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 June 30, 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.)
4551 Cox Road, Suite 300, 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: |X| Yes |_| No

On July 31, 2000, the registrant had 11,446,206 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>	<C>
ASSETS	June 30, 2000	December 31, 1999
Investments:		
Collateral for collateralized bonds	$ 3,409,281	$ 3,700,714
Securities	11,972	129,331
Other investments	38,367	48,927
Loans held for sale	127,559	232,384
	3,587,179	4,111,356
Investment in and net advances from Dynex Holding, Inc.	3,873	4,814
Cash, including restricted	8,923	54,433
Accrued interest receivable	1,239	2,208
Other assets	15,467	19,705
	$ 3,616,681	$ 4,192,516
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Non-recourse debt	$ 3,171,819	$ 3,282,378
Recourse debt:		
Secured by collateralized bonds retained	43,224	144,746
Secured by investments	101,369	282,479
Unsecured	100,013	109,873
	3,416,425	3,819,476
Accrued interest payable	4,292	6,303
Accrued expenses and other liabilities	18,767	41,665
	3,439,484	3,867,444
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, 11,444,706 and 11,444,099 issued and outstanding, respectively	114	114
Additional paid-in capital	351,997	351,995
Accumulated other comprehensive loss	(116,985)	(48,507)
Accumulated deficit	(185,336)	(105,937)

	177,197	325,072
	$ 3,616,681	$ 4,192,516

<FN>
See notes to unaudited consolidated financial statements.
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DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands except share data)
<TABLE>
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	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Interest income:				
Collateral for collateralized bonds	$ 68,393	$ 71,300	$ 138,623	$ 142,538
Securities	1,026	3,006	3,002	7,596
Other investments	1,524	786	3,036	1,370
Loans held for sale or securitization	4,492	5,316	9,866	12,689
Other	-	3,556	-	6,889
	75,435	83,964	154,527	171,082
Interest and related expense:				
Non-recourse debt	59,869	51,956	116,696	107,163
Recourse debt	6,407	12,850	15,293	29,025
Other	1,748	791	3,827	1,521
	68,024	65,597	135,816	137,709
Net interest margin before provision for losses	7,411	18,367	18,711	33,373
Provision for losses	(5,510)	(3,773)	(10,831)	(7,566)
Net interest margin	1,901	14,594	7,880	25,807
(Loss) gain on sale of investments	(4,263)	803	(17,696)	(123)
Impairment charge / writedowns	(67,214)	(6,344)	(67,214)	(6,344)
Equity in net earnings (loss) of Dynex Holding, Inc.	2,759	290	2,040	(79)
Other income	415	961	537	

				2,320
	(66,402)	10,304	(74,453)	21,581
General and administrative expenses	(2,175)	(1,961)	(4,578)	(3,969)
Net administrative fees and expenses to Dynex Holding, Inc.	(118)	(5,366)	(368)	(11,290)
(Loss) income before extraordinary item	(68,695)	2,977	(79,399)	6,322
Extraordinary item - gain (loss) on extinguishment of debt	-	597	-	(489)
Net (loss) income after extraordinary item	(68,695)	3,574	(79,399)	5,833
Dividends on preferred stock	(3,228)	(3,226)	(6,456)	(6,454)
Net (loss) income to common shareholders	$ (71,923)	$ 348	$ (85,855)	$ (621)
Net (loss) income per common share before extraordinary item:				
Basic	$ (6.28)	$ (0.02)	$ (7.50)	$ (0.01)
Diluted	$ (6.28)	$ (0.02)	$ (7.50)	$ (0.01)
Net (loss) income per common share after extraordinary item:				
Basic	$ (6.28)	$ 0.03	$ (7.50)	$ (0.05)
Diluted	$ (6.28)	$ 0.03	$ (7.50)	$ (0.05)

<FN>
See notes to unaudited consolidated financial statements.
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DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the six months ended June 30, 2000
(amounts in thousands)
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			Additional	Accumulated Other		

	Preferred Stock	Common Stock	Paid-in Capital	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 - six months ended June 30, 2000	-	-	-	-	(79,399)	(79,399)
Change in net unrealized loss on investments classified as available-for-sale during the period	-	-	-	(68,478)	-	(68,478)
Total comprehensive loss	-	-	-	(68,478)	(79,399)	(147,877)
Issuance of common stock	-	-	2	-	-	2
Balance at June 30, 2000	$ 127,407	$ 114	$ 351,997	$(116,985)	$ (185,336)	$ 177,197

