UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

|X| Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarter ended March 31, 2000

|_| Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 1-9819

DYNEX CAPITAL, INC.
(Exact name of registrant as specified in its charter)

Virginia	52-1549373
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10900 Nuckols Road, 3rd Floor, Glen Allen, Virginia	23060
(Address of principal executive offices)	(Zip Code)

(804) 217-5800
(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 ninety days.
|_| Yes |X|No

On April 30, 2000, the registrant had 11,444,188 shares of common stock of $.01 value outstanding, which is the registrant's only class of common stock.

DYNEX CAPITAL, INC.
FORM 10-Q

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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DYNEX CAPITAL, INC.
CONSOLIDATED BALANCE SHEETS
(amounts in thousands except share data)

<S>	<C> March 31, 2000	<C> December 31, 1999
ASSETS		
Investments:		
Collateral for collateralized bonds	$ 3,552,431	$ 3,700,714
Securities	110,257	127,711
Other investments	39,599	48,927
Loans held for sale	225,796	232,384
	3,928,083	4,109,736
Investment in and net advances to Dynex Holding, Inc.	8,112	4,814
Cash, substantially restricted	53,584	54,433
Accrued interest receivable	1,979	2,208
Other assets	16,899	19,705
	$ 4,008,657	$ 4,190,896
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Non-recourse debt	$ 3,243,092	$ 3,282,378
Recourse debt:		
Secured by collateralized bonds retained	69,734	144,746
Secured by investments	245,963	282,479
Unsecured	105,003	109,873
	3,663,792	3,819,476
Accrued interest payable	3,109	6,303
Accrued expenses and other liabilities	34,919	40,045
	3,701,820	3,865,824
SHAREHOLDERS' EQUITY		
Preferred stock, par value $.01 per share, 50,000,000 shares authorized:		
9.75% Cumulative Convertible Series A, 1,309,061 issued and outstanding	29,900	29,900
9.55% Cumulative Convertible Series B, 1,912,434 issued and outstanding	44,767	44,767

9.73% Cumulative Convertible Series C, 1,840,000 issued and outstanding	52,740	52,740
Common stock, par value $.01 per share, 100,000,000 shares authorized, 11,444,188 and 11,444,099 issued and outstanding, respectively	114	114
Additional paid-in capital	351,995	351,995
Accumulated other comprehensive loss	(56,038)	(48,507)
Accumulated deficit	(116,641)	(105,937)
	306,837	325,072
	$ 4,008,657	$ 4,190,896

<FN>
See notes to unaudited consolidated financial statements.
</FN>
</TABLE>

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands except share data)
<TABLE>
<CAPTION>

<S>	Three Months Ended March 31, <C> 2000	<C> 1999
Interest income:		
Collateral for collateralized bonds	$ 70,230	$ 71,238
Securities	1,976	4,590
Other investments	1,512	584
Loans held for sale or securitization	5,374	7,373
Net advances to Dynex Holding, Inc.	-	3,333
	79,092	87,118
Interest and related expense:		
Non-recourse debt	56,827	55,207
Recourse debt	8,886	16,175
Other	1,788	730
Net advances from Dynex Holding, Inc.	291	-
	67,792	72,112
Net interest margin before provision for losses	11,300	15,006
Provision for losses	(5,321)	(3,793)
Net interest margin	5,979	11,213
Net loss on sale or writedown of investments	(13,433)	(926)
Equity in net loss of Dynex Holding, Inc.	(719)	(369)
Other income	122	1,359
	(8,051)	11,277
General and administrative expenses	(2,403)	(2,008)
Net administrative fees and expenses to Dynex Holding, Inc.	(250)	(5,924)
(Loss) income before extraordinary item	(10,704)	3,345
Extraordinary item - loss on extinguishment of debt	-	(1,086)

Net (loss) income after extraordinary item	(10,704)	2,259
Dividends on preferred stock	(3,228)	(3,228)
Net loss to common shareholders	$ (13,932)	$ (969)
Net (loss) income per common share before extraordinary item:		
Basic	$ (1.22)	$ 0.01
Diluted	$ (1.22)	$ 0.01
Net loss per common share after extraordinary item:		
Basic	$ (1.22)	$ (0.08)
Diluted	$ (1.22)	$ (0.08)

<FN>
See notes to unaudited consolidated financial statements.
</FN>
</TABLE>

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the three months ended March 31, 2000
(amounts in thousands)
<TABLE>
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<S> <C> <C> <C> <C> <C> <C>

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at December 31, 1999	$ 127,407	$ 114	$ 351,995	$ (48,507)	$ (105,937)	$ 325,072
Comprehensive loss:						
Net loss - three months ended March 31, 2000	-	-	-	-	(10,704)	(10,704)
Change in net unrealized loss on investments classified as available-for-sale during the period	-	-	-	(7,531)	-	(7,531)
Total comprehensive loss	-	-	-	(7,531)	(10,704)	(18,235)
Balance at March 31, 2000	$ 127,407	$ 114	$ 351,995	$ (56,038)	$ (116,641)	$ 306,837

<FN>
See notes to unaudited consolidated financial statements.
</FN>
</TABLE>

<TABLE>
<CAPTION>

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

<S> (amounts in thousands)	Three Months Ended March 31, 2000 <C>	1999 <C>
Operating activities:		
Net (loss) income	$ (10,704)	$ 2,259
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Provision for losses	5,321	3,793
Net loss on sale or writedown of investments	13,433	926
Equity in net loss of Dynex Holding, Inc.	719	369
Extraordinary item - loss on extinguishment of debt	-	1,086
Amortization and depreciation	4,334	9,868
Net change in accrued interest, other assets and other liabilities	(6,634)	(10,004)
Net cash provided by operating activities	6,469	8,297
Investing activities:		
Collateral for collateralized bonds:		
Funding of investments subsequently securitized	-	(280,783)
Principal payments on collateral	120,868	396,198
(Increase) decrease in accrued interest receivable	(399)	2,987
Net decrease (increase) in funds held by trustee	201	(744)
Net decrease in loans held for sale or securitization	6,691	149,210
Purchase of other investments	(553)	(7,237)
Payments received on other investments	1,758	2,997
Purchase of securities	-	(23,513)
Payments received on securities	13,135	20,045
Proceeds from sales of securities	2,468	16,181
Investment in and net advances to Dynex Holding, Inc.	(4,017)	(15,103)
Proceeds from sale of loan operations	9,500	-
Capital expenditures	-	(6)
Net cash provided by investing activities	149,652	260,232
Financing activities:		
Collateralized bonds:		
Proceeds from issuance of bonds	78,997	372,189
Principal payments on bonds	(120,034)	(389,849)
Increase in accrued interest payable	963	2,858
Repayment of senior notes	(4,980)	-
Repayment of recourse debt borrowings, net	(111,916)	(251,904)
Net proceeds from issuance of common stock	-	18
Dividends paid	-	(3,228)
Net cash used for financing activities	(156,970)	(269,916)
Net decrease in cash	(849)	(1,387)
Cash at beginning of period	54,433	30,103
Cash at end of period	$ 53,584	$ 28,716
Cash paid for interest	$ 66,763	$ 70,691
Supplemental disclosure of non-cash activities:		
Collateral for collateralized bonds owned subsequently securitized	$ -	$ 1,161,475

<FN>
See notes to unaudited consolidated financial statements.
</FN>
</TABLE>

DYNEX CAPITAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2000
(amounts in thousands except share data)

NOTE 1--BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. The consolidated financial statements include the accounts of Dynex Capital, Inc. and its qualified REIT subsidiaries (together, "Dynex REIT"). The loan production operations are primarily conducted through Dynex Holding, Inc. ("DHI"), a taxable affiliate of Dynex REIT. Dynex REIT owns all the outstanding non-voting preferred stock of DHI which represents a 99% economic ownership interest in DHI. The common stock of DHI represents a 1% economic ownership of DHI and is owned by certain officers of Dynex REIT. In light of these factors, DHI is accounted for under a method similar to the equity method. Under the equity method, Dynex REIT's original investment in DHI is recorded at cost and adjusted by Dynex REIT's share of earnings or losses and decreased by dividends received. References to the "Company" mean Dynex Capital, Inc., its consolidated subsidiaries, and DHI and its consolidated subsidiaries. All significant intercompany balances and transactions with Dynex REIT's consolidated subsidiaries have been eliminated in consolidation of Dynex REIT.

In the opinion of management, all material adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the consolidated financial statements have been included. The Consolidated Balance Sheet at March 31, 2000, the Consolidated Statements of Operations for the three months ended March 31, 2000 and 1999, the Consolidated Statement of Shareholders' Equity for the three months ended March 31, 2000, the Consolidated Statements of Cash Flows for the three months ended March 31, 2000 and 1999 and related notes to consolidated financial statements are unaudited. Operating results for the three months ended March 31, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000. For further information, refer to the audited consolidated financial statements and footnotes included in the Company's Form 10-K for the year ended December 31, 1999.

Certain reclassifications have been made to the financial statements for 1999 to conform to presentation for 2000.

NOTE 2 -- SIGNIFICANT RISKS AND UNCERTAINTIES

The Company's business strategy has historically relied on access to financing sources such as warehouse lines of credit and repurchase agreements, and the asset-backed securities market, to finance its activities. During 1999, the Company's access to these sources of financing was substantially impaired due in part to market perception of specialty finance companies that resulted from the disruption in the fixed income market in late 1998. As a result of this environment, the Company sold both its manufactured housing lending operations and model home purchase/leaseback business during 1999, and decided not to extend the forward commitments on commercial mortgage loans. In addition, in lieu of securitization, the Company decided to sell as whole loans its commercial loans held in inventory. The sale of the two production operations will significantly lower the Company's capital requirements and will reduce the need for short-term financing. On a long-term basis, competitive pressures, including competing against larger companies which generally have significantly lower costs of capital and access to the financing sources, the lack of ability to obtain critical lending sources to finance its production operations, and the lack of ability to access the capital markets as a long-term source of financing in a cost effective manner, are expected to continue to hamper the Company's ability to compete profitably in the marketplace for the foreseeable future.

The Company has recourse debt of approximately $427 million as of March 31, 2000, of which $324 million comes due in 2000 (see Note 5, Recourse Debt). Given the Company's operating performance during 1999 and the recent jury verdict in the litigation with AutoBond Acceptance Corporation as discussed in Note 9, Litigation, the Company's access to additional credit has been limited, and there is generally less willingness of the Company's current lenders to grant extensions. In addition, the Company is in violation of certain covenants in two of its warehouse lines of credit and the 1994 Senior Notes, principally related to minimum senior unsecured ratings and minimum net worth requirements, and the receipt of a going concern opinion from its auditors. The Company has not received waivers from one of its warehouse lines of credit and the 1994 Senior Notes for these covenant violations, and, as a result, certain lenders could accelerate the debt as due and payable upon written notice. As of May 15, 2000, no lender has accelerated such debt.

