MFA MORTGAGE INVESTMENTS
Form 424B5
November 08, 2007

Table of Contents

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-146819

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(1)
Common Stock	$137,137,500	$4,210.12

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933. The total registration fee due for this offering is $4,210.12.

PROSPECTUS SUPPLEMENT November 7, 2007
(To Prospectus Dated November 5, 2007)

15,000,000 Shares

Common Stock

We are offering for sale 15,000,000 shares of our common stock, par value $0.01 per share. Our common stock is listed on the New York Stock Exchange under the symbol MFA. On November 7, 2007, the last reported sale price of our common stock on the New York Stock Exchange was $7.95 per share.

Investing in our common stock involves certain risks. Before buying any shares, you should read the discussion of material risks of investing in our common stock under the caption Risk factors on page S-5 of this prospectus supplement and beginning on page 5 of our annual report on Form 10-K for the fiscal year ended December 31, 2006, which is incorporated by reference into the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per share	Total
Public offering price	$ 7.9500	$ 119,250,000
Underwriting discounts and commissions	$ 0.3975	$ 5,962,500
Proceeds, before expenses, to us	$ 7.5525	$ 113,287,500

The underwriters may also purchase up to an additional 2,250,000 shares from us at the public offering price, less underwriting discounts and commissions payable by us within 30 days from the date of this prospectus supplement. If the underwriters exercise the option in full, the total public offering price will be $137,137,500, the total underwriting discounts and commissions will be $6,856,875, and the total proceeds, before expenses, to us will be $130,280,625.

The underwriters are offering the shares of our common stock as set forth under Underwriting. Delivery of the shares of common stock will be made on or about November 13, 2007.

Joint Book-Running Managers

UBS Investment Bank **Bear, Stearns & Co. Inc.** **Deutsche Bank Securities** **Morgan Stanley**

JMP Securities **RBC Capital Markets** **Cantor Fitzgerald & Co.**

You should rely only on the information contained in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated therein by reference is accurate only as of its respective date or dates or on the date or dates which are specified in these documents. Our business, financial condition, results of operations and prospects may have changed since those dates.

TABLE OF CONTENTS

Prospectus Supplement

Prospectus

Table of Contents

Forward-looking statements

This prospectus supplement and the accompanying prospectus contain or incorporate by reference certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (or the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (or the Exchange Act). When used, statements which are not historical in nature, including those containing words such as anticipate, estimate, should, expect, believe, intend and similar expressions, are intended to identify forward-looking statements and, as such, may involve known and unknown risks, uncertainties and assumptions.

These forward-looking statements are subject to various risks and uncertainties, including, but not limited to, those relating to:

- changes in interest rates and the market value of our mortgage-backed securities (or MBS);
- changes in the prepayment rates on the mortgage loans securing our MBS;
- our ability to use borrowings to finance our assets;
- changes in government regulations affecting our business;
- our ability to maintain our qualification as a REIT for federal income tax purposes; 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 identified in this prospectus supplement and in our annual report on Form 10-K for the fiscal year ended December 31, 2006, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date they are made and we do not undertake, and specifically disclaim, any obligation to update or revise any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Table of Contents

Prospectus supplement summary

The following information is qualified in its entirety by the more detailed information and financial statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus or incorporated by reference into the accompanying prospectus. We encourage you to read this prospectus supplement and the accompanying prospectus, as well as the information which is incorporated by reference into the accompanying prospectus, in their entireties. You should carefully consider the risks identified in the Risk factors section of this prospectus supplement and in our annual report on Form 10-K for the fiscal year ended December 31, 2006, which is incorporated by reference into the accompanying prospectus, before making an investment decision to purchase shares of our common stock. All references to we, our, us or the company in this prospectus supplement and the accompanying prospectus mean MFA Mortgage Investments, Inc. Unless otherwise specified, the information in this prospectus supplement assumes that the underwriters do not exercise their over-allotment option described herein under Underwriting.