<FN>
See notes to unaudited consolidated financial statements.
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DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Six Months Ended June 30, 2000	Six Months Ended June 30, 1999
Operating activities:		
Net (loss) income	$ (79,399)	$ 5,833
Adjustments to reconcile net (loss) income to net cash (used for) provided by operating activities:		
Provision for losses	10,831	7,566
Net loss on sale of investments	17,696	123
Impairment charges / writedown	67,214	6,344
Equity in net (earnings) loss of Dynex Holding, Inc.	(2,040)	79
Extraordinary item - loss on extinguishment of debt	-	489
Amortization and depreciation	8,871	17,290
Payment of litigation settlement	(20,000)	-
Net change in accrued interest, other assets and other liabilities	(9,566)	(11,894)
Net cash (used for) provided by operating activities	(6,393)	25,830
Investing activities:		
Collateral for collateralized bonds:		
Funding of investments subsequently securitized	-	(280,907)
Principal payments on collateral	255,716	723,895
Decrease in accrued interest receivable	509	5,760
Net decrease (increase) in funds held by trustee	695	(3,610)
Net decrease (increase) in loans held for sale	88,906	(25,199)
Purchase of other investments	(1,658)	(17,740)
Payments received on other investments	2,670	6,493
Payments from sale of other investments	2,916	-
Purchase of securities	-	(23,513)
Payments received on securities	19,276	47,572
Proceeds from sales of securities	20,111	15,905
Payment on tax-exempt bond obligations	(30,418)	-
Investment in and net advances to Dynex Holding, Inc.	2,981	(13,778)
Proceeds from sale of loan operations	9,500	-

Capital expenditures	(54)	(34)
Net cash provided by investing activities	371,150	434,844
Financing activities:		
Collateralized bonds:		
Proceeds from issuance of bonds	137,241	418,162
Principal payments on bonds	(255,453)	(715,682)
Increase in accrued interest payable	1,184	1,392
Repayment of senior notes	(10,080)	(5,605)
Repayment of recourse debt borrowings, net	(283,161)	(147,708)
Net proceeds from issuance of common stock	2	26
Dividends paid	-	(6,454)
Net cash used for financing activities	(410,267)	(455,869)
Net (decrease) increase in cash	(45,510)	4,805
Cash at beginning of period	54,433	30,103
Cash at end of period	$ 8,923	$ 34,908
Cash paid for interest	$ 129,743	$ 134,479
Supplemental disclosure of non-cash activities:		
Collateral for collateralized bonds owned subsequently securitized	$ -	$ 1,161,475
Securities owned subsequently securitized	$ 71,209	$ -

<FN>
See notes to unaudited consolidated financial statements.
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DYNEX CAPITAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 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"). While the Company was actively originating loans, the operations for the loan production was primarily conducted through Dynex Holding, Inc. ("DHI"), a taxable affiliate of Dynex REIT. Currently the Company's property tax receivable operations are conducted through DHI. 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 this 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 June 30, 2000, the Consolidated Statements of Operations for the three and six months ended June 30, 2000 and 1999, the Consolidated Statement of Shareholders' Equity for the six months ended June 30, 2000, the Consolidated Statements of Cash Flows for the six months ended June 30, 2000 and 1999 and related notes to consolidated financial statements are unaudited. Operating results for the six months ended June 30, 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 and continuing into 2000, the Company's access to these sources of financing was substantially impaired. As a result of this environment, in order to lower the Company's capital requirements and reduce the need for short-term financing, the Company sold both its manufactured housing lending operations and model home purchase/leaseback business during 1999, and decided not to extend existing forward commitments on commercial mortgage loans. In addition, in order to repay outstanding recourse borrowing obligations, and in some cases in lieu of securitization, the Company decided to sell as whole loans its commercial loans held in inventory and certain other securities. The sale of the two production operations has significantly lowered the Company's capital requirements and reduced 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, and the lack of access to capital in a cost effective manner, are expected to continue to hamper the Company's ability to compete profitably in the marketplace for at least the balance of the year.

The Company has recourse debt of approximately $244,606 as of June 30, 2000, of which $139,170 comes due in 2000 (see Note 5, Recourse Debt). Given the Company's operating performance and prospects, the Companys access to additional credit has been limited, and there is generally less willingness of the Compan's current lenders to grant extensions. This lack of willingness to extend credit has forced the Company to liquidate a number of its investments, in some cases at terms less favorable than had the Company been able to find alternative funding sources for these investments. As a result of the loan sales completed in July 2000 of substantially all of the Company's remaining loans held for sale, the Company repaid recourse debt in the approximate amount of $98,026, and has further provided cash collateral in the amount of $24,722 to support letters of credit issued on its behalf. The Company has no remaining warehouse debt outstanding as a result of the loan sales.

In addition, the Company is currently in violation of certain covenants in 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 for these covenant violations. The remaining amount outstanding of approximately $1,760 is due August 31, 2000. The Company expects to repay this amount on that date.

The senior unsecured notes due July 2002 (the "2002 Notes"), with an outstanding balance of $97,250 at June 30, 2000, contain covenants which provide for the acceleration of amounts outstanding should Dynex REIT default under other credit agreements in amounts in excess of $10,000, and such amounts outstanding under the other credit agreements are accelerated by the respective lender. No such defaults or accelerations exist as of June 30, 2000.

The 2002 Notes also include covenants restricting dividend payments by Dynex REIT. Generally, Dynex REIT may make dividend payments to the extent such payments are necessary for the Company to maintain REIT status. The Company may also declare and pay dividends on the Preferred Stock provided that for the four previous fiscal quarters, Dynex REIT meets certain coverage requirements. The Company has failed to meet these coverage requirements for the second quarter 2000, and expects to continue to fail these coverage requirements for the balance of the year.