As of May 15, 2000, the aggregate amount due under the two warehouse lines of credit was $237.7 million, collateralized by loans with an unpaid principal balance of $307.2 million. Substantially all collateral pledged under these lines is held for sale. No assurance can be given, however, that any sales will ultimately be consummated.

The senior unsecured notes due July 2002, with an outstanding balance of $97.3 million at March 31, 2000, contain covenants which provide for the acceleration of amounts outstanding should Dynex REIT default under other credit agreements in amounts in excess of $10 million, and such amounts outstanding under the other credit agreements are accelerated by the respective lender.

As of May 15, 2000, the Company also has $51.7 million outstanding under repurchase agreements with substantially one counterparty, which amount is collateralized with collateral having a current estimated market value of $58.4.

As discussed in Note 9, Litigation, on March 9, 2000, a jury in the litigation with AutoBond Acceptance Corporation ("AutoBond") returned a verdict in favor of AutoBond, and awarded $18.7 million in direct lost profits and $50.5 million in lost future profits to AutoBond. On April 17, 2000, based on motions filed by the Company, the judge presiding over the matter in Travis County proposed a judgment of approximately $27 million (which includes estimated prejudgment interest) in lieu of the approximate $69 million jury verdict. At a subsequent hearing on April 17, 2000, the Court further reduced the award to $23.6 million including prejudgment interest. AutoBond has accepted this judgment, as reduced by the trial court, of $23.6 million. On May 15, 2000, the Court denied the Company's motion to post alternative security in lieu of an appeal bond in order to appeal the Court's earlier judgment in favor of AutoBond. To date the Company has been unable to obtain an appeal bond. The Court stayed enforcement of the judgment for ten days to allow the Company to appeal the Court's action to the Austin Court of Appeals. The Company intends to appeal the Court's action. In addition, the Court ordered the parties to resume mediation in an effort to either settle the case or agree on alternative security. The Court also reduced the amount of the judgment by $270,000 to approximately $23.3 million. As of March 31, 2000, the Company has a litigation reserve of $26.8 million.

NOTE 3--NET INCOME PER COMMON SHARE

Net income per common share is presented on both a basic net income per common share and diluted net income per common share basis. Diluted net income per common share assumes the conversion of the convertible preferred stock into common stock, using the if-converted method, and stock appreciation rights, using the treasury stock method, but only if these items are dilutive. As a result of the two-for-one split in May 1997 and the one-for-four reverse split in July 1999 of Dynex REIT's common stock, the preferred stock is convertible into one share of common stock for two shares of preferred stock

The following table reconciles the numerator and denominator for both the basic and diluted net income per common share for the three months ended March 31, 2000 and 1999.

<TABLE>
<CAPTION>

	Three Months Ended March 31,			
	2000		1999	
<S>	<C>	<C>	<C>	<C>
	Income	Weighted-Average Number of Shares	Income	Weighted-Average Number of Shares
(Loss) income before extraordinary item	$ (10,704)		$ 3,345	
Extraordinary item - loss on extinguishment of debt	-		(1,086)	
Net (loss) income after extraordinary item	(10,704)		2,259	
Less: Dividends on preferred stock	(3,228)		(3,228)	
Basic and diluted net loss to common shareholders	$ (13,932)	11,444,158	$ (969)	11,507,431
Net (loss) income per common share before extraordinary item:				
Basic		$ (1.22)		$ 0.01

	2000		1999	
Diluted		$ (1.22)		$ 0.01
Net loss per common share after extraordinary item:				
Basic		$ (1.22)		$ (0.08)
Diluted		$ (1.22)		$ (0.08)
Reconciliation of anti-dilutive shares:				
Dividends and additional shares of preferred stock:				
Series A	$ 766	654,531	$ 766	654,531
Series B	1,119	956,217	1,119	956,217
Series C	1,343	920,000	1,343	920,000
Expense and incremental shares of stock appreciation rights	-	24,539	2	28,764
	$ 3,228	2,555,287	$ 3,230	2,559,512

</TABLE>

NOTE 4 -- COLLATERAL FOR COLLATERALIZED BONDS AND SECURITIES

The following table summarizes Dynex REIT's amortized cost basis and fair value of investments classified as available-for-sale, as of March 31, 2000 and December 31, 1999, and the related average effective interest rates:

<TABLE>
<CAPTION>

	March 31, 2000		December 31, 1999	
<S>	<C>	<C>	<C>	<C>
	Fair Value	Effective Interest Rate	Fair Value	Effective Interest Rate
Collateral for collateralized bonds:				
Amortized cost	$ 3,624,465	7.5%	$ 3,752,702	7.8%
Allowance for losses	(16,352)		(15,299)	
Amortized cost, net	3,608,113		3,737,403	
Gross unrealized gains	26,061		34,198	
Gross unrealized losses	(81,743)		(70,887)	
	$ 3,552,431		$ 3,700,714	
Securities:				
Funding Notes and Securities	$ 82,779	6.7%	$ 94,890	6.8%
Adjustable-rate mortgage securities	12,742	5.8%	18,047	7.0%
Fixed-rate mortgage securities	9,173	8.8%	9,861	13.5%
Derivative and residual securities	7,576	0.9%	18,421	1.5%
	112,270		141,219	
Allowance for losses	(1,657)		(1,690)	
Amortized cost, net	110,613		139,529	

Gross unrealized gains	4,265	1,353
Gross unrealized losses	(4,621)	(13,171)
	$ 110,257	$ 127,711

</TABLE>

Collateral for collateralized bonds. Collateral for collateralized bonds consists primarily of securities backed by adjustable-rate and fixed-rate mortgage loans secured by first liens on single family housing, fixed-rate loans on multifamily and commercial properties and manufactured housing installment loans secured by either a UCC filing or a motor vehicle title. All collateral for collateralized bonds is pledged to secure repayment of the related collateralized bonds. All principal and interest (less servicing-related fees) on the collateral is remitted to a trustee and is available for payment on the collateralized bonds. Dynex REIT's exposure to loss on collateral for collateralized bonds is generally limited to the amount of collateral pledged to the collateralized bonds in excess of the amount of the collateralized bonds issued, as the collateralized bonds issued by the limited-purpose finance subsidiaries are non-recourse to Dynex REIT.

Dynex REIT did not securitize any collateral through the issuance of collateralized bonds during the first quarter of 2000.

Securities. Funding Notes and Securities consist of fixed-rate funding notes and securities secured by fixed-rate automobile installment contracts originated by AutoBond. Adjustable-rate mortgage securities ("ARM") consist of mortgage certificates secured by ARM loans. Fixed-rate mortgage securities consist of mortgage certificates secured by mortgage loans that have a fixed rate of interest for at least one year from the balance sheet date. Derivative securities are classes of collateralized bonds, mortgage pass-through certificates or mortgage certificates that pay to the holder substantially all interest (i.e., an interest-only security), or substantially all principal (i.e., a principal-only security). Residual interests represent the right to receive the excess of (i) the cash flow from the collateral pledged to secure related mortgage-backed securities, together with any reinvestment income thereon, over (ii) the amount required for principal and interest payments on the mortgage-backed securities or repurchase arrangements, together with any related administrative expenses.

Sale of Investments. Securities with an aggregate principal balance of $2,771 were sold during the three months ended March 31, 2000 for an aggregate loss of $303. The specific identification method is used to calculate the basis of securities sold. Net loss on sale or writedown of investments at March 31, 2000 also includes (i) realized losses of $12,160 related to the writedown of $23,656 of securities which were sold during April 2000 (ii) realized losses of $1,282 primarily related to fees paid during the three months ended March 31, 2000 to cancel commercial loan commitments and (iii) realized gains of $342 related to the sale of $21,521 of commercial loans during the first quarter of 2000 (which Dynex REIT had recognized a loss of $6,480 during the fourth quarter of 1999 to adjust the carrying value of these loans to the lower of cost or market). Net loss on sale or writedown of investments at March 31, 1999 includes (i) realized gains of $210 related to the sale of $15,971 of securities during the first quarter of 1999 (ii) realized losses of $2,051 related to the sale or writedown of $10,764 of commercial loans during the three months ended March 31, 1999 and (iii) realized gains of $431 on various trading positions entered into during the three months ended March 31, 1999.

Dynex REIT uses estimates in establishing fair value for its financial instruments. Estimates of fair value for financial instruments may be based on market prices provided by certain dealers. Estimates of fair value for certain other financial instruments including collateral for collateralized bonds, are determined by calculating the present value of the projected cash flows of the instruments using appropriate discount rates, prepayment rates and credit loss assumptions. Discount rates used are those which management believes would be used by willing buyers of these financial instruments at prevailing market rates. The discount rate used in the determination of fair value of the collateral for collateralized bonds at both March 31, 2000 and December 31, 1999 was approximately 18%. Variations in market discount rates, prepayments rates and credit loss assumptions may materially impact the resulting fair values of the Company's financial instruments. Estimates of fair value for other financial instruments are based primarily on management's judgment. Since the fair value of Dynex REIT's financial instruments is based on estimates, actual gains and losses recognized may differ from those estimates recorded in the consolidated financial statements.

NOTE 5 -- RECOURSE DEBT

Dynex REIT utilizes repurchase agreements, notes payable and secured credit facilities (together, "recourse debt") to finance certain of its investments. The following table summarizes Dynex REIT's recourse debt outstanding at March 31, 2000 and December 31, 1999:

	March 31, 2000	December 31, 1999
Recourse debt secured by:		
Collateralized bonds	$ 69,734	$ 144,746
Securities	49,058	66,090
Other investments	22,276	31,498
Loans held for sale	173,761	183,901
Other assets	868	990
	315,697	427,225
Unsecured debt:		
7.875% senior notes, net of issuance costs	96,452	96,361
Series B 10.03% senior notes, net of issuance costs	8,551	13,512
	$ 420,700	$ 537,098

Secured Debt. At March 31, 2000 and December 31, 1999, recourse debt consisted of $83,713 and $163,045, respectively, of repurchase agreements secured by investments, $231,116 and $263,190, respectively, outstanding under secured credit facilities which are secured by loans held for sale, securities and other investments, and $868 and $990, respectively, of amounts outstanding under a capital lease. At March 31, 2000, substantially all recourse debt in the form of repurchase agreements had maturities within sixty days and bear interest at rates indexed to one-month London InterBank Offered Rate ("LIBOR"). If the counterparty to the repurchase agreement fails to return the collateral, the ultimate realization of the security by Dynex REIT may be delayed or limited.

At March 31, 2000, Dynex REIT had four committed secured credit facilities aggregating $698,700 to finance the funding of loans and securities, which expire prior to December 31, 2000. The following table summarizes the material terms of these facilities.