THE COMPANY

Our business

We are a self-advised real estate investment trust (or REIT) primarily engaged in the business of investing, on a leveraged basis, in hybrid and adjustable-rate MBS which are primarily secured by pools of hybrid and adjustable-rate mortgage loans (or ARMs) on single family residences. At September 30, 2007, we had total assets of approximately $7.140 billion. Of these assets, 99% consisted of MBS 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 (or, collectively, Agency MBS), non-Agency MBS rated AAA by at least one nationally recognized rating agency (or AAA rated MBS), MBS-related receivables and cash.

Investment strategy

We are primarily engaged in the business of investing in Agency MBS and other high quality MBS. Our operating policies require that at least 50% of our investment portfolio consist of hybrid or adjustable-rate MBS that are either (i) Agency MBS or (ii) rated in one of the two highest rating categories by at least one nationally recognized rating agency. The remainder of our assets may consist of direct or indirect investments in: (i) other types of MBS; (ii) residential mortgage loans; (iii) collateralized debt obligations and other related securities; (iv) real estate; (v) securities issued by REITs, limited partnerships and closed-end funds; (vi) high-yield corporate securities and other fixed income instruments (corporate or government); and (vii) other types of assets approved by our board of directors (or the board) or a committee thereof. At September 30, 2007, 91% of our MBS portfolio (or approximately $6.290 billion) was comprised of Agency MBS, 8% (or approximately $576 million) was comprised of AAA rated MBS and less than 1% (or approximately $9 million) was comprised of non-Agency MBS rated below AAA or unrated. All of our AAA rated MBS are secured by first lien mortgage loans on one to four family properties.

The ARMs collateralizing our MBS are comprised of hybrid mortgage loans, which have interest rates that are fixed for a specified period (typically three to ten years) and, thereafter, generally adjust annually to an increment over a specified interest rate index, and, to a lesser extent, adjustable-rate mortgage loans, which have interest rates that generally adjust annually (although some may adjust more frequently) to an increment over a specified interest rate index. Interest rates on the ARMs collateralizing our MBS are based on specific index rates, such as the one-year constant maturity treasury (or CMT) rate, the London Interbank Offered Rate (or LIBOR), the Federal Reserve U.S. 12-month cumulative average one-year CMT or the 11th District Cost of Funds Index. In addition, the ARMs collateralizing our MBS typically have interim and lifetime caps on interest rate adjustments.

Because the coupons earned on hybrid and adjustable-rate MBS adjust over time as interest rates change (typically after a fixed-rate period), the market values of these assets are generally less sensitive to changes in interest rates than are fixed-rate MBS. In order to mitigate our interest rate risks, our strategy is to maintain a substantial majority of our portfolio in hybrid and adjustable-rate MBS. At September 30, 2007, hybrid and adjustable-rate MBS comprised 96% of our total assets and 100% of our total MBS portfolio. The ability of hybrid and adjustable-rate MBS to reset based on changes in interest rates helps to mitigate interest rate risk more effectively over a longer time period than over the short term; however, interest rate risk is not entirely eliminated.

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 typically utilize repurchase agreements to finance the acquisition of our MBS and, in certain cases, enter into interest rate swap agreements (or Swaps) to hedge the interest rate risk associated with these repurchase agreements. At September 30, 2007, we had $6.314 billion outstanding under repurchase agreements, a portion of which was hedged with Swaps having a notional amount of $3.198 billion. At September 30, 2007, our asset-to-equity ratio was 9.3 to 1.

Repurchase agreements are financings (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 estimated market value of the pledged collateral. The portion of the pledged collateral held by the lender is the margin requirement for that borrowing. Repurchase agreements take the form of a sale of the pledged collateral to a lender at an agreed upon price in return for such lender s simultaneous agreement to resell the same securities back to the borrower at a future date (i.e., the maturity of the borrowing) at a higher price. The difference between the sale price and repurchase price is the cost, or interest expense, of borrowing under a repurchase agreement. Our cost of borrowings under repurchase agreements generally corresponds to LIBOR plus or minus a margin, although such agreements may not expressly incorporate a LIBOR index. Under our repurchase agreements, we retain beneficial ownership of the pledged collateral, while the lender maintains custody of such collateral. At the maturity of a repurchase agreement, we are required to repay the loan and concurrently receive back our pledged collateral or, with the consent of the lender, we may renew such agreement at the then prevailing market interest rate. Under our repurchase agreements, a lender may require that we pledge additional assets to such lender (i.e., by initiating a margin call) in the event the estimated fair value of our existing pledged collateral declines below a specified percentage during the term of the borrowing. Our pledged collateral fluctuates in value due to, among other things, principal repayments, changes in the interest rate differential on MBS relative to Treasury Securities or Swaps and market changes in interest rates. By maintaining low leverage, we are better able to respond to potential increases in margin requirements. To date, we have satisfied all of our margin calls.