As of July 31, 2000, the Company also has $58,703 outstanding under repurchase agreements substantially all with one counterparty, which amount is collateralized with collateral having a current estimated market value of $71,433.

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 ("SARs"), 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 and six months ended June 30, 2000 and 1999.
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	Three Months Ended June 30, 2000		Three Months Ended June 30, 1999		Six Months Ended June 30, 2000		Six Months Ended June 30, 1999	
	Income	Weighted-Average Number of Shares	Income	Weighted-Average Number of Shares	Income	Weighted-Average Number of Shares	Income	Weighted-Average Number of Shares
(Loss) income before extraordinary item	$(68,695)		$ 2,977		$(79,399)		$ 6,322	
Extraordinary item - gain (loss) on extinguishment of debt	-		597		-		(489)	
Net (loss) income after extraordinary item	(68,695)		3,574		(79,399)		5,833	
Less: Dividends on preferred stock	(3,228)		(3,226)		(6,456)		(6,454)	
Basic and diluted net (loss) income to common shareholders	$(71,923)	11,444,552	$ 348	11,508,067	$(85,855)	11,444,355	$ (621)	11,507,751
Net (loss) income per common share before extraordinary item:								
Basic		$ (6.28)		$ (0.02)		$ (7.50)		$ (0.01)
Diluted		$ (6.28)		$ (0.02)		$ (7.50)		$ (0.01)
Net (loss) income per common share after extraordinary item:								
Basic		$ (6.28)		$ 0.03		$ (7.50)		$ (0.05)
Diluted		$ (6.28)		$ 0.03		$ (7.50)		$ (0.05)
Reconciliation of anti-dilutive shares:								
Dividends and additional shares of preferred stock:								
Series A	$ 766	654,531	$ 766	654,531	$ 1,532	654,531	$ 1,531	654,531
Series B	1,119	956,217	1,118	956,217	2,238	956,217	2,237	956,217
Series C	1,343	920,000	1,342	920,000	2,686	920,000	2,686	920,000

Expense and incremental shares of SARs	-	25,435	-	22,350	-	25,435	2	22,350
	$ 3,228	2,556,183	$ 3,226	2,553,098	$ 6,456	2,556,183	$ 6,456	2,553,098

</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 June 30, 2000 and December 31, 1999, and the related average effective interest rates:
<TABLE>
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	June 30, 2000		December 31, 1999	
	Fair Value	Effective Interest Rate	Fair Value	Effective Interest Rate
Collateral for collateralized bonds:				
Amortized cost	$ 3,542,080	7.9%	$ 3,752,702	7.8%
Allowance for losses	(17,328)		(15,299)	
Amortized cost, net	3,524,752		3,737,403	
Gross unrealized gains	29,778		34,198	
Gross unrealized losses	(145,249)		(70,887)	
	$ 3,409,281		$ 3,700,714	
Securities:				
Funding Notes and Securities	$ -	-	$ 94,890	6.8%
Adjustable-rate mortgage securities	5,860	10.1%	18,047	7.0%
Fixed-rate mortgage securities	1,607	11.8%	9,861	13.5%
Derivative and residual securities	6,088	3.8%	18,421	1.5%
	13,555		141,219	
Allowance for losses	(69)		(70)	
Amortized cost, net	13,486		141,149	
Gross unrealized gains	943		1,353	
Gross unrealized losses	(2,457)		(13,171)	
	$ 11,972		$ 129,331	

</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, manufactured housing installment loans secured by either a UCC filing or a motor vehicle title and fixed-rate automobile installment contracts. 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.

During the six months ended June 30, 2000, Dynex REIT securitized $71,209 of collateral, through the issuance of one series of collateralized bonds. The collateral consisted of fixed-rate funding notes and securities secured by fixed-rate automobile installment contracts acquired by AutoBond Acceptance Corporation ("AutoBond"). The securitization was accounted for as a financing of the underlying collateral pursuant to Statement of Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("FAS No. 125") as Dynex REIT retained call rights which were substantially in excess of a clean-up call as defined by this accounting standard. The funding notes were previously classified as Securities in the Company's financial statements. As a result of the settlement of the AutoBond litigation in June 2000 (see Note 9), the Company received 100% of the outstanding stock of the entities which issued the funding notes and securities, and which owns all of the underlying automobile installment contracts (the "AutoBond Entities"). These entities are included in the consolidated financial statements of the Company.

Securities. Funding Notes and Securities consisted of fixed-rate funding notes and securities secured by fixed-rate automobile installment contracts acquired 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 $34,448 were sold during the six months ended June 30, 2000 for an aggregate loss of $13,892. The specific identification method is used to calculate the basis of securities sold. Loss on sale of investments at June 30, 2000 also includes realized losses of $1,586 related to the sale of $115,231 of commercial loans during the six months ended June 30, 2000. Loss on sale of investments for the six months ended June 30, 1999 includes (i) realized losses of $1,662 related to the sale of $22,062 of commercial loans (ii) realized gains of $1,512 on various derivative trading positions entered into during the six months ended June 30, 1999 and (iii) realized gains of $210 related to the sale of $15,972 of securities during the six months ended June 30, 1999.