Facility	Outstanding Balance		Maturity Date	Eligible Collateral	Range of Interest Rates
$195,000 secured credit facility agented by Chase Bank of Texas	$ 113,200	(1)	May 29, 2000	Loans held for sale, property tax receivables	Various, ranging from LIBOR plus 1.375%-2.50%
$400,000 secured credit facility with Morgan Stanley Mortgage Capital, Inc.	71,900		May 19, 2000	Loans held for sale	LIBOR plus 1.25% and 1.50%
$100,000 secured credit facility with Daiwa Finance Corp.	35,100		May 10, 2000	Funding Notes and Securities	LIBOR plus 3.75%
$3,700 secured credit facility with Residential Funding Corporation	2,800		December 15, 2000	Other investments	LIBOR plus 2.50%
	$ 223,000				

(1) The $195,000 secured credit facility agented by Chase Bank of Texas includes a subline in the amount of $79,052 for the issuance of letters of credit to facilitate the issuance of tax-exempt multifamily housing bonds as discussed in Note 8. As of March 31, 2000, $79,052 of letters of credit had been issued under the subline. Such amount is not included in the $113,200 balance outstanding included in the table above.

For the Chase Bank of Texas syndicated line ("Chase Bank Syndicate") expiring on May 29, 2000 and the Morgan Stanley Mortgage Capital, Inc. ("Morgan Stanley") line expiring on May 19, 2000, Dynex REIT is seeking to sell a substantial portion of the associated collateral by the respective maturity dates. However, it is unlikely that Dynex REIT will be able to payoff such credit lines by the respective maturity dates, and there can be no assurances that the lenders will agree to any extensions. In the event that the lenders declare an Event of Default, the underlying credit line agreements provide for the liquidation of the pledged collateral. In such a scenario it is likely that the Company will suffer substantial losses on the sale of the collateral. The credit facility with Diawa Finance Corp. was fully prepaid on May 12, 2000 with the proceeds obtained from the securitization of the funding note collateral.

The above lines of credit include various representations and covenants. Dynex REIT has violated certain covenants on credit lines expiring on May 19, 2000 and May 29, 2000 relating primarily to minimum net worth, minimum senior unsecured ratings requirements and the receipt of a going concern opinion from its auditors. Dynex REIT has received waivers from Morgan Stanley for the uncured covenant violations. Dynex REIT has not received waivers for any uncured covenant violations from the Chase Bank Syndicate on the credit line expiring on May 29, 2000. The Chase Bank Syndicate has not formally notified Dynex REIT in writing as required by the loan documentation, that it has (i) terminated its commitment to lend or (ii) declared all or a portion of the loan due and payable. The Company's recourse credit facilities generally contain cross-default provisions whereby a default under any one credit facility is a default under each of the other credit facilities.

Unsecured Debt. Since 1994, Dynex REIT has issued three series of unsecured notes payable totaling $150 million. These notes payable had an outstanding balance at March 31, 2000 of $105,840. The Company has $97,250 outstanding of its July 2002 senior notes (the "2002 Notes") and $8,590 million outstanding on notes issued in September 1994 (the "1994 Notes"). Effective May 15, 1999, the Company amended the 1994 Notes. In return for certain covenant relief related to the fixed-charge coverage requirements of the 1994 Notes, the Company agreed to (i) convert the principal amortization of the 1994 Notes from annual to monthly and (ii) shorten the remaining principal amortization period from 30 months to 16 months. Monthly amortization for the 1994 Notes through August 2000 approximates $1.7 million per month. The Company is in violation of certain covenants in the 1994 Notes including the minimum net worth requirement and the covenant requiring an unqualified audit opinion. The Company has not received waivers for these defaults; however, the holders of the 1994 Notes have not accelerated the remaining amounts due.

The 2002 Notes contain covenants which provide for the acceleration of amounts outstanding under the 2002 Notes should Dynex REIT default under other credit agreements in amounts in excess of $10 million, and such amounts outstanding under the other credit agreements are accelerated by the respective lender.

NOTE 6-- ADOPTION OF FINANCIAL ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS No. 133"). FAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" ("FAS No. 137"). FAS No. 137 amends FAS No. 133 to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company is in the process of determining the impact of adopting FAS No. 133.

NOTE 7--DERIVATIVE FINANCIAL INSTRUMENTS

Dynex REIT may enter into interest rate swap agreements, interest rate cap agreements, interest rate floor agreements, financial forwards, financial futures and options on financial futures ("Interest Rate Agreements") to manage its sensitivity to changes in interest rates. These Interest Rate Agreements are intended to provide income and cash flow to offset potential reduced net interest income and cash flow under certain interest rate environments. At trade date, these instruments are designated as either hedge positions or trade positions.

For Interest Rate Agreements designated as hedge instruments, Dynex REIT evaluates the effectiveness of these hedges periodically against the financial instrument being hedged under various interest rate scenarios. The revenues and costs associated with interest rate swap agreements are recorded as adjustments to interest income or expense on the asset or liability being hedged. For interest rate cap agreements, the amortization of the cost of the agreements is recorded as a reduction in the net interest income on the related investment. The unamortized cost is included in the carrying amount of the related investment. Revenues or cost associated with futures and option contracts are recognized in income or expense in a manner consistent with the accounting for the asset or liability being hedged. Amounts payable to or receivable from counterparties are included in the financial statement line of the item being hedged. Interest Rate Agreements that are hedge instruments and hedge an available for sale investment which is carried at its fair value are also carried at fair value, with unrealized gains and losses reported as accumulated other comprehensive income.

As a part of Dynex REIT's interest rate risk management process, Dynex REIT may be required periodically to terminate hedge instruments. Any realized gain or loss resulting from the termination of a hedge is amortized into income or expense of the corresponding hedged instrument over the remaining period of the original hedge or hedged instrument as a yield adjustment.

If the underlying asset, liability or commitment is sold or matures, or the criteria that was executed at the time the hedge instrument was entered into no longer exists, the Interest Rate Agreement is no longer accounted for as a hedge. Under these circumstances, the accumulated change in the market value of the hedge is recognized in current income to the extent that the effects of interest rate or price changes of the hedged item have not offset the hedge results. As a result of the sale in April 2000 of the ARM securities which were being hedged with the $1.0 million of interest rate caps, the Company wrote off the remaining value of these interest rate caps of $3,878 against the loss on sale or writedown of investments during the first quarter of 2000.

For Interest Rate Agreements entered into for trading purposes, realized and unrealized changes in fair value of these instruments are recognized in the consolidated statements of operations as trading activities in the period in which the changes occur or when such trade instruments are settled. Amounts payable to or receivable from counterparties, if any, are included on the consolidated balance sheets in accrued expenses and other liabilities.

NOTE 8 -- COMMITMENTS

The Company makes various representations and warranties relating to the sale or securitization of loans. To the extent the Company were to breach any of these representations or warranties, and such breach could not be cured within the allowable time period, the Company would be required to repurchase such loans, and could incur losses. In the opinion of management, no material losses are expected to result from any such representations and warranties.

The Company has made various representations and warranties relating to the sale of various production operations. To the extent the Company were to breach any of these representations or warranties, and such breach could not be cured within the allowable time period, the Company would be required to cover any losses and expenses up to certain limits. In the opinion of management, no material losses are expected to result from any such representations and warranties.

Dynex REIT facilitates the issuance of tax-exempt multifamily housing bonds, the proceeds of which are used to fund construction or moderate rehabilitation mortgage loans on multifamily properties. These tax-exempt bonds are sold to third party investors. Regarding tax-exempt bonds associated with construction properties, Dynex REIT enters into various standby commitments and similar agreements whereby Dynex REIT is required to pay principal and interest to the bondholders in the event there is a payment shortfall from the construction proceeds, and is required to repurchase bonds if the bonds cannot be successfully marketed. Dynex REIT has facilitated the issuance of approximately $76.8 million of tax-exempt bonds related to construction mortgage loans on multifamily properties, and has provided letters of credit to support its obligation of $79.1 million at March 31, 2000 and December 31, 2000. Dynex has a further obligation to repurchase the tax-exempt bonds once the letters of credit expire. Approximately $20.9 million of letters of credit expire in 2000, approximately $44.0 million expire in 2001 and approximately $14.2 expire in 2002. Specifically as support for its obligation to repurchase, Dynex REIT has posted fully cash-collateralized letters of credit totaling $16,678, and escrowed cash of an additional $15,832 and posted a $5,000 sight draft surety bond. Such amounts are at risk should the Company fail on its repurchase obligation. Regarding tax-exempt bonds associated with moderate rehabilitation properties, Dynex REIT is party to various conditional bond repurchase obligations which require Dynex REIT to repurchase bonds in the aggregate notional amount of $167.7 million by June 15, 2000.

NOTE 9 -- LITIGATION

On February 8, 1999, AutoBond Acceptance Corporation ("AutoBond"), AutoBond Master Funding Corporation V ("Funding"), and its three principal common shareholders (collectively, the "Plaintiffs") commenced an action in the District Court of Travis County, Texas (250th Judicial District) against the Company and James Dolph (collectively, the "Defendants") alleging that the Company breached the terms of the Credit Agreement, dated June 9, 1998, by and among AutoBond, Funding and the Company. The terms of the Credit Agreement provided for the purchase by the Company of funding notes issued by Funding, and collateralized by automobile installment contracts ("Auto Contracts") acquired by AutoBond. The Company suspended purchasing the funding notes in February 1999 on grounds that AutoBond and Funding had violated certain provisions of the Credit Agreement. The Plaintiffs also alleged that the Defendants conspired to misrepresent and mischaracterize AutoBond's credit underwriting criteria and its compliance with such criteria with the intention of interfering and causing actual damage to AutoBond's business, prospective business and contracts.

On August 26, 1999, the District Court of Travis County ordered AutoBond and Funding, through a temporary injunction action, to cooperate with the Company and permit the transfer of the servicing of the Auto Contracts from AutoBond to a third party servicer selected by the Company. The servicing was transferred on September 3, 1999.

On March 9, 2000, a jury in the AutoBond action returned a verdict in favor of the Plaintiffs, and awarded AutoBond and Funding $18.7 million in direct lost profits and $50.5 million in lost future profits, for a total of $69.2 million. The Company filed on March 24, 2000 with the Court motions to set aside the verdict and to reduce the amount of the verdict, and on the same date, AutoBond filed a motion to the court to enter judgment. On April 17, 2000, in response to the various motions filed, the judge presiding over the matter in Travis County reduced the $69.2 million verdict awarded by the jury to approximately $27 million (which includes estimated prejudgment interest). As a result, the Company recorded a litigation provision of $27.0 million for the amount of the reduced judgment during the fourth quarter of 1999. At a subsequent hearing on April 17, 2000, the Court further reduced the award to $23.6 million including prejudgment interest. AutoBond has accepted this judgment, as reduced by the trial court, of $23.6 million. On May 15, 2000, the Court denied the Company's motion to post alternative security in lieu of an appeal bond in order to appeal the Court's earlier judgment in favor of AutoBond. To date the Company has been unable to obtain an appeal bond The Court stayed enforcement of the judgment for ten days to allow the Company to appeal the Court's action to the Austin Court of Appeals. The Company intends to appeal the Court's action. In addition, the Court ordered the parties to resume mediation in an effort to either settle the case or agree on alternative security. The Court also reduced the amount of the judgment by $270,000 to approximately $23.3 million.