In order to reduce our exposure to counterparty-related risk, we enter into repurchase agreements only with financial institutions that have a long-term debt rating of, or, to the extent applicable, have a holding or parent company with a long-term debt rating of, single A or better as determined by one of the rating agencies (or Qualifying Institutions). If this minimum criterion is not met, we will not enter into repurchase agreements with a lender without the specific approval of the board. In the event an existing lender s or, if applicable, its holding or parent company s rating is downgraded below single A, we will seek the approval of the board before entering into additional repurchase agreements with that lender. We generally seek to diversify our exposure by entering into repurchase agreements with at least four separate lenders with a maximum loan from any lender of no more than three times our stockholders equity. At September 30, 2007, we had amounts outstanding under repurchase agreements with 14 separate lenders, with a maximum net exposure (the difference between the amount loaned to us, including interest due on such loans, and the estimated fair value of the security pledged by us as collateral) to any single lender of $55 million.

We may enter into derivative financial instruments to hedge against increases in interest rates on a portion of our anticipated LIBOR-based repurchase agreements. To date, our derivative financial instruments have consisted of Swaps and interest rate cap agreements (or Caps). Our Swaps are used to

S-2

Table of Contents

lock-in fixed interest rates, over the term of the Swap, related to a portion of our current and anticipated 30-day term repurchase agreements. A Cap is an agreement whereby we, as the purchaser, pay a fee in exchange for the right to receive payments equal to the principal (i.e., notional amount) times the difference between a specified interest rate and a future interest rate during a defined active period of time. In order to limit credit risk associated with the counterparties to derivative financial instruments, our policy is to enter into derivative contracts with Qualifying Institutions. At September 30, 2007, we were a party to fixed-pay Swaps with an aggregate notional amount of $3.198 billion and had no Caps outstanding. We do not anticipate entering into derivatives for speculative or trading purposes.

We indirectly own one multi-family apartment property, that we acquired in 2001, which is subject to a long-term fixed-rate mortgage loan. The mortgage collateralized by this property is non-recourse, subject to customary non-recourse exceptions, which generally means that the lender s final source of repayment in the event of default is foreclosure of the property. At September 30, 2007, the mortgage secured by this multi-family apartment property was approximately $9 million.

Advisory business

We provide, through wholly-owned subsidiaries, investment advisory services to third-party institutions with respect to their MBS portfolio investments and, as of September 30, 2007, had approximately $298 million of assets under management. We may grow our third-party advisory business over time.

Recent developments

On November 5, 2007, we sold approximately $139 million of AAA rated MBS for a realized capital gain of approximately $348,000.

Compliance with REIT requirements and Investment Company Act of 1940

We have elected to be treated as a 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 U.S. federal income tax law that are discussed under Material U.S. federal income tax considerations in the accompanying prospectus. If we fail to maintain our qualification as a REIT, we would be subject to U.S. federal income tax, which could have an adverse impact on our business. In addition, we at all times intend to conduct our business so as to maintain our exempt status under, and not to become regulated as an investment company for purposes of, the Investment Company Act of 1940, as amended. If we fail to maintain our exempt status under the Investment Company Act of 1940, we would be unable to conduct our business as described in this prospectus supplement and the accompanying prospectus. See Risk Factors Loss of our Investment Company Act exemption would adversely affect us in our annual report on Form 10-K for the fiscal year ended December 31, 2006, which is incorporated by reference into the accompanying prospectus.

General information

We were incorporated on July 24, 1997 under Maryland law. Our principal executive offices are located at 350 Park Avenue, 21st Floor, New York, New York 10022. Our telephone number is (212) 207-6400. Our common stock and 8.50% Series A Cumulative Redeemable Preferred Stock (or Series A Preferred Stock) are listed on the New York Stock Exchange (or NYSE) under the symbols MFA and MFA PrA, respectively. We maintain a website at *www.mfa-reit.com*. Information contained on our website is not, and should not be interpreted to be, part of this prospectus supplement or the accompanying prospectus.

