

March 28, 2013

Submitted by e-mail to director@fasb.org

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116,
Norwalk, Connecticut, 06856-5116

RE:

Proposed Accounting Standards Update of Topic 860 "Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings" File Reference No. 2013-210

Dear Technical Director:

We appreciate the opportunity to comment on the proposed Accounting Standards Update of Topic 860, Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings (the proposed ASU). We are generally in agreement with the changes in accounting that we believe will result from adoption of the proposed ASU. In particular, we believe that separately accounting for an asset whose acquisition has been financed contemporaneously by entering into a repurchase agreement financing with the asset seller improves financial reporting in comparison to the combined or linked transactions accounting currently required for certain transactions under ASC 860. In our opinion, such separate accounting results in a more appropriate financial statement presentation of the assets and debt obligations of entities that are currently required to apply linked transactions treatment to such transactions. However, with respect to the transition guidance in the proposed ASU for other than repo to maturity transactions, we would ask the Board to consider allowing early adoption of the proposed ASU, using a full retrospective application approach.

2-207-6420 website: www.mfa-reit.

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Responses to "Questions for Respondents" set out in the proposed ASU

The appendix to this letter provides our responses to certain of the Board's specific questions on the proposed ASU. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please do not hesitate to contact the undersigned at (212) 207-6437.

Very truly yours,

Stephen Yoral

Stephen D. Yarad Chief Financial Officer MFA Financial, Inc.

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Question 1

This proposed Update would amend the effective control guidance in paragraphs 860-10-40-5(c)(1) and 860-10-40-24 to require that transactions that involve a transfer of a financial asset with an agreement that both entitles and obligates a transferor to repurchase or redeem the transferred asset at the maturity of the transferred financial asset would maintain the transferor's effective control. Therefore, those transactions would be accounted for as a secured borrowing. Do these proposed amendments represent an improvement in financial reporting?

MFA Response:

We consider that the amendments to ASC 860-10-40-5(c)(1) and 860-10-40-24 will improve financial reporting as we believe that it is appropriate for the vast majority of (if not all) repurchase agreement financings to be accounted for and presented in the financial statements as secured borrowings.

Question 2

Do you agree with the limited amendment of the condition for derecognition related to effective control in paragraphs 860-10-40-5(c) and 860-10-40-24? That is, do you agree with the application of secured borrowing accounting to the transactions described in Question 1 and not to other transactions resulting in similar risks and rewards for the transferor (for example, regardless of the form of settlement or whether the settlement date of the repurchase agreement is before, on, or after the maturity date of the transferred financial assets)? If not, what approach for assessing derecognition for transactions that involve transfers of financial assets with agreements that entitle and obligate the transferor to repurchase or redeem the transferred assets would be an improvement to the proposed approach?

MFA Response:

See response to Question 1 above. We believe that the vast majority of (if not all) repurchase agreement financing transactions should accounted for as secured borrowings. The ability to cash settle prior to maturity a transaction that otherwise conveys on both parties the same risks and rewards as a repurchase agreement financing that is not able to be cash settled prior to maturity should not result in such transactions being accounted for as sales for financial reporting purposes.

Question 3

This proposed Update would require that an initial transfer and a repurchase agreement that relates to a previously transferred financial asset between the same counterparties that is entered into contemporaneously with, or in contemplation of, the initial transfer (a repurchase financing) be accounted for separately. Would separate accounting for the initial transfer and repurchase financing reflect the economics of those agreements? Do these proposed amendments represent an improvement in financial reporting?

MFA Response:

We are a long term investor in Agency and Non-Agency residential mortgage backed securities (RMBS). We invest in RMBS on a leveraged basis using repurchase agreements, among other forms of financing to facilitate our investment purchases. Based on our involvement in both the RMBS market and our dealings with repurchase agreement counterparties, we believe that purchase terms for RMBS are independently negotiated and are not influenced by the ability to finance the purchase using a repurchase agreement with the same counterparty.

In our experience, an RMBS purchase is negotiated with the "RMBS trading desk" of the selling counterparty, while the terms of the repurchase agreement financing (including if also entered into with the selling counterparty) are separately negotiated with the "repo desk" of that counterparty. The counterparty negotiates the terms of the repurchase agreement based on their funding costs and considering approved counterparty credit limits in consultation with their internal credit risk department. Further, in our experience in the current market, the terms available from repo counterparties for financing transactions (for a specific type of collateral) are not significantly different, irrespective of whether the repurchase agreement counterparty is also the seller of the asset. Finally, we separately manage the economic risks arising from the purchased asset (such has prepayment risk, interest rate risk and credit risk of underlying residential mortgage loans) from the economic risks arising from the repurchase agreement transaction (such as rollover risk, counterparty credit risk and interest rate risk) with the underlying transactions recorded on separate modules of our sub-ledger, rather than on a combined basis.

Consequently, we believe that financial statement presentation that results in accounting for the acquired asset separately from the repurchase agreement financing appropriately reflects the economics of those transactions. Further, separate accounting of such transactions improves financial reporting, as it would result in the asset purchaser reflecting an appropriate liability (debt obligation) for the financing transaction that facilitates the asset purchase. In addition, as noted above, separate accounting of the acquired RMBS asset and the repurchase agreement liability is consistent with the way we manage the various risks arising from our investment activities.

Question 9

Do you agree with the transition provisions in this proposed Update? If not, why?

MFA Response:

We respectfully request that the Board reconsider permitting full retrospective application of the guidance in the proposed ASU for other than repo to maturity transactions. As noted in our earlier response to Question 3, we do not believe that the linked transactions accounting currently prescribed by ASC 860 has resulted in an appropriate presentation of our assets or debt obligations in our prior period financial statements for transactions that meet the criteria for linked treatment. Consequently, in our quarterly and annual financial reports and quarterly earnings releases, we have included supplemental disclosure to present our balance sheet, key profitability metrics and leverage position on a non-GAAP basis that adjusts the presentation of transactions accounted on a linked basis for GAAP purposes as if they were accounted for separately. Based on interaction with the users of our financial statements, we believe that the majority of our investors and equity analysts have found the current accounting prescribed by ASC 860 to be confusing and not consistent with the economic substance of the transactions. Consequently, we would appreciate the opportunity to adopt the revised standard for these transactions on a full retrospective basis. We believe this would enable us to present any transactions previously accounted for on a linked basis that are impacted by the new guidance on a separate basis in our prior period financial statements, which would essentially be consistent with the supplemental non-GAAP presentation included in our previous SEC filings. Further, we believe that using full retrospective adoption would allow consistent treatment of such transactions in our financial statements for periods before and after adoption, which should result in a more clear presentation of transactions impacted by the new guidance to the users of our financial statements.

Question 10

Should early adoption be permitted? If not, why? Should this be the case for both public entities and nonpublic entities?

MFA Response:

As noted in our response to Question 9, we would appreciate the opportunity to adopt the guidance for other than repo to maturity transactions using full retrospective application. Regardless of whether full retrospective application is permitted, we would appreciate the opportunity to early adopt the new guidance. We do not believe that there are complex issues involved in adopting the revised guidance for other than repo to maturity transactions and accordingly, we see no reason why the transition guidance should be any different for public or non-public entities, including the ability to early adopt, if desired.

Question 11

Should the effective date be the same for both public entities and nonpublic entities? If not, why?

MFA Response:

As noted in our response to Question 10, we do not believe that there are complex issues involved in adopting the revised guidance for other than repo to maturity transactions and accordingly, we see no reason why the effective date should not be the same for both public and non-public entities.