The Company is also subject to other lawsuits or claims which arise in the ordinary course of its business, some of which seek damages in amounts which could be material to the financial statements. Although no assurance can be given with respect to the ultimate outcome of any such litigation or claim, the Company believes the resolution of such lawsuits or claims will not have a material effect on the Company's consolidated balance sheet, but could materially affect consolidated results of operations in a given year.

NOTE 10 -- RELATED PARTY TRANSACTIONS

Dynex REIT has a credit arrangement with DHI whereby DHI and any of DHI's subsidiaries can borrow funds from Dynex REIT to finance its operations. Under this arrangement, Dynex REIT can also borrow funds from DHI. The terms of the agreement allow DHI and its subsidiaries to borrow up to $50 million from Dynex REIT at a rate of Prime plus 1.0%. Dynex REIT can borrow up to $50 million from DHI at a rate of one-month LIBOR plus 1.0%. This agreement has a one-year maturity which is extended automatically unless notice is received from one of the parties to the agreement within 30 days of the anticipated termination of the agreement. As of March 31, 2000 and December 31, 1999, net borrowings due to DHI under this agreement totaled $21,953 and $26,720, respectively. Net interest expense under this agreement was $379 and $26 for the three months ended March 31, 2000 and 1999, respectively.

Dynex REIT also had a loan origination agreement with Dynex Financial, Inc. ("DFI"), an operating subsidiary of DHI, whereby Dynex REIT paid DFI on a fee plus cost basis for the origination of manufactured housing loans on behalf of Dynex REIT. During the three months ended March 31, 1999, Dynex REIT paid DFI $4,439 under such agreement. This agreement was terminated as a result of the sale of manufactured housing operations during 1999.

Dynex REIT has a funding agreement with Dynex Commercial, Inc. ("DCI"), an operating subsidiary of DHI, whereby Dynex REIT pays DCI a fee per loan originated on behalf of Dynex REIT. Dynex REIT paid DCI $118 and $844, respectively under this agreement for the three months ended March 31, 2000 and 1999.

Dynex REIT had note agreements with Dynex Residential, Inc. ("DRI"), an operating subsidiary of DHI, whereby DRI and its subsidiaries could borrow up to $287,000 from Dynex REIT on a secured basis to finance the acquisition of model homes from single family home builders. The interest rate on the notes was adjustable and was based on 30-day LIBOR plus 2.875%. During 1999, $4,577 of the notes was assumed by SMFC funding corporation ("SMFC"), a subsidiary of DHI. The remainder of the notes were paid off at the time of the sale of DRI on November 10, 1999. The outstanding balance of the notes as of March 31, 2000 and December 31, 1999 was $3,552 and $4,274, respectively. Interest income recorded by Dynex REIT on the notes for the three months ended March 31, 2000 and 1999 was $89 and $3,360, respectively.

Dynex REIT has entered into subservicing agreements with DCI, Dynex Commercial Services, Inc. ("DCSI"), DFI and GLS Capital Services, Inc ("GLS") to service commercial, single family, consumer, manufactured housing loans and property tax receivables. All four entities are subsidiaries of DHI. For servicing the commercial loans, DCI or DSCI, as applicable, receives an annual servicing fee of 0.02% of the aggregate unpaid principal balance of the loans. For servicing the single family mortgage, consumer and manufactured housing loans, DFI received annual fees ranging from sixty dollars ($60) to one hundred forty-four dollars ($144) per loan and certain incentive fees. The subservicing agreement with DFI was terminated due to the sale of DFI on December 20, 1999. For servicing the property tax receivables, GLS receives an annual servicing fee of 0.72% of the aggregate unpaid principal balance of the property tax receivables. Servicing fees paid by Dynex REIT under such agreements were $82 and $558 during the three months ended March 31, 2000 and 1999, respectively.

NOTE 11 -- INVESTMENT IN AND NET ADVANCES TO DYNEX HOLDING, INC.

Investment in and net advances to DHI accounted for under a method similar to the equity method amounted to $8,112 and $4,814 at March 31, 2000 and December 31, 1999, respectively. The results of operations and financial position of DHI are summarized below:

<TABLE>
<CAPTION>

Condensed Income Statement Information	Three Months ended March 31, 2000	1999
Total revenues	$ 666	$ 11,049
Total expenses	1,392	11,421
Net income	(726)	(372)

Condensed Balance Sheet Information	March 31, 2000	December 31, 1999
Total assets	$ 32,164	$ 36,822
Total liabilities	5,143	9,075
Total equity	27,021	27,747

</TABLE>

NOTE 12--SUBSEQUENT EVENTS

On May 12, 2000 the Company closed a transaction securitizing its investment in the Funding Notes related to AutoBond Acceptance Corporation. This securitization was structured as financing. As a part of this transaction the Company exchanged the non-recourse senior class of securities from the transaction with Diawa (or an affiliate) in exchange for the release of Diawa's recourse note secured by the Funding Notes. This had the effect of lowering the Company's recourse debt outstanding by approximately $31 million.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Dynex Capital, Inc. (the "Company") is a financial services company which invests in a portfolio of securities and investments backed principally by single family mortgage loans, commercial mortgage loans and manufactured housing installment loans. Such loans have been funded generally by the Company's loan production operations or purchased in bulk in the market. Loans funded through the Company's production operations have generally been pooled and pledged as collateral using a collateralized bond security structure, which provides long-term financing for the loans while limiting credit, interest rate and liquidity risk.

FINANCIAL CONDITION

<TABLE>
<CAPTION>

(amounts in thousands except per share data)	March 31, 2000	December 31, 1999
Investments:		
Collateral for collateralized bonds	$ 3,552,431	$ 3,700,714
Securities	110,257	127,711
Other investments	39,599	48,927

Loans held for sale	225,796	232,384
Non-recourse debt - collateralized bonds	3,243,092	3,282,378
Recourse debt	420,700	537,098
Shareholders' equity	306,837	325,072
Book value per common share	15.15	16.74

</TABLE>

Collateral for collateralized bonds Collateral for collateralized bonds consists primarily of securities backed by adjustable-rate and fixed-rate mortgage loans secured by first liens on single family properties, fixed-rate loans secured by first liens on multifamily and commercial properties, manufactured housing installment loans secured by either a UCC filing or a motor vehicle title and property tax receivables. As of March 31, 2000, the Company had 27 series of collateralized bonds outstanding. The collateral for collateralized bonds decreased slightly to $3.6 billion at March 31, 2000 compared to $3.7 billion at December 31, 1999. This decrease of $0.1 billion is primarily the result of $120.9 million in paydowns on collateral.

Securities Securities consist primarily of fixed-rate "funding notes and securities" secured by automobile installment contracts and adjustable-rate and fixed-rate mortgage-backed securities. Securities also include derivative and residual securities. Derivative securities are classes of collateralized bonds, mortgage pass-through certificates or mortgage certificates that pay to the holder substantially all interest (i.e., an interest-only security), or substantially all principal (i.e., a principal-only security). Residual interests represent the right to receive the excess of (i) the cash flow from the collateral pledged to secure related mortgage-backed securities, together with any reinvestment income thereon, over (ii) the amount required for principal and interest payments on the mortgage-backed securities or repurchase arrangements, together with any related administrative expenses. Securities decreased to $110.3 million at March 31, 2000 compared to $127.7 million at December 31, 1999. This decrease was primarily the result of $13.1 million of paydowns and the sale of $2.8 million of securities during the three months ended March 31, 2000.

Other investments Other investments consists primarily of property tax receivables and a note receivable received in connection with the sale of the Company's single family mortgage operations in May 1996. Other investments decreased from $48.9 million at December 31, 1999 to $39.6 million at March 31, 2000. This decrease is primarily the result of the receipt of the $9.5 million annual principal payment on the note receivable from the 1996 sale of the single family mortgage operations.

Loans held for sale Loans held for sale decreased from $232.4 million at December 31, 1999 to $225.8 million at March 31, 2000. This decrease was primarily due to the sale of several commercial loans held for sale. In addition, the Company sold the remaining $3.5 million of manufactured housing loans to Bingham Financial Services Corporation during the three months ended March 31, 2000. These decreases were partially offset by $12.5 million of new loan fundings during the first quarter of 2000 which were primarily draws on existing multifamily construction loans.

Non-recourse debt Collateralized bonds issued by Dynex REIT are recourse only to the assets pledged as collateral, and are otherwise non-recourse to Dynex REIT. Collateralized bonds decreased slightly from $3.3 billion at December 31, 1999 to $3.2 billion at March 31, 2000. This decrease was primarily a result of paydowns on all collateralized bonds of $120.0 million during the three months ended March 31, 2000.

Recourse debt Recourse debt decreased to $420.7 million at March 31, 2000 from $537.1 million at December 31, 1999. This decrease was primarily due to the sale of $96.6 million of retained collateralized bonds and $25.0 million of loans, during the first quarter of 2000, which had been financed with $79.8 million of repurchase agreements and $14.1 million of notes payable, respectively. Also during the first quarter of 2000, Dynex REIT paid off approximately $22.4 million of notes payable as a result of $23.9 million of paydowns on investments.

Shareholders' equity Shareholders' equity decreased to $306.8 million at March 31, 2000 from $325.1 million at December 31, 1999. This decrease was a combined result of a $7.5 million increase in the net unrealized loss on investments available-for-sale from $48.5 million at December 31, 1999 to $56.0 million at March 31, 2000 and a net loss of $10.7 million during the three months ended March 31, 2000.

Loan Production Activity
($ in thousands)

- --
Three Months Ended March 31, ------------------------------ 2000 1999
- --
Commercial (1) $ - $ 48,658 Manufactured housing - 108,972 Specialty finance - 48,363 ----------------- ----------- Total fundings through direct production - 205,993 Secured funding notes (2) - 13,654
- --
Total fundings $ - $ 219,647
- --

(1) Included in commercial fundings were $25.2 million of multifamily construction loans which closed during the three months ended March 31, 1999. As of March 31, 2000, $414.5 million of multifamily construction loans have closed, of which only the amount drawn for these loans of $126.3 million is included in the balance of the loans held for sale at March 31, 2000.
(2) Secured by automobile installment contracts.

Direct loan production for the three months ending March 31, 1999 totaled $206.0 million compared to none for the same period in 2000. The Company is no longer actively originating loans.

RESULTS OF OPERATIONS

<TABLE>
<CAPTION>

<S> (amounts in thousands except per share information)	Three Months Ended March 31, <C> 2000	 <C> 1999
Net interest margin	$ 5,979	$ 11,213
Loss on sale of investments	(13,433)	(926)
Equity in net loss of Dynex Holding, Inc.	(719)	(369)
General and administrative expenses	2,403	2,008
Net administrative fees and expenses to Dynex Holding, Inc.	250	5,924
Net (loss) income before preferred stock dividends	(10,704)	2,259
Basic net income (loss) per common share (1)	$ (1.22)	$ (0.08)
Diluted net income (loss) per common share (1)	$ (1.22)	$ (0.08)
Dividends declared per share:		
Common	$ -	$ -
Series A and B Preferred	-	0.585
Series C Preferred	-	0.730

<FN>
(1)Adjusted for the one-for-four reverse common stock split effective August 2, 1999.
</FN>
</TABLE>

Three Months Ended March 31, 2000 Compared to Three Months Ended March 31, 1999. The decrease in net income and net income per common share during the three months ended March 31, 2000 as compared to the same period in 1999 is primarily the result of a decrease in net interest margin and an increase in the loss on sale of investments. These decreases were partially offset by the reduction in net administrative fees and expenses to Dynex Holding, Inc.

