redeemable – Liquidation	
Preference \$25.00 per Share:	
Balance at December 31, 2008 and June 30, 2009 (3,840 shares)	\$ 38
Common Stock, Par Value \$0.01:	
Balance at December 31, 2008 (219,516 shares)	2,195
Issuance of common stock (2,943 shares)	30
Balance at June 30, 2009 (222,459 shares)	2,225
Additional Paid-in Capital, in excess of Par:	
Balance at December 31, 2008	1,775,933
Issuance of common stock, net of expenses	16,515
Shares withheld for tax withholdings for exercise of common stock options	(33)
Share-based compensation expense	900
Balance at June 30, 2009	1,793,315
Accumulated Deficit:	
Balance at December 31, 2008	(210,815)
Net income	122,779
Dividends declared on common stock	(48,996)
Dividends declared on preferred stock	(4,080)
Dividends declared on dividend equivalent rights (“DERs”)	(184)
Balance at June 30, 2009	(141,296)
Accumulated Other Comprehensive Loss:	
Balance at December 31, 2008	(310,274)
Unrealized gains on investment securities, net	242,693
Unrealized gains on Swaps	63,881
Balance at June 30, 2009	(3,700)
Total Stockholders' Equity at June 30, 2009	\$ 1,650,582

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

MFA FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In Thousands)</i>	Six Months Ended	
	June 30,	
	2009	2008
	(Unaudited)	
Cash Flows From Operating Activities:		
Net income/(loss)	\$ 122,779	\$ (50,905)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
Losses on sale of MBS	-	25,101
Gains on sales of MBS	(13,495)	(571)
Losses on early termination of Swaps	-	91,481
Other-than-temporary impairment charges	9,009	4,868
Amortization of purchase premium on MBS, net of accretion of discounts	7,729	10,910
Decrease/(increase) in interest receivable	4,175	(7,177)
Depreciation and amortization on real estate	221	236
Increase in prepaid and other assets and other	(910)	(308)
Increase in accrued expenses and other liabilities	132	649
Decrease in accrued interest payable	(9,016)	(43)
Equity-based compensation expense	900	639
Negative amortization and principal accretion on investment securities	(12)	(339)
Net cash provided by operating activities	\$ 121,512	\$ 74,541
Cash Flows From Investing Activities:		
Principal payments on MBS and other investments securities	\$ 834,085	\$ 809,416
Proceeds from sale of MBS	438,507	1,851,019
Purchases of MBS and other investment securities	(327,588)	(4,954,094)
Net additions to leasehold improvements, furniture, fixtures and real estate investment	(460)	(98)
Net cash provided/(used) by investing activities	\$ 944,544	\$ (2,293,757)
Cash Flows From Financing Activities:		
Principal payments on repurchase agreements	\$ (33,833,050)	\$ (27,731,494)
Proceeds from borrowings under repurchase agreements	32,746,145	29,515,656
Payments made on termination of Swaps	-	(91,481)
Payments made for margin calls on repurchase agreements and Swaps	(101,800)	(140,724)
Cash received for reverse margin calls on repurchase agreements and Swaps	127,158	156,354
Proceeds from issuances of common stock	16,512	557,964
Dividends paid on preferred stock	(4,080)	(4,080)
Dividends paid on common stock and DERs	(95,531)	(45,455)
Principal payments on mortgage loan	(85)	(77)
Net cash (used)/provided by financing activities	\$ (1,144,731)	\$ 2,216,663
Decrease in cash and cash equivalents	\$ (78,675)	\$ (2,553)
Cash and cash equivalents at beginning of period	\$ 361,167	\$ 234,410
Cash and cash equivalents at end of period	\$ 282,492	\$ 231,857

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

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

<i>(In Thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(Unaudited)			
Net income/(loss) before preferred stock dividends	\$ 69,106	\$ 35,038	\$ 122,779	\$ (50,905)
Other Comprehensive Income/(Loss):				
Unrealized gain/(loss) on investment securities arising during the period, net	124,419	(66,545)	236,861	(56,797)
Reclassification adjustment for MBS sales	(12,377)	-	(3,033)	(8,241)
Reclassification adjustment for net losses included in net income for other-than-temporary impairments	7,460	2,117	8,865	1,506
Unrealized gains on Swaps arising during period, net	53,060	100,819	63,881	10,806
Reclassification adjustment for net losses included in earnings from Swaps	-	-	-	48,162
Comprehensive income/(loss) before preferred stock dividends	\$ 241,668	\$ 71,429	\$ 429,353	\$ (55,469)
Dividends declared on preferred stock	(2,040)	(2,040)	(4,080)	(4,080)
Comprehensive Income/(Loss) to Common Stockholders	\$ 239,628	\$ 69,389	\$ 425,273	\$ (59,549)

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

SIGNATURES

Pursuant to the requirements the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: July 27, 2009

MFA Financial, Inc.

By: /s/ Stewart Zimmerman
Stewart Zimmerman
Chairman and Chief Executive Officer

By: /s/ William S. Gorin
William S. Gorin
President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ Teresa D. Covello
Teresa D. Covello
Senior Vice President and
Chief Accounting Officer
(Principal Accounting Officer)