Table of Contents

The offering

Common stock we are offering	15,000,000 shares
Common stock to be outstanding after this offering	119,646,055 shares(1)(2)
Use of proceeds after expenses	We intend to use the net proceeds from this offering to acquire additional high quality MBS, on a leveraged basis, consistent with our investment policy and for working capital, which may include, among other things, the repayment of our repurchase agreements.
NYSE symbol	MFA

(1) *The number of shares of our common stock outstanding immediately after the closing of this offering is based on 104,646,055 shares of our common stock outstanding as of November 7, 2007.*

(2) *The number of shares of our common stock outstanding immediately after this offering excludes 962,000 shares of our common stock issuable upon the exercise of stock options outstanding as of November 7, 2007 under our 2004 Equity Compensation Plan.*

Table of Contents

Risk factors

An investment in our common stock involves risks. You should carefully consider, among other factors, the risk described below, the risks referred to in the section of this prospectus supplement entitled Forward-looking statements and the risks described under Risk factors in our annual report on Form 10-K for the fiscal year ended December 31, 2006, which is incorporated by reference into the accompanying prospectus.

Adverse developments involving major financial institutions or involving one of our lenders could result in a rapid reduction in our ability to borrow and adversely affect our business and profitability.

Although as of September 30, 2007 we had amounts outstanding under repurchase agreements with 14 separate lenders and continue to develop new relationships with additional lenders, recent turmoil in the financial markets as it relates to major financial institutions has raised concerns that a material adverse development involving one or more major financial institutions could result in our lenders reducing our access to funds available under our repurchase agreements. Because all of our repurchase agreements are uncommitted, such a disruption could cause our lenders to determine to reduce or terminate our access to future borrowings, which could adversely affect our business and profitability.

Price range of common stock and distributions

Our common stock began trading on the New York Stock Exchange on April 10, 1998 under the symbol MFA. The following table sets forth, for the periods indicated, the high and low sales price per share of our common stock and the cash dividends per share of our common stock.

	Sales price per share		Cash dividend
	High	**Low**	**per share**
2007			
Fourth Quarter (through November 7, 2007)	$ 8.86	$ 7.90	
Third Quarter	8.65	5.55	$ 0.10
Second Quarter	8.06	6.90	0.09
First Quarter	7.87	6.75	0.08
2006			
Fourth Quarter	$ 8.12	$ 7.20	$ 0.06
Third Quarter	7.49	6.53	0.05
Second Quarter	7.08	5.95	0.05
First Quarter	6.90	5.65	0.05

We pay cash dividends on a quarterly basis. We intend to continue to pay dividends on our common stock in an amount equal to at least 90% of our taxable income before deductions of dividends paid and excluding net capital gains in order to maintain our status as a REIT for federal income tax purposes. Dividends will be declared and paid at the discretion of the board and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as the board may deem relevant from time to time. We have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected for the reasons described under Risk factors on page S-5 of this prospectus supplement and beginning on page 5 of our annual report on Form 10-K for the fiscal year ended December 31, 2006, which is incorporated by reference into the accompanying prospectus.

Use of proceeds

We expect to receive approximately $113.0 million in net proceeds from the sale of the shares of our common stock in this offering (approximately $130.0 million if the underwriters over-allotment option is exercised in full), after deducting underwriting discounts and commissions and the estimated expenses of this offering payable by us.

We intend to use the net proceeds from this offering to acquire additional high quality MBS, on a leveraged basis, consistent with our investment policy and for working capital, which may include, among other things, the repayment of our repurchase agreements.

Capitalization

The following table presents our capitalization as of September 30, 2007:

- Ø on an actual basis;
- Ø on an as adjusted basis giving effect to the sale of 8,050,000 shares of common stock by us in a public offering completed on October 5, 2007 at $7.90 per share; and
- Ø on an as further adjusted basis giving effect to the sale of 15,000,000 shares of common stock in this offering at $7.95 per share.