Net interest margin for the three months ended March 31, 2000 decreased to $6.0 million, or 47% below the $11.2 million for the same period for 1999. This decrease was primarily the result of the decline in average interest-earning assets from $4.8 billion for the three months ended March 31, 1999 to $4.1 billion for the three months ended March 31, 2000. In addition, provision for losses increased to $5.3 million or 0.52% on an annualized basis of average interest-earning assets during the three months ended March 31, 2000 compared to $3.8 million and 0.31% during the three months ended March 31, 1999. This increase in provision for losses was a result of increasing the reserve for probable losses on various loan pools pledged as collateral for collateralized bonds where the Company has retained credit risk.

The net loss on sale of investments for the three months ended March 31, 2000 increased to $13.4 million as compared to $0.9 million for the same period in 1999. This increase is primarily the result of realized losses of $12.2 million related to the writedown of $23.7 million of securities which were sold during April 2000. In addition, the Company had realized losses of $1.3 million primarily related to fees paid during the three months ended March 31, 2000 to cancel commercial loan commitments and a $0.3 million loss on the sale of $2.8 million of securities during the three months ended March 31, 2000. These decreases were partially offset by realized gains of $0.3 million related to the sale of $21.5 million of commercial loans during the first quarter of 2000 (which Dynex REIT had recognized a loss of $6.5 million during the fourth quarter of 1999 to adjust the carrying value of these loans to the lower of cost or market). The loss on sale of investments for the first quarter of 1999 was primarily the result of a $2.1 million loss related to the sale or writedown of $10.8 million of commercial loans during the three months ended March 31, 1999. This decrease was partially offset by a $0.2 million gain related to the sale of $16.0 million of securities and a $0.4 million gain on various trading positions closed during the three months ended March 31, 1999.

Net administrative fees and expenses to DHI decreased $5.6 million, or 96%, to $0.3 million in the three months ended March 31, 2000 as compared to the same period in 1999. This decrease is principally a combined result of the sale of the Company's model home purchase/leaseback and manufactured housing loan production operations during the fourth quarter of 1999. All general and administrative expenses of these businesses were incurred by DHI.

The following table summarizes the average balances of interest-earning assets and their average effective yields, along with the average interest-bearing liabilities and the related average effective interest rates, for each of the periods presented.

<TABLE>
<CAPTION>

Average Balances and Effective Interest Rates

	Three Months Ended March 31,			
	2000		1999	
<S>	<C> Average Balance	<C> Effective Rate	<C> Average Balance	<C> Effective Rate
Interest-earning assets: (1)				
Collateral for collateralized bonds (2) (3)	$ 3,637,089	7.72%	$ 3,974,145	7.17%
Securities	135,391	5.84	265,579	6.91
Other investments	50,143	12.77	205,001	7.69
Loans held for sale or securitization	262,109	8.20	372,759	7.91
Total interest-earning assets	$ 4,084,732	7.75%	$ 4,817,484	7.24%
Interest-bearing liabilities:				
Non-recourse debt (3)	$ 3,255,742	6.91%	$ 3,512,582	6.20%
Recourse debt - collateralized bonds retained	131,525	6.48	285,406	5.49
	3,387,267	6.89	3,797,988	6.15
Recourse debt secured by investments:				
Securities	59,535	8.48	179,341	5.93
Other investments	11,613	5.38	152,081	5.98
Loans held for sale or securitization	193,508	5.97	319,421	5.59
Recourse debt - unsecured	106,636	8.84	127,883	8.81
Total interest-bearing liabilities	$ 3,758,559	6.93%	$ 4,576,714	6.17%
Net interest spread on all investments (3)		0.82%		1.07%
Net yield on average interest-earning assets (3)		1.38%		1.38%

<FN>
(1) Average balances exclude adjustments made in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" to record available-for-sale securities at fair value.
(2) Average balances exclude funds held by trustees of $1,143 and $1,898 for the three months ended March 31, 2000 and 1999, respectively.
(3) Effective rates are calculated excluding non-interest related collateralized bond expenses and provision for credit losses. If included, the effective rate on interest bearing liabilities for the first quarter of 2000 and 1999 would be 7.79% and 6.64%, respectively, and the net yield on average interest-earnings assets for the same periods would be 0.59% and 0.93%, respectively.
</FN>
</TABLE>

The net interest spread decreased to 0.82% for the three months ended March 31, 2000 from 1.07% for the same period in 1999. This decrease was primarily due to approximately a 1% increase in the average one-month LIBOR for the first quarter of 2000 when compared to the first quarter of 1999. This decrease in net interest spread was partially offset by a reduction in premium amortization expense, which decreased from $5.9 million for the three months ended March 31, 1999, respectively to $2.0 million for the same period in 2000. The overall yield on interest-earning assets increased to 7.75% for the three months ended March 31, 2000 from 7.24% for the three months ended March 31, 1999. The cost of interest-bearing liabilities increased to 6.93% for the three months ended March 31, 2000, respectively, from 6.17% for the three months ended March 31, 1999, respectively.

Individually, the net interest spread on collateral for collateralized bonds decreased 19 basis points, from 102 basis points for the three months ended March 31, 1999 to 83 basis points for the same period in 2000. This decrease was primarily due to the increased borrowing cost during the first quarter of 2000 which was partially offset by lower premium amortization caused by decreased prepayments during the three months ended March 31, 2000 compared to the same period in 1999. The net interest spread on securities decreased 362 basis points, from 98 basis points for the three months ended March 31, 1999 to a negative 264 basis points for the three months ended March 31, 2000. This decrease was primarily the result of increased borrowing costs on securities due to both the increase in the average one-month LIBOR during the first quarter of 2000 as well as an increase in the interest spread on certain credit facilities during the latter half of 1999 and the first quarter of 2000. The net interest spread on other investments increased 568 basis points, from 171 basis points for the three months ended March 31, 1999, to 739 basis points for the same period in 2000, primarily due to the purchase of higher yielding property tax receivables during 1999. The net interest spread on loans held for sale or securitization remained fairly constant, decreasing only 9 basis points, from 232 basis points for the three months ended March 31, 1999, to 223 basis points for the same period in 2000.

Interest Income and Interest-Earning Assets

Approximately $1.5 billion of the investment portfolio as of March 31, 2000 is comprised of loans or securities that have coupon rates which adjust over time (subject to certain periodic and lifetime limitations) in conjunction with changes in short-term interest rates. Approximately 66% of the ARM loans underlying the ARM securities and collateral for collateralized bonds are indexed to and reset based upon the level of six-month LIBOR; approximately 25% are indexed to and reset based upon the level of the one-year Constant Maturity Treasury (CMT) index. The following table presents a breakdown, by principal balance, of the Company's collateral for collateralized bonds and ARM and fixed mortgage securities by type of underlying loan. This table excludes other derivative and residual securities, other securities, other investments and loans held for sale or securitization.

<TABLE>
<CAPTION>

Investment Portfolio Composition (1)
($ in millions)

<S>	<C> LIBOR Based ARM Loans	<C> CMT Based ARM Loans	<C> Other Indices Based ARM Loans	<C> Fixed-Rate Loans	<C> Total
1998, Quarter 2	$ 2,153.5	$ 1,159.8	$ 240.2	$ 1,467.0	$ 5,020.5
1998, Quarter 3	1,873.7	978.3	208.0	1,351.0	4,411.0
1998, Quarter 4	1,644.0	720.4	195.4	1,704.0	4,263.8
1999, Quarter 1	1,411.6	629.8	159.4	1,927.6	4,128.4
1999, Quarter 2	1,239.2	525.4	146.9	1,872.9	3,784.4
1999, Quarter 3	1,112.7	461.4	135.9	2,095.4	3,805.4
1999, Quarter 4	1,048.5	430.8	121.1	2,061.5	3,661.9
2000, Quarter 1	976.7	362.6	117.4	2,029.4	3,486.1

<FN>
(1) Includes only the principal amount of collateral for collateralized bonds, ARM securities and fixed-rate mortgage securities.
</FN>
</TABLE>

The average asset yield is reduced for the amortization of premiums, net of discounts on the investment portfolio. As indicated in the table below, premiums on the collateral for collateralized bonds, ARM securities, fixed-rate mortgage securities at March 31, 2000 were $36.2 million, or approximately 1.01% of the aggregate balance of collateral for collateralized bonds, ARM securities and fixed-rate securities. Of this $36.2 million, $33.5 million relates to the premium on multifamily and commercial mortgage loans that have prepayment lockouts or yield maintenance for at least seven years. Amortization expense as a percentage of principal paydowns has increased from 1.46% for the three months ended March 31, 1999 to 1.64% for the same period in 2000. The principal prepayment rate for the Company (indicated in the table below as "CPR Annualized Rate") was approximately 18% for the three months ended March 31, 2000. CPR or "constant prepayment rate" is a measure of the annual prepayment rate on a pool of loans. Excluded from this table are the Company's loans held for sale, which were generally written-down to market during the fourth quarter of 1999.

<TABLE>
<CAPTION>

Premium Basis and Amortization
($ in millions)

<S>	<C> Net Premium	<C> Amortization Expense	<C> CPR Annualized Rate	<C> Principal Paydowns	<C> Amortization Expense as a % of Principal Paydowns
1998, Quarter 2	$ 45.7	$ 7.0	36%	$ 563.0	1.24%
1998, Quarter 3	39.0	6.3	40%	603.0	1.05%
1998, Quarter 4	77.8	5.7	41%	502.5	1.12%
1999, Quarter 1	65.4	5.9	38%	402.8	1.46%
1999, Quarter 2	60.7	4.8	30%	338.4	1.42%
1999, Quarter 3	45.4	3.4	28%	239.6	1.40%
1999, Quarter 4	38.3	2.2	20%	165.0	1.41%
2000, Quarter 1	36.2	2.0	18%	122.6	1.64%

</TABLE>

Credit Exposures

The Company securitizes its loan production into collateralized bonds or pass-through securitization structures. With either structure, the Company may use overcollateralization, subordination, third-party guarantees, reserve funds, bond insurance, mortgage pool insurance or any combination of the foregoing as a form of credit enhancement. With all forms of credit enhancement, the Company may retain a limited portion of the direct credit risk after securitization.