During the six months ended June 30, 2000, Dynex REIT also recognized losses of $67,214 related to (i) the permanent impairment in the carrying value of certain securities, (ii) write-downs to market value of commercial and multifamily loans held for sale and (iii) the accrual of losses related to contingent obligations on its off-balance sheet tax-exempt bond positions. As a result of the receipt of 100% of the outstanding stock of the AutoBond Entities in connection with the settlement of the AutoBond litigation, Dynex REIT recorded permanent impairment charges of $15,036 to record the underlying automobile installment contracts at their current fair market value. The market value for these automobile contracts was based on management's' estimate. The market value for commercial and multifamily loans held for sale was determined based on bids accepted by the Company. These loan sales were completed in July 2000. Losses on contingent obligations were accrued related to Dynex REIT's performance obligations as "funding facility issuer" on approximately $244,603 of tax-exempt bonds. As discussed in Note 9, the Company was party to a conditional bond repurchase agreements whereby the Company had the option to purchase $167,800 of such bonds in June. The Company did not exercise this option and the counterparty to the agreement retained $30,500 in cash collateral as settlement as provided for in the related agreements. Dynex REIT expects to settle the remaining $76,803 tax-exempt bond position during the third quarter.

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 discount rates, prepayment rates and credit loss assumptions established by management. 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 was 16% and 18% at June 30, 2000 and December 31, 1999, respectively. Variations in market discount rates, prepayment rates and credit loss assumptions may materially impact the resulting fair values of the Company's financial instruments. 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 June 30, 2000 and December 31, 1999:

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	June 30, 2000	December 31, 1999
Recourse debt secured by:		
Collateralized bonds retained	$ 43,224	$ 144,746
Securities	2,363	66,090
Other investments	14,657	31,498
Loans held for sale	83,563	183,901
Other assets	786	990
	144,593	427,225
Unsecured debt:		
7.875% senior notes, net of issuance costs	96,542	96,361
Series B 10.03% senior notes, net of issuance costs	3,471	13,512
	$ 244,606	$ 537,098

</TABLE>

Secured Debt. At June 30, 2000 and December 31, 1999, recourse debt consisted of $45,587 and $163,045, respectively, of recourse repurchase agreements secured by investments, $98,220 and $263,190, respectively, outstanding under secured credit facilities which are secured by loans held for sale, securities and other investments, and $786 and $990, respectively, of amounts outstanding under a capital lease. At June 30, 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 June 30, 2000, Dynex REIT had two committed secured credit facilities aggregating $198,700 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.

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Facility	Outstanding Balance		Maturity Date	Eligible Collateral	Range of Interest Rates
$195,000 secured credit facility agented by Chase Bank of Texas	$ 89,537	(1)	September 29, 2000	Loans held for sale, property tax receivables	LIBOR plus 3.50%
$3,700 secured credit facility with Residential Funding Corporation	575		December 15, 2000	Other investments	LIBOR plus 2.50%
	$ 90,112				

<FN>

(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 June 30, 2000, $79,052 of letters of credit had been issued under the subline. Such amount is not included in the $89,537 balance outstanding included in the table above.

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</TABLE>

The $195,000 secured credit facility agented by Chase Bank of Texas (the "Chase Facility") has been converted to a non-revolving facility, and in addition to the $89,537 borrowed, includes $79,052 of letters of credit issued to support Dynex REIT's obligations as funding facility issuer on its remaining $76,803 tax-exempt bond position. In July 2000, the Company sold loans held for sale which generated sufficient proceeds to fully repay the $89,537 outstanding borrowings at June 30, 2000, and provide an additional $24,722 of cash escrow as collateral for the $79,052 of letters of credit. Dynex REIT expects to fully satisfy its obligations under the Chase Facility by its maturity date.

Unsecured Debt. Since 1994, Dynex REIT has issued three series of unsecured notes payable totaling $150,000. These notes payable had an outstanding balance at June 30, 2000 of $100,740. The Company has $97,250 outstanding of its July 2002 senior notes (the "2002 Notes") and $3,490 million outstanding on notes issued in September 1994 (the "1994 Notes"). The 2002 Notes mature July 15, 2002. The 1994 Notes amortize monthly at approximately $1,700 per month, with the final payment due on August 31, 2000. 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 also include covenants restricting dividend payments by Dynex REIT. Generally, Dynex REIT may make dividend payments to the extent such payments are necessary for the Company to maintain REIT status. The Company may also declare and pay dividends on the Preferred Stock provided that for the four previous fiscal quarters, Dynex REIT meets certain coverage requirements. The Company has failed to meet these coverage requirements for the second quarter 2000, and expects to continue to fail these coverage requirements for the balance of the year.

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. In June 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133" ("FAS No. 138"). FAS No. 138 amends FAS No. 133's accounting for certain derivative instruments and certain hedging activities. FAS No. 138 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company does not believe the adoption of FAS No. 133 will have a material impact on its financial statements.

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.