The information set forth in the following table should be read in conjunction with, and is qualified in its entirety by, the financial statements and the notes thereto and the information under Management s Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the fiscal year ended December 31, 2006, and our quarterly report on Form 10-Q for the quarter ended September 30, 2007, which are incorporated by reference into the accompanying prospectus.

	As of September 30, 2007		
	Actual	**As adjusted for the October 5, 2007 offering**	**As further adjusted for this offering**
	(unaudited) (amounts in thousands, except per share data)		
Stockholders Equity:			
Preferred stock, $.01 par value; series A 8.50% cumulative redeemable; 5,000 shares authorized; 3,840 shares ($96,000 aggregate liquidation preference) issued and outstanding on an actual basis, as adjusted basis and as further adjusted basis	$ 38	$ 38	$ 38
Common stock, $.01 par value; 370,000 shares authorized; 96,591 issued and outstanding (actual), 104,641 shares issued and outstanding (as adjusted for the October 5, 2007 offering) and 119,641 shares issued and outstanding (as further adjusted for this offering)(1)	966	1,046	1,196
Excess stock, $.01 par value; 125,000 shares authorized; no shares issued and outstanding on an actual and as adjusted basis			
Additional paid-in capital, in excess of par	887,593	947,705	1,060,559
Accumulated deficit	(79,272)	(79,272)	(79,272)
Accumulated other comprehensive loss	(43,486)	(43,486)	(43,486)
Total Stockholders Equity	$ 765,839	$ 826,031	$ 939,035

(1) Excludes 4,934 shares of common stock issued after September 30, 2007 through our Discount Waiver, Direct Stock Purchase and Dividend Reinvestment Plan, raising aggregate net proceeds of approximately $41,100.

Table of Contents

Selected financial data

The selected financial data set forth below is derived from our unaudited financial statements for the nine months ended September 30, 2007 and 2006 and from our audited financial statements for the years ended December 31, 2006, 2005 and 2004. Our unaudited interim results, in the opinion of our management, reflect all adjustments (consisting solely of normal recurring adjustments) which are necessary to present fairly the results of our operations for the unaudited interim periods. Our unaudited interim results for the nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2007. The following selected financial data should be read in conjunction with the more detailed information contained in our financial statements and the notes thereto and the information under Management s Discussion and Analysis of Financial Condition and Results of Operations included in our annual report on Form 10-K for the fiscal year ended December 31, 2006 and our quarterly report on Form 10-Q for the quarter ended September 30, 2007, which are incorporated by reference into the accompanying prospectus.

	For the nine months ended September 30,		**For the years ended December 31,**		
	2007	**2006**	**2006**	**2005**	**2004**
	(unaudited)				
	(amounts in thousands, except per share data)				
Operating data:					
Interest income on investment securities	$ 270,329	$ 146,035	$ 216,871	$ 235,798	$ 174,957
Interest income on short-term cash investments	2,208	1,677	2,321	2,921	807
Interest expense on repurchase agreements	(232,424)	(119,808)	(181,922)	(183,833)	(88,888)
Net interest income	40,113	27,904	37,270	54,886	86,876
Revenue from operations of real estate	1,231	1,160	1,556	1,460	1,480
Net (loss) gain on sale of securities[1]	(22,140)	(23,113)	(23,113)	(18,354)	371
Other-than-temporary impairment on securities[1]				(20,720)	
Other income (loss)[2]	(57)	587	708	351	195
Operating and other expenses	(9,809)	(8,802)	(11,185)	(10,829)	(10,622)
Income (loss) from continuing operations	9,338	(2,264)	5,236	6,794	78,300
Discontinued operations, net	257	4,571	3,522	(86)	(227)
Net income before Series A Preferred Stock dividends	$ 9,595	$ 2,307	$ 8,758	$ 6,708	$ 78,073
Series A Preferred Stock dividends	$ 6,120	$ 6,120	$ 8,160	$ 8,160	$ 3,576
Net income (loss) available to common stockholders	$ 3,475	$ (3,813)	$ 598	$ (1,452)	$ 74,497
Net income (loss) per share from continuing operations basic and diluted	$ 0.04	$ (0.11)	$ (0.03)	$ (0.02)	$ 0.98

S-8

Table of Contents

Selected financial data