The following table summarizes the aggregate principal amount of collateral for collateralized bonds and ARM and fixed-rate mortgage pass-through securities outstanding; the direct credit exposure retained by the Company (represented by the amount of overcollateralization pledged and subordinated securities owned by the Company and rated below BBB by one of the nationally recognized rating agencies), net of the credit reserves maintained by the Company for such exposure; and the actual credit losses incurred for each quarter. Credit reserves maintained by the Company and included in the table below included third-party reimbursement guarantees which totaled $29.7 million at March 31, 2000. The table excludes any risks related to representations and warranties made on loans funded by the Company and securitized in mortgage pass-through securities generally funded prior to 1995. This table also excludes any credit exposure on loans held for sale, funding notes and securities, and other investments. The increase in net credit exposure as a percentage of the outstanding loan principal balance from 3.72% at March 31, 1999 to 4.25% at March 31, 2000 is related primarily to the credit exposure retained by the Company on its manufactured housing securitization during September 1999 offset partially by the sale of previously retained classes from two of the Company's commercial loan securitization.

Credit Reserves and Actual Credit Losses
($ in millions)

<TABLE>
<CAPTION>

<S>	<C> Outstanding Loan Principal Balance	<C> Credit Exposure, Net of Credit Reserves	<C> Actual Credit Losses	<C> Credit Exposure, Net of Credit Reserves to Outstanding Loan Balance
1998, Quarter 2	$ 5,098.8	$ 120.1	$ 3.8	2.36%
1998, Quarter 3	4,440.2	132.4	6.4	2.98%
1998, Quarter 4	4,389.7	159.7	3.8	3.64%
1999, Quarter 1	4,340.8	161.6	4.3	3.72%
1999, Quarter 2	3,965.6	155.5	4.6	3.92%
1999, Quarter 3	3,949.2	194.5	5.3	4.93%
1999, Quarter 4	3,770.3	183.2	5.5	4.86%
2000, Quarter 1	3,731.9	158.7	4.8	4.25%

</TABLE>

The following table summarizes single family mortgage loan, manufactured housing loan and commercial mortgage loan delinquencies as a percentage of the outstanding collateral balance for those securities in which Dynex REIT has retained a portion of the direct credit risk. The delinquencies as a percentage of the outstanding collateral balance has decreased to 1.72% at March 31, 2000 from 2.69% at March 31, 1999. The Company monitors and evaluates its exposure to credit losses and has established reserves based upon anticipated losses, general economic conditions and trends in the investment portfolio. As of March 31, 2000, management believes the credit reserves are sufficient to cover anticipated losses which may occur as a result of current delinquencies presented in the table below.

Delinquency Statistics (1)

<TABLE>
<CAPTION>

<S>	<C> 60 to 90 days delinquent	<C> 90 days and over delinquent (2)	<C> Total
1998, Quarter 2	0.24%	1.82%	2.06%
1998, Quarter 3	0.39%	1.73%	2.12%
1998, Quarter 4	0.25%	2.11%	2.36%
1999, Quarter 1	0.45%	2.24%	2.69%
1999, Quarter 2	0.30%	1.82%	2.12%
1999, Quarter 3	0.23%	1.72%	1.95%
1999, Quarter 4	0.27%	1.37%	1.64%
2000, Quarter 1	0.26%	1.46%	1.72%

<FN>

(1) Excludes funding notes, other investments and loans held for sale or securitization.
(2) Includes foreclosures, repossessions and REO.
</FN>
</TABLE>

The following table summarizes the credit ratings for collateral for collateralized bonds and securities held in the investment portfolio, presented on a gross basis (i.e., the collateralized bonds are not netted against the associated pledged collateral). This table excludes $7.3 million of other derivative and residual securities (as the risk on such securities is primarily prepayment-related, not credit-related), other investments and loans held for sale or securitization. This table also excludes the funding notes, aggregating $78.9 million which are not rated. The balance of the investments rated below A are net of credit reserves and discounts. All balances exclude the related mark-to-market adjustment on such assets. At March 31, 2000, securities with a credit rating of AA or better were $3.0 billion, or 90.4% of the total.

<TABLE>
<CAPTION>

Investments by Credit Rating (1)
($ in millions)

<S>	<C> AAA/AA Carrying Value	<C> A Carrying Value	<C> BBB Carrying Value	<C> Below BBB Carrying Value	<C> AAA /AA Percent of Total	<C> A Percent of Total	<C> BBB Percent of Total	<C> Below BBB Percent of Total
1998, Quarter 2	$4,729.1	$ 138.5	$ 72.7	$ 7.7	95.6%	2.8%	1.5%	0.1%
1998, Quarter 3	4,126.6	139.3	73.3	5.4	95.0%	3.2%	1.7%	0.1%
1998, Quarter 4	3,815.6	206.2	97.6	14.4	92.3%	5.0%	2.4%	0.3%
1999, Quarter 1	3,614.8	219.2	118.8	24.0	90.9%	5.5%	3.0%	0.6%
1999, Quarter 2	3,282.2	219.4	118.8	21.7	90.1%	6.0%	3.3%	0.6%
1999, Quarter 3	3,278.1	242.6	133.0	20.7	89.2%	6.6%	3.6%	0.6%
1999, Quarter 4	3,154.4	191.4	123.3	19.8	90.4%	5.5%	3.5%	0.6%
2000, Quarter 1	3,024.1	191.6	111.9	19.5	90.4%	5.7%	3.3%	0.6%

<FN>
(1) Carrying value does not include funding notes, derivative and residual securities, other investments and loans held for sale or securitization. Balances also exclude the mark-to-market adjustment. Carrying value also excludes $224.9 million of overcollateralization at March 31, 2000.
</FN>
</TABLE>

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of

Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS No. 133"). FAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. In June 1999, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No, 133" ("FAS No. 137"). FAS No. 137 amends FAS No. 133 to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company is in the process of determining the impact of adopting FAS No. 133.

LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations from a variety of sources. These sources include cash flow generated from the investment portfolio, including net interest income and principal payments and prepayments, common stock offerings through the dividend reinvestment plan, short-term warehouse lines of credit with commercial and investment banks, repurchase agreements and the capital markets via the asset-backed securities market (which provides long-term non-recourse funding of the investment portfolio via the issuance of collateralized bonds). Historically, cash flow generated from the investment portfolio has satisfied its working capital needs, and the Company has had sufficient access to capital to fund its loan production operations, on both a short-term (prior to securitization) and long-term (after securitization) basis. However, market conditions since October 1998 have substantially reduced the Company's access to capital. The Company is currently unable to access additional short-term warehouse lines of credit to replace maturing lines, and is unable to efficiently access the asset-backed securities market to meet its long-term funding needs. Largely as a result of its inability to access additional capital, the Company sold its manufactured housing and model home purchase/leaseback operations in 1999, and ceased issuing new commitments in its commercial lending operations. The Company is attempting to substantially reduce both its short-term debt and capital requirements. The Company's current focus is the repayment of its recourse debt, which includes substantially all of the short-term warehouse lines of credit and repurchase agreements.

A substantial portion of the assets are pledged to secure indebtedness incurred by Dynex REIT. Accordingly, those assets would not be available for distribution to any general creditors or the stockholders of Dynex REIT in the event of the liquidation, except to the extent that the liquidation proceeds of such assets exceeds the amount of the indebtedness they secure.

As more fully described below, the Company was in default of certain covenants in its secured credit facilities and its unsecured senior notes issued in September 1994. The Company has not secured waivers for all of the defaults; however, none of the respective lenders have accelerated amounts outstanding as of that date as a result of the defaults. See further discussion below and Note 5 in the accompanying consolidated financial statements.

Non-recourse Debt

Dynex REIT, through limited-purpose finance subsidiaries, has issued non-recourse debt in the form of collateralized bonds to fund the majority of its investment portfolio. The obligations under the collateralized bonds are payable solely from the collateral for collateralized bonds and are otherwise non-recourse to Dynex REIT. Collateral for collateralized bonds are not subject to margin calls. The maturity of each class of collateralized bonds is directly affected by the rate of principal prepayments on the related collateral. Each series is also subject to redemption according to specific terms of the respective indentures, generally when the remaining balance of the bonds equals 35% or less of the original principal balance of the bonds. At March 31, 2000, Dynex REIT had $3.2 billion of collateralized bonds outstanding as compared to $3.3 billion at December 31, 1999.

Recourse Debt

Secured. At March 31, 2000, Dynex REIT had four committed credit facilities aggregating $699 million, comprised of (i) a $195 million credit line agented by Chase Bank of Texas, expiring on May 29, 2000, from a consortium of commercial banks primarily for the warehousing of multifamily construction and permanent loans (including providing the letters of credit for tax-exempt bonds), (ii) a $400 million credit line, expiring on May 19, 2000 from Morgan Stanley Capital, Inc. primarily for the warehousing of permanent loans on multifamily and commercial properties, (iii) a $100 million credit line, expiring on May 10, 2000 from Diawa Finance Corp. for the warehousing of the funding notes and securities, and (iv) a $4 million credit line, expiring on December 15, 2000, from Residential Funding Corporation for the warehousing of model homes not included in the sale of the related business. While Dynex REIT has received bids for the sale of a substantial portion of the assets that secure the credit lines expiring on May 19, 2000 and May 29, 2000, it is unlikely that Dynex REIT will be able to payoff such credit lines by the respective maturity dates. Although, the Company will seek extensions to the maturity dates, there can be no assurances that the lenders will agree to such extensions. In the event that the lenders declare an event of default, the underlying credit line agreements provide for the liquidation of the pledged collateral. In such a scenario it is likely that the Company will suffer losses on the sale of the collateral. The credit facility with Diawa Finance Corp. was fully prepaid on May 12, 2000 with the proceeds obtained from the securitization of the funding note collateral.

The above lines of credit include various representations and covenants. Dynex REIT was in violation of certain covenants on the credit lines expiring on May 19, 2000 and May 29, 2000 relating primarily to minimum net worth and minimum senior unsecured ratings requirements, and the receipt of a going concern opinion from its auditors. Dynex REIT has received waivers from Morgan Stanley for the uncured covenant violations. Dynex REIT has also not received waivers for any uncured covenant violations from the Chase Bank of Texas syndicated line ("Chase Bank Syndicate") on the credit line expiring on May 29, 2000. The Chase Bank Syndicate has not formally notified Dynex REIT in writing as required by the loan documentation, that it has (i) terminated its commitment to lend or (ii) declared all or a portion of the loan due and payable. The Company's recourse credit facilities generally contain cross-default provisions whereby a default under any one credit facility is a default on each of the other credit facilities.

The following table summarizes the committed credit facilities at March 31, 2000 expiring in 2000. At March 31, 2000, Dynex REIT had $222.8 million outstanding under its committed credit facilities expiring in 2000.