During the quarter ended June 30, 2000, Dynex REIT liquidated its interest rate caps and interest rate swap agreements at losses in order to enhance its liquidity position. As a result, Dynex REIT recognized losses of approximately $3,394 during the quarter, while generating cash proceeds of $793 from the sales. The notional balance of these positions was $2.3 billion. As a result of the sales, Dynex REIT now no longer has any hedges related to the reset lag inherent in its ARM assets (which generally reset every six months to one year) relative to it's financing for such assets (which generally resets monthly), and for the lifetime interest rate caps embedded in such ARM assets.

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.

As of June 30, 2000, Dynex REIT is obligated under noncancelable operating leases with expiration dates through 2005. Rent expense under those leases was $248 and $133, respectively for the six months ended June 30, 2000 and 1999. The future minimum lease payments under these noncancelable leases are as follows: the remainder of 2000--$102; 2001--$208; 2002--$215; 2003--$221; 2004--$228 and 2005--$96.

Dynex REIT has facilitated the issuance of tax-exempt multifamily housing bonds ("TEBs"), the proceeds of which are used to fund construction or moderate rehabilitation loans on multifamily properties. These TEBs are sold to third party investors. Dynex REIT has entered into various standby commitments and similar agreements whereby Dynex REIT is required to pay principal and interest to the TEB bondholders in the event there is a payment shortfall on the mortgage loan underlying each such TEB, and in certain cases is required to purchase the TEB if such TEB cannot be successfully re-marketed to third party investors. Dynex REIT has facilitated the issuance of approximately $76,803 of TEBs by providing pursuant to the Chase Facility letters of credit of $79,052 at June 30, 2000. Dynex REIT has an obligation to purchase the TEBs once the letters of credit expire. Approximately $20,900 of letters of credit expire during the second half of 2000, approximately $44,000 expire in 2001 and approximately $14,152 expire in 2002. As of July 31, 2000, Dynex REIT has provided $24,722 in cash, and loans and other investments with a book value of approximately $25,000 as collateral for such letters of credit. Dynex REIT's interest in the above TEBs is currently held for sale. The facility under which such letters of credit were issued matures on September 29, 2000. If Dynex REIT is not successful in selling its interest in the TEBs by such date, the lenders have the right to demand additional cash collateral at maturity to fully collateralize the $79,052 in letters of credit outstanding.

On June 15, 2000, the Company was released from its obligation to purchase pursuant to various conditional bond repurchase obligations associated with $167,800 of TEBs on multifamily properties that had undergone moderate rehabilitation. The Company did not exercise this option and the counterparty to the agreement retained $30,500 in cash collateral as settlement as provided for in the related agreements. Such amount was charged to earnings during the second quarter. The Company has no further obligation relative to these TEBs.

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.

On June 9, 2000, the Company settled the matter with AutoBond for a cash payment of $20,000. In return for the payment, the Company received a complete release of all claims against it by AutoBond, and ownership of the AutoBond subsidiaries which own the underlying automobile installment contracts, and that issued the securities that were purchased from AutoBond.

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 June 30, 2000 and December 31, 1999, net borrowings due to DHI under this agreement totaled $19,293 and $26,720, respectively. Net interest expense under this agreement was $754 and $69 for the six months ended June 30, 2000 and 1999, respectively.

Dynex REIT had a funding agreement with Dynex Commercial, Inc. ("DCI"), an operating subsidiary of DHI, whereby Dynex REIT paid DCI a fee. Dynex REIT paid DCI $158 and $1,471, respectively under this agreement for the six months ended June 30, 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 June 30, 2000 and December 31, 1999 was $626 and $4,274, respectively. Interest income recorded by Dynex REIT on the notes for the six months ended June 30, 2000 and 1999 was $140 and $6,958, respectively.

Dynex REIT has entered into subservicing agreements with DCI, Dynex Commercial Services, Inc. ("DCSI"), Dynex Financial, Inc. ("DFI" - previously a subsidiary of DHI) and GLS Capital Services, Inc ("GLS") to service commercial, single family, and consumer loans and property tax receivables. All of these entities, with the exception of DFI, 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. A new subservicing agreement was entered into with Bingham Financial Services Corporation, the new parent of DFI. 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 $143 and $1,264 during the six months ended June 30, 2000 and 1999, respectively.

During 1999, the Company made a loan to Thomas H. Potts, president of the Company, as evidenced by a promissory note in the aggregate principal amount of $934,500 with interest accruing on the outstanding balance at the rate of Prime plus one-half percent annum (the "Note"). Mr. Potts directly owns 399,502 shares of common stock of the Company, all of which has been pledged as collateral to secure the Note. As of June 30, 2000, the outstanding balance of the Note was $925,000.

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 $3,873 and $4,814 at June 30, 2000 and December 31, 1999, respectively. The results of operations and financial position of DHI are summarized below:

Condensed Income Statement Information	Three Months ended June 30, 2000	Three Months ended June 30, 1999	Six Months ended June 30, 2000	Six Months ended June 30, 1999
Total revenues	$ 4,072	$ 10,703	$ 4,738	$ 21,752
Total expenses	1,285	10,410	2,677	21,831
Net income	2,787	293	2,061	(79)

Condensed Balance Sheet Information	June 30, 2000	December 31, 1999
Total assets	$ 31,580	$ 36,822
Total liabilities	1,772	9,075
Total equity	29,808	27,747

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

(amounts in thousands except per share data)	June 30, 2000	December 31, 1999
Investments:		
Collateral for collateralized bonds	$ 3,409,281	$ 3,700,714
Securities	11,972	129,331
Other investments	38,367	48,927
Loans held for sale	127,559	232,384
Non-recourse debt - collateralized bonds	3,171,819	3,282,378
Recourse debt	244,606	537,098
Shareholders' equity	177,197	325,072
Book value per common share	3.82	16.74

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, fixed-rate automobile installment contracts and property tax receivables. As of June 30, 2000, the Company had 28 series of collateralized bonds outstanding. The collateral for collateralized bonds decreased to $3.4 billion at June 30, 2000 compared to $3.7 billion at December 31, 1999. This decrease of $0.3 billion is primarily the combined result of $255.7 million in paydowns on collateral and a $78.8 million increase in the unrealized loss on collateral for collateralized bonds during the six months ended June 30, 2000. These decreases were partially offset by the securitization of $71.2 million of fixed-rate funding notes secured by fixed-rate automobile installment contracts during the second quarter of 2000.

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 $12.0 million at June 30, 2000 compared to $129.3 million at December 31, 1999. This decrease was primarily the result of the securitization of $71.2 million of fixed-rate funding notes during the second quarter of 2000. Securities also decreased due to $19.3 million of paydowns and $31.6 million of sales during the six months ended June 30, 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 $38.4 million at June 30, 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 $127.6 million at June 30, 2000. This decrease was primarily due to the sale or writedown of certain commercial loans held for sale. In addition, the Company sold the remaining $3.5 million of manufactured housing loans during the first quarter of 2000. These decreases were partially offset by $15.8 million of new loan fundings during the six months ended June 30, 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 June 30, 2000. This decrease was primarily a result of paydowns on all collateralized bonds of $255.5 million during the six months ended June 30, 2000. This decrease was partially offset by Dynex REIT adding $41.7 million of collateralized bonds during the six months ended June 30, 1999. In addition, Dynex REIT sold $112.4 million of previously retained collateralized bonds during the six months ended June 30, 2000.

Recourse debt Recourse debt decreased to $244.6 million at June 30, 2000 from $537.1 million at December 31, 1999. This decrease was primarily due to the sale of $112.4 million of retained collateralized bonds and $115.2 million of loans, during the six months ended June 30, 2000, which had been financed with $91.3 million of repurchase agreements and $98.0 million of notes payable, respectively. In addition, $71.2 million of fixed-rate funding notes were securitized as collateral for collateralized bonds during the second quarter of 2000. These funding notes were previously financed by $27.3 million of notes payable. Also during the six months ended June 30, 2000, Dynex REIT paid off approximately $30.3 million of notes payable as a result of $33.7 million of paydowns on investments.

Shareholders' equity Shareholders' equity decreased to $177.2 million at June 30, 2000 from $325.1 million at December 31, 1999. This decrease was a combined result of a $68.5 million increase in the net unrealized loss on investments available-for-sale from $48.5 million at December 31, 1999 to $117.0 million at June 30, 2000 and a net loss of $79.4 million during the six months ended June 30, 2000.

RESULTS OF OPERATIONS

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	Three Months Ended June 30,		Six Months Ended June 30,	
(amounts in thousands except per share information)	2000	1999	2000	1999
Net interest margin	$ 1,901	$ 14,594	$ 7,880	$ 25,807

(Loss) gain on sale of investments	(4,263)	803	(17,696)	(123)
Impairment charge / writedowns	(67,214)	(6,344)	(67,214)	(6,344)
Equity in net earnings (loss) of Dynex Holding, Inc.	2,759	290	2,040	(79)
General and administrative expenses	2,175	1,961	4,578	3,969
Net administrative fees and expenses to Dynex Holding, Inc.	118	5,366	368	11,290
Net (loss) income before preferred stock dividends	(68,695)	3,574	(79,399)	5,833
Basic net income (loss) per common share (1)	$ (6.28)	$ 0.03	$ (7.50)	$ (0.05)
Diluted net income (loss) per common share (1)	$ (6.28)	$ 0.03	$ (7.50)	$ (0.05)
Dividends declared per share:				
Common	$ -	$ -	$ -	$ -
Series A and B Preferred	-	0.585	-	1.17
Series C Preferred	-	0.730	-	1.46

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

Three and Six Months Ended June 30, 2000 Compared to Three and Six Months Ended June 30, 1999. The decrease in net income and net income per common share during the three and six months ended June 30, 2000 as compared to the same period in 1999 is primarily the result of a decrease in net interest margin, an increase in the loss on sale of investments and an increase in impairment charge / writedowns. These decreases were partially offset by the reduction in net administrative fees and expenses to Dynex Holding, Inc.

Net interest margin for the six months ended June 30, 2000 decreased to $7.9 million, or 69% below the $25.8 million for the same period for 1999. Net interest margin for the three months ended June 30, 2000 decreased to $1.9 million, or 87%, below the $14.6 million for the same period in 1999. These decrease were primarily the result of the decline in average interest-earning assets from $4.6 billion and $4.7 billion for the three and six months ended June 30, 1999, respectively, to $3.9 billion and $4.0 billion for the three and six months ended June 30, 2000. In addition, the average cost of funds increased to 7.35% and 7.13% for the three and six months ended June 30, 2000, respectively, from 5.85% and 6.01% for the same periods in 1999 due to an increase in short-term interest rates, which have risen approximately 80 basis points during the first half of 2000. In addition, provision for losses increased to $10.8 million or 0.54% on an annualized basis of average interest-earning assets during the six months ended June 30, 2000 compared to $7.6 million and 0.32% during the six months ended June 30, 1999. Provision for losses increased to $5.5 million or 0.57% on an annualized basis of average interest-earnings assets during the three months ended June 30, 2000 compared to $3.8 million or 0.33% during the same period in 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 six months ended June 30, 2000 increased to a $17.7 million loss, as compared to a $0.1 million loss for the same period in 1999. This increase is primarily the result of both realized losses of $13.9 million related to the sale of $34.4 million of securities and realized losses of $1.6 million related to the sale of $115.2 million of loans during the first half of 2000. During the six months ended June 30, 1999, Dynex REIT recognized losses of $1.7 million related to the sale of $22.1 million of loans. This was partially offset by realized gains of $1.4 million in various derivative trading positions closed during the six months ended June 30, 1999 and realized gains of $0.2 million related to the sale of $16.0 million of securities during the six months ended June 30, 1999. The net (loss) gain of investments for the three months ended June 30, 2000 decreased to a $4.3 million loss, as compared to a $0.8 million gain for the same period in 1999. The decrease for the three months ended June 30, 2000 is the combined result of realized losses of $1.9 million relating to the sale of $93.7 million of loans and realized losses of $3.4 million relating to the sale of various cap and swap positions during the three months ended June 30, 2000. While during the same period in 1999, Dynex REIT recognized gains of $1.0 million in various derivative trading positions closed during the second quarter of 1999 offset partially by $0.3 million of fees paid relating to the loans sold during the first quarter of 1999.

Impairment charge / writedowns increased to $67.2 million for the three and six months ended June 30, 2000, respectively, from $6.3 million for the three and six months ended June 30, 1999, respectively. During the three and six months ended June 30, 2000, Dynex REIT recognized losses of $67.2 million related to (i) the permanent impairment in the carrying value of certain securities, (ii) write-downs to market value of commercial and multifamily loans held for sale and (iii) the accrual of losses related to contingent obligations on its off-balance sheet tax-exempt bond positions. As a result of the receipt of 100% of the outstanding stock of the AutoBond Entities in connection with the settlement of the AutoBond litigation, Dynex REIT recorded permanent impairment charges of $15.0 million to record the underlying automobile installment contracts at their current fair market value. The market value for these automobile contracts was based on management's' estimate. The market value for commercial and multifamily loans held for sale was determined based on bids accepted by the Company. These sales were completed in July 2000. Losses on contingent obligations were accrued related to Dynex REIT's performance obligations as "funding facility issuer" on approximately $244.6 million of tax-exempt bonds. As discussed in Note 9, the Company was party to a conditional bond repurchase agreements whereby the Company had the option to purchase $167.8 million of such bonds in June. The Company did not exercise this option and the counterparty to the agreement retained $30.5 million in cash collateral as settlement as provided for in the related agreements. Dynex REIT expects to settle the remaining $76.8 million tax-exempt bond position during the third quarter. Impairment charge / writedown for both the three and six months ended June 30, 1999 is comprised of (i) realized losses of $2.3 million related to the writedown of $30.6 million of commercial loans, (ii) writedowns of $1.4 million for the permanent impairment of certain residual interest and (iii) realized losses of $2.7 million primarily related to the write-off of hedging positions on $64.4 million of commercial loan commitments.

Net administrative fees and expenses to DHI decreased $5.2 million, or 98%, and $10.9 million, or 97% to $0.1 million and $0.4 million in the three and six months ended June 30, 2000, respectively, as compared to the same periods in 1999. These decreases are 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.

Average Balances and Effective Interest Rates

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	Three Months Ended June 30,				Six Months Ended June 30,			
	2000		1999		2000		1999	
	Average Balance	Effective Rate	Average Balance	Effective Rate	Average Balance	Effective Rate	Average Balance	Effective Rate
Interest-earning assets: (1)								
Collateral for collateralized bonds (2) (3)	$3,537,317	7.73%	$3,888,545	7.33%	$3,587,203	7.73%	$3,931,345	7.25%
Securities	61,011	6.73	251,301	4.78	98,201	6.11	258,440	5.88
Other investments	43,792	14.39	222,537	7.88	46,967	13.52	213,769	7.79
Loans held for sale or securitization	225,996	7.95	277,208	7.67	244,052	8.08	324,984	7.81

Total interest-earning assets	$ 3,868,116	7.81%	$4,639,591	7.24%	$ 3,976,423	7.78%	$ 4,728,538	7.24%
Interest-bearing liabilities:								
Non-recourse debt (3)	$3,223,585	7.33%	$3,539,750	5.78%	$3,239,663	7.12%	$3,526,166	5.99%
Recourse debt - collateralized bonds retained	52,267	7.66	176,893	5.45	91,896	6.85	231,150	5.47
	3,275,852	7.33	3,716,643	5.78	3,331,559	7.11	3,757,316	5.97
Recourse debt secured by investments:								
Securities	20,793	9.11	166,257	6.29	40,164	8.69	172,799	6.10
Other investments	7,951	8.46	163,447	6.18	9,782	6.67	157,764	6.09
Loans held for sale or securitization	155,839	6.40	206,775	4.54	174,674	6.20	263,098	5.17
Recourse debt - unsecured	103,383	8.57	126,536	8.82	105,009	8.66	127,209	8.77
Total interest-bearing liabilities	$3,563,818	7.35%	$4,379,658	5.85%	$3,661,188	7.13%	$4,478,186	6.01%
Net interest spread on all investments (3)		0.46%		1.39%		0.65%		1.22%
Net yield on average interest-earning assets (3)		1.04%		1.72%		1.21%		1.54%

<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 $956 and $2,274 for the three months ended June 30, 2000 and 1999, respectively, and $1,049 and $2,086 for the six months ended June 30, 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 would be 8.26% and 6.34% for the three months ended June 30, 2000 and 1999, respectively, and 8.02% and 6.49% for the six months ended June 30, 2000 and 1999, respectively, while the net yield on average interest-earning assets would be 0.20% and 0.90% for the three months ended June 30, 2000 and 1999, respectively, and 0.40% and 1.09% for the six months ended June 30, 2000 and 1999, respectively.

</FN>

</TABLE>

The net interest spread decreased to 0.46% and 0.65% for the three and six months ended June 30, 2000 from 1.39% and 1.22% for the same periods in 1999. This decrease was primarily due to approximately an 80 basis point increase in the average one-month LIBOR during the first half of 2000. This decrease in net interest spread was partially offset by a reduction in premium amortization expense, which decreased from $4.8 million and $10.7 million for the three and six months ended June 30, 1999, respectively to $2.1 million and $4.1 million for the same periods in 2000. The overall yield on interest-earning assets increased to 7.81% and 7.78% for the three and six months ended June 30, 2000, respectively from 7.24% for both the three and six months ended June 30, 1999. The cost of interest-bearing liabilities increased to 7.35% and 7.13% for the three and six months ended June 30, 2000, respectively, from 5.85% and 6.01% for the three and six months ended June 30, 1999, respectively.

Individually, the net interest spread on collateral for collateralized bonds decreased 66 basis points, from 128 basis points for the six months ended June 30, 1999 to 62 basis points for the same period in 2000. This decrease was primarily due to the increased borrowing cost during the first half of 2000 which was partially offset by lower premium amortization caused by decreased prepayments during the six months ended June 30, 2000 compared to the same period in 1999. The net interest spread on securities decreased 236 basis points, from a negative 22 basis points for the six months ended June 30, 1999 to a negative 258 basis points for the six months ended June 30, 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 half of 2000 as well as an increase in the interest spread on certain credit facilities during the past twelve months. The net interest spread on other investments increased 515 basis points, from 170 basis points for the six months ended June 30, 1999, to 685 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 decreased 76 basis points for the six months ended June 30, 1999 from 264 basis points to 188 basis points for the six months ended June 30, 2000, primarily due to the increased borrowing costs on loans due to the increase in the average one-month LIBOR during the first half of 2000.

Interest Income and Interest-Earning Assets

Approximately $1.4 billion of the investment portfolio as of June 30, 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 64% 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 27% 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.

Investment Portfolio Composition (1)
($ in millions)

<TABLE>
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	LIBOR Based ARM Loans	CMT Based ARM Loans	Other Indices Based ARM Loans	Fixed-Rate Loans	Total
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
2000, Quarter 2	902.5	375.8	110.8	1,998.2	3,387.3

<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 June 30, 2000 were $34.1 million, or approximately 1.00% of the aggregate balance of collateral for collateralized bonds, ARM securities and fixed-rate securities. Of this $34.1 million, $32.6 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 1.42% for the three months ended June 30, 1999 to 1.56% 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 June 30, 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.

Premium Basis and Amortization
($ in millions)

<TABLE>
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	Net Premium	Amortization Expense	CPR Annualized Rate	Principal Paydowns	Amortization Expense as a % of Principal Paydowns
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%
2000, Quarter 2	34.1	2.1	18%	131.6	1.56%

</TABLE>

Credit Exposures

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 on these securities (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 $29.5 million at June 30, 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 and other investments. The aggregate outstanding principal balance of these excluded investments at June 30, 2000 was $196.6 million. The increase in net credit exposure as a percentage of the outstanding loan principal balance from 3.92% at June 30, 1999 to 4.49% at June 30, 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. The increase in net credit exposure as a percentage of the outstanding loan principal balance from 4.25% at March 31, 2000 to 4.49% at June 30, 2000 is related primarily to the credit exposure retained by the Company on its funding note securitization during May.

Credit Reserves and Actual Credit Losses
($ in millions)

<TABLE>
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	Outstanding Loan Principal Balance	Gross Credit Exposure	