Committed Credit Facilities
At March 31, 2000
($ in millions)

<TABLE>
<CAPTION>

Collateral Type	Credit Limit	Current Outstanding Borrowings	Balance of Pledged Collateral	Contracted Expiration of Facility
Various (primarily commercial loans)	$ 195.0	$113.2	$128.1	May 29, 2000
Commercial loans	400.0	71.9	122.6	May 19, 2000
Funding Notes and Securities	100.0	35.1	104.2	May 10, 2000
Model homes	3.7	2.8	4.0	December 15, 2000
	698.7	223.0	358.9	
Less: deferred facility expenses	-	(0.2)	-	
Total	$ 698.7	$ 222.8	$358.9	

</TABLE>

Dynex REIT also uses repurchase agreements to finance a portion of its investments, which generally have maturities of thirty-days or less. Repurchase agreements allow Dynex REIT to sell investments for cash together with a simultaneous agreement to repurchase the same investments on a specified date for a price which is equal to the original sales price plus an interest component. At March 31, 2000, outstanding obligations under all repurchase agreements totaled $83.7 million compared to $163.0 million at December 31, 1999. As of May 15, 2000, Dynex REIT had repurchase agreements outstanding of $51.7 million, all with one counterparty. Dynex REIT has provided collateral worth an estimated fair market value of $58.4 million to support the amount of the repurchase agreement outstanding. All repurchase agreements with such counterparty are on an "overnight" or one-day basis. The following table summarizes the outstanding balances of repurchase agreements by credit rating of the related assets pledged as collateral to support such repurchase agreements as of each respective quarter end. The table excludes repurchase agreements used to finance loans held for sale or securitization.

<TABLE>
<CAPTION>

Repurchase Agreements by Rating of Investments Financed
($ in millions)

<S>	<C>	<C>	<C>	<C>	<C>	<C>
	AAA	AA	A	BBB	Below BBB	Total
1998, Quarter 3	$ 560.8	$ 91.2	$ 58.7	$ 51.9	$ -	$ 762.6
1998, Quarter 4	124.5	109.5	91.4	65.6	-	391.0
1999, Quarter 1	86.3	63.2	64.2	57.9	-	271.6
1999, Quarter 2	79.8	31.7	49.5	55.2	-	216.2
1999, Quarter 3	375.0	71.6	76.1	75.6	-	598.3
1999, Quarter 4	77.9	14.9	4.4	65.3	0.5	163.0
2000, Quarter 1	34.9	13.8	4.4	30.2	0.4	83.7

</TABLE>

Increases in short-term interest rates, long-term interest rates or market risk could negatively impact the valuation of securities and may limit Dynex REIT's borrowing ability or cause various lenders to initiate margin calls for securities financed using repurchase agreements. Additionally, certain investments are classes of securities rated AA, A or BBB that are subordinated to other classes from the same series of securities. Such subordinated classes may have less liquidity than securities that are not subordinated and the value of such classes is more dependent on the credit rating of the related insurer or the credit performance of the underlying loans or receivables. In instances of a downgrade of an insurer or the deterioration of the credit quality of the underlying collateral, Dynex REIT may be required to sell certain investments in order to maintain liquidity. If required, these sales could be made at prices lower than the carrying value of the assets, which could result in losses.

Unsecured. Since 1994, Dynex REIT has issued three series of unsecured notes payable totaling $150 million. These notes payable had an outstanding balance at March 31, 2000 of $105.8 million. The Company has $97.3 million outstanding of its July 2002 senior notes (the "2002 Notes") and $8.5 million outstanding on notes issued in September 1994 (the "1994 Notes"). Effective May 15, 1999, the Company amended the 1994 Notes. In return for certain covenant relief related to the fixed-charge coverage requirements of the 1994 Notes, the Company agreed to (i) convert the principal amortization of the 1994 Notes from annual to monthly and (ii) shorten the remaining principal amortization period from 30 months to 16 months. Monthly amortization for the 1994 Notes through August 2000 approximates $1.7 million per month. As of March 31, 2000, the Company was in violation of certain covenants in the 1994 Notes including the minimum net worth requirement and the covenant requiring an unqualified audit opinion. These violations resulted in an immediate event of default; however, the holders of the 1994 Notes have not accelerated the remaining amounts due.

The 2002 Notes also contain covenants which provide for the acceleration of amounts outstanding under the 2002 Notes should Dynex REIT default under other credit agreements in excess of $10 million, and such amounts outstanding under the other credit agreements are accelerated by the respective lender.

Total recourse debt decreased to $420.7 million at March 31, 2000 from $537.1 million at December 31, 1999. This decrease was primarily due to the sale of $50.1 million of retained collateralized bonds and $25.0 million of loans, during the first quarter of 2000, which had been financed with $79.8 million of repurchase agreements and $14.1 million of notes payable, respectively. Also during the first quarter of 2000, Dynex REIT paid off approximately $22.4 million of notes payable as a result of $23.9 million of paydowns on investments.

Total Recourse Debt
($ in millions)

<TABLE>
<CAPTION>

	Total Recourse Debt	Total Recourse Debt to Equity	Fixed Charge Coverage Ratio
<S>	<C>	<C>	<C>
1998, Quarter 2	$ 1,390.3	256%	1.48%
1998, Quarter 3	1,614.5	321%	1.28%
1998, Quarter 4	1,032.7	228%	0.27%
1999, Quarter 1	781.4	173%	1.14%
1999, Quarter 2	880.0	201%	1.28%
1999, Quarter 3	1,215.0	285%	1.02%
1999, Quarter 4	537.1	165%	(2.61%)
2000, Quarter 1	420.7	137%	(0.20%)

</TABLE>

<TABLE>

<CAPTION>

Table 1
Net Balance Sheet (1)
($ in thousands)

<S>	<C> March 31, 2000	<C> December 31, 1999
ASSETS		
Investments:		
Collateral for collateralized bonds	$ 3,552,431	$ 3,700,714
Less: Collateralized bonds issued	(3,358,916)	(3,498,883)
Net investment in collateralized bonds	193,515	201,831
Collateralized bonds retained	115,404	215,062
Securities	110,257	127,711
Other investments	39,599	48,927
Loans held for sale	225,796	232,384
	684,571	825,915
Investment in and advances to Dynex Holding, Inc.	8,112	4,814
Cash, substantially restricted	53,584	54,433
Accrued interest receivable	2,399	3,651
Other assets	16,899	19,705
	$ 765,565	$ 908,518
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	$ 83,713	$ 163,046
Notes payable	336,987	374,052
Accrued interest payable	3,109	6,303
Other liabilities	34,919	40,045
	458,728	583,446
Shareholders' Equity:		
Preferred stock, par value $.01 per share, 50,000,000 shares authorized:		
9.75% Cumulative Convertible Series A 1,309,061 issued and outstanding	29,900	29,900
9.55% Cumulative Convertible Series B 1,912,434 issued and outstanding	44,767	44,767
9.73% Cumulative Convertible Series C 1,840,000 issued and outstanding	52,740	52,740
Common stock, par value $.01 per share, 100,000,000 shares authorized, 11,444,188 and 11,444,099 issued and outstanding, respectively	114	114
Additional paid-in capital	351,995	351,995
Accumulated other comprehensive loss	(56,038)	(48,507)
Accumulated deficit	(116,641)	(105,937)
	306,837	325,072
	$ 765,565	$ 908,518

<FN>

(1) This presents the balance sheet where the collateralized bonds are "netted" against the collateral for collateralized bonds. This presentation better illustrates the Company's net investment in the collateralized bonds and the collateralized bonds retained in its investment portfolio.
</FN>
</TABLE>

FORWARD-LOOKING STATEMENTS

Certain written statements in this Form 10-Q made by the Company, that are not historical fact constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements may involve factors that could cause the actual results of the Company to differ materially from historical results or from any results expressed or implied by such forward-looking statements. The Company cautions the public not to place undue reliance on forward-looking statements, which may be based on assumptions and anticipated events that do not materialize. The Company does not undertake, and the Securities Litigation Reform Act specifically relieves the Company from, any obligation to update any forward-looking statements.

Factors that may cause actual results to differ from historical results or from any results expressed or implied by forward-looking statements include the following:

Economic Conditions. The Company is affected by general economic conditions. The risk of defaults and credit losses could increase during an economic slowdown or recession. This could have an adverse effect on the Company's financial performance and the performance on the Company's securitized loan pools.

Capital Resources. The Company relies on various credit facilities and repurchase agreements with certain commercial and investment banking firms to help meet the Company's short-term funding needs. The Company is in violation of numerous covenants under its existing credit facilities. The Company's access to alternative or additional sources of financing has been significantly reduced.

Capital Markets. The Company relies on the capital markets for the sale upon securitization of its collateralized bonds or other types of securities. While the Company has historically been able to sell such collateralized bonds and securities into the capital markets, the Company's access to capital markets in the future has been substantially reduced.

Interest Rate Fluctuations. The Company's income depends on its ability to earn greater interest on its investments than the interest cost to finance these investments. Interest rates in the markets served by the Company generally rise or fall with interest rates as a whole. A majority of the loans currently originated by the Company are fixed-rate. The profitability of a particular securitization may be reduced if interest rates increase substantially before these loans are securitized. In addition, the majority of the investments held by the Company are variable rate collateral for collateralized bonds and adjustable-rate investments. These investments are financed through non-recourse long-term collateralized bonds and recourse short-term repurchase agreements. The net interest spread for these investments could decrease during a period of rapidly rising short-term interest rates, since the investments generally have periodic interest rate caps and the related borrowing have no such interest rate caps.

Defaults. Defaults by borrowers on loans retained by the Company may have an adverse impact on the Company's financial performance, if actual credit losses differ materially from estimates made by the Company at the time of securitization. The allowance for losses is calculated on the basis of historical experience and management's best estimates. Actual defaults may differ from the Company's estimate as a result of economic conditions. Actual defaults on ARM loans may increase during a rising interest rate environment. The Company believes that its reserves are adequate for such risks.

Prepayments. Prepayments by borrowers on loans securitized by the Company may have an adverse impact on the Company's financial performance. Prepayments are expected to increase during a declining interest rate or flat yield curve environment. The Company's exposure to rapid prepayments is primarily (i) the faster amortization of premium on the investments and, to the extent applicable, amortization of bond discount, and (ii) the replacement of investments in its portfolio with lower yield securities.

Competition. The financial services industry is a highly competitive market. Increased competition in the market could adversely affect the Company.

Regulatory Changes. The Company's business is subject to federal and state regulation which, among other things require the Company to maintain various licenses and qualifications and require specific disclosures to borrowers. Changes in existing laws and regulations or in the interpretation thereof, or the introduction of new laws and regulations, could adversely affect the performance of the Company's securitized loan pools.

Significant Risks and Uncertainties. See Note 2 to the Company's financial statements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument due to fluctuations in interest and foreign exchange rates and in equity and commodity prices. Market risk is inherent to both derivative and non-derivative financial instruments, and accordingly, the scope of the Company's market risk management extends beyond derivatives to include all market risk sensitive financial instruments. As a financial services company, net interest income comprises the primary component of the Company's earnings. As a result, the Company is subject to risk resulting from interest rate fluctuations to the extent that there is a gap between the amount of the Company's interest-earning assets and the amount of interest-bearing liabilities that are prepaid, mature or reprice within specified periods. The Company's strategy is to mitigate interest rate risk through the creation of a diversified investment portfolio of high quality assets that, in the aggregate, preserves the Company's capital base while generating stable income in a variety of interest rate and prepayment environments. In many instances, the investment strategy involves not only the creation of the asset, but also structuring the related securitization or borrowing to create a stable yield profile and reduce interest rate risk.

The Company continuously monitors the aggregate cash flow, projected net yield and market value of its investment portfolio under various interest rate and prepayment assumptions. While certain investments may perform poorly in an increasing or decreasing interest rate environment, other investments may perform well, and others may not be impacted at all. Generally, the Company adds investments to its portfolio that are designed to increase the diversification and reduce the variability of the yield produced by the portfolio in different interest rate environments.

The Company's Portfolio Executive Committee ("PEC"), which includes executive management representatives, monitors and manages the interest rate sensitivity and repricing characteristics of the balance sheet components consistent with maintaining acceptable levels of change in both the net portfolio value and net interest income. The Company's exposure to interest rate risk is reviewed on a monthly basis by the PEC and quarterly by the Board of Directors.

The Company utilizes a monthly static cash flow and yield projection under interest rate scenarios detailed below. While the Company may use such tools, there can be no assurance the Company will accomplish the goal of adequately managing the risk profile of the investment portfolio.

The Company measures the sensitivity of its net interest income to changes in interest rates. Changes in interest rates are defined as instantaneous, parallel, and sustained interest rate movements in 100 basis point increments. The Company estimates its interest income for the next twelve months assuming no changes in interest rates from those at period end. Once the base case has been estimated, cash flows are projected for each of the defined interest rate scenarios. Those scenario results are then compared against the base case to determine the estimated change to net interest income.

The following table summarizes the Company's net interest margin sensitivity analysis as of March 31, 2000. This analysis represents management's estimate of the percentage change in net interest margin given a parallel shift in interest rates. The "Base" case represents the interest rate environment as it existed as of March 31, 2000. The analysis is heavily dependent upon the assumptions used in the model. The effect of changes in future interest rates, the shape of the yield curve or the mix of assets and liabilities may cause actual results to differ from the modeled results. In addition, certain financial instruments provide a degree of "optionality." The model considers the effects of these embedded options when projecting cash flows and earnings. The most significant option affecting the Company's portfolio is the borrowers' option to prepay the loans. The model uses a dynamic prepayment model that applies a Constant Prepayment Rate ranging from 5.5% to 70.1% based on the projected incentive to refinance for each loan type in any given period. While the Company's model considers these factors, the extent to which borrowers utilize the ability to exercise their option may cause actual results to significantly differ from the analysis. Furthermore, its projected results assume no additions or subtractions to the Company's portfolio, and no change to the Company's liability structure. Historically, the Company has made significant changes to its assets and liabilities, and is likely to do so in the future.

Basis Point Increase (Decrease) in Interest Rates	% Change in Net Interest Margin from Base Case
+200	(33.56)%
+100	(17.12)%
Base	-
-100	13.50%
-200	15.53%

The Company's investment policy sets forth guidelines for assuming interest rate risk. The investment policy stipulates that given a 200 basis point increase or decrease in interest rates over a twelve month period, the estimated net interest margin may not change by more than 25% of current net interest margin during the subsequent one year period. Based on the projections above, the Company is not in compliance with its stated policy regarding the interest rate sensitivity of net interest margin if interest rates increase 200 basis points over a twelve month period.

Approximately $1.5 billion of the Company's investment portfolio as of March 31, 2000 is comprised of loans or securities that have coupon rates which adjust over time (subject to certain periodic and lifetime limitations) in conjunction with changes in short-term interest rates. Approximately 66% and 25% of the ARM loans underlying the Company's ARM securities and collateral for collateralized bonds are indexed to and reset based upon the level of six-month LIBOR and one-year CMT, respectively.

Generally, during a period of rising short-term interest rates, the Company's net interest spread earned on its investment portfolio will decrease. The decrease of the net interest spread results from (i) the lag in resets of the ARM loans underlying the ARM securities and collateral for collateralized bonds relative to the rate resets on the associated borrowings and (ii) rate resets on the ARM loans which are generally limited to 1% every six months or 2% every twelve months and subject to lifetime caps, while the associated borrowings have no such limitation. As short-term interest rates stabilize and the ARM loans reset, the net interest margin may be restored to its former level as the yields on the ARM loans adjust to market conditions. Conversely, net interest margin may increase following a fall in short-term interest rates. This increase may be temporary as the yields on the ARM loans adjust to the new market conditions after a lag period. In each case, however, the Company expects that the increase or decrease in the net interest spread due to changes in the short-term interest rates to be temporary. The net interest spread may also be increased or decreased by the proceeds or costs of interest rate swap, cap or floor agreements.

Because of the 1% or 2% periodic cap nature of the ARM loans underlying the ARM securities, these securities may decline in market value in a rising interest rate environment. In a rapidly increasing rate environment, as was experienced in 1994, a decline in value may be significant enough to impact the amount of funds available under repurchase agreements to borrow against these securities. In order to maintain liquidity, the Company may be required to sell certain securities. Liquidity risk also exists with all other investments pledged as collateral for repurchase agreements, but to a lesser extent.

As part of its asset/liability management process, the Company enters into interest rate agreements such as interest rate caps and swaps and financial futures contracts ("hedges"). These interest rate agreements are used by the Company to help mitigate the risk to the investment portfolio of fluctuations in interest rates that would ultimately impact net interest income. To help protect the Company's net interest income in a rising interest rate environment, the Company has purchased interest rate caps with a notional amount of $351 million, which help reduce the Company's exposure to interest rate risk rising above the lifetime interest rate caps on ARM securities and loans. These interest rate caps provide the Company with additional cash flow should the related index increase above the contracted rates. The contracted rates on these interest rate caps are based on one-year CMT. These interest rate cap agreements expire 2001 to 2003. The Company will also utilize interest rate swaps to manage its exposure to changes in financing rates of assets and to convert floating rate borrowings to fixed rate where the associated asset financed is fixed rate. These interest rate swap agreements expire in 2001. Interest rate caps and interest rate swaps that the Company uses to manage certain interest rate risks represent protection for the earnings and cash flow of the investment portfolio in adverse markets. To date, short term interest rates have not risen at the speed or to the extent such that the protective cashflows provided by the caps and swaps have been realized.

The Company may also utilize futures and options on futures to moderate the risks inherent in the financing of a portion of its investment portfolio with floating-rate repurchase agreements. The Company uses these instruments to synthetically lengthen the terms of repurchase agreement financing, generally from one to three or six months. Interest rate futures and option agreements have historically provided the Company a means of essentially locking-in borrowing costs at specified rates for a specified period of time. Under these contracts, the Company will receive additional cash flow if the underlying index increases above contracted rates, mitigating the net interest income loss that results from the higher repurchase agreement rates The Company will pay additional cash flow if the underlying index decreases below contracted rates. The Company has not utilized futures or options on futures since 1997, as they primarily benefit the Company when expected rates as measured by the forward yield-curve are less than current cash market rates.

Interest rate caps and interest rate swaps that the Company utilizes to manage certain interest rate risks represent protection for the earnings and cashflow of the investment portfolio in adverse markets. To date, market conditions have not been adverse such that the caps and swaps have been utilized.

The remaining portion of the Company's investments portfolio as of March 31, 2000, approximately $2.4 billion, is comprised of loans or securities that have coupon rates that are either fixed or do not reset within the next 15 months. The Company has limited its interest rate risk on such investments through (i) the issuance of fixed-rate collateralized bonds and notes payable, and (ii) equity, which in the aggregate totals approximately $1.8 billion as of the same date. Overall, the Company's interest rate risk is related both to the rate of change in short term interest rates, and to the level of short term interest rates.

ART II. OTHER INFORMATION

Item 1. Legal Proceedings

On February 8, 1999, AutoBond Acceptance Corporation ("AutoBond"), AutoBond Master Funding Corporation V ("Funding"), and its three principal common shareholders (collectively, the "Plaintiffs"") commenced an action in the District Court of Travis County, Texas (250th Judicial District) against the Company and James Dolph (collectively, the "Defendants") alleging that the Company breached the terms of the Credit Agreement, dated June 9, 1998, by and among AutoBond, Funding and the Company. The terms of the Credit Agreement provided for the purchase by the Company of funding notes issued by Funding, and collateralized by automobile installment contracts ("Auto Contracts") acquired by AutoBond. The Company suspended purchasing the funding notes in February 1999 on grounds that AutoBond and Funding had violated certain provisions of the Credit Agreement. The Plaintiffs also alleged that the Defendants conspired to misrepresent and mischaracterize AutoBond's credit underwriting criteria and its compliance with such criteria with the intention of interfering and causing actual damage to AutoBond's business, prospective business and contracts.

On August 26, 1999, the District Court of Travis County ordered AutoBond and Funding, through a temporary injunction action, to cooperate with the Company and permit the transfer of the servicing of the Auto Contracts from AutoBond to a third party servicer selected by the Company. The servicing was transferred on September 3, 1999.

On March 9, 2000, a jury in the AutoBond action returned a verdict in favor of the Plaintiffs, and awarded AutoBond and Funding $18.7 million in direct lost profits and $50.5 million in lost future profits, for a total of $69.2 million. The Company filed on March 24, 2000 with the Court motions to set aside the verdict and to reduce the amount of the verdict, and on the same date, AutoBond filed a motion to the court to enter judgment. On April 17, 2000, in response to the various motions filed, the judge presiding over the matter in Travis County reduced the $69.2 million verdict awarded by the jury to approximately $27 million (which includes estimated prejudgment interest). As a result, the Company recorded a litigation provision of $27.0 million for the amount of the reduced judgment. At a subsequent hearing on April 17, 2000, the Court further reduced the award to $23.6 million including prejudgment interest. AutoBond has accepted this judgment, as reduced by the trial court, of $23.6 million. On May 15, 2000, the Court denied the Company's motion to post alternative security in lieu of an appeal bond in order to appeal the Court's earlier judgment in favor of AutoBond. To date the Company has been unable to obtain an appeal bond The Court stayed enforcement of the judgment for ten days to allow the Company to appeal the Court's action to the Austin Court of Appeals. The Company intends to appeal the Court's action. In addition, the Court ordered the parties to resume mediation in an effort to either settle the case or agree on alternative security. The Court also reduced the amount of the judgment by $270,000 to approximately $23.3 million.

The Company is also subject to other lawsuits or claims which arise in the ordinary course of its business, some of which seek damages in amounts which could be material to the financial statements. Although no assurance can be given with respect to the ultimate outcome of any such litigation or claim, the Company believes the resolution of such lawsuits or claims will not have a material effect on the Company's consolidated balance sheet, but could materially affect consolidated results of operations in a given year.

Item 2. Changes in Securities and Use of Proceeds

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements 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.

DYNEX CAPITAL, INC.

By: /s/ Thomas H. Potts
Thomas H. Potts, President
(authorized officer of registrant)

/s/ Stephen J. Benedetti
Stephen J. Benedetti, Treasurer and Controller
(principal accounting officer)

Dated: May 19, 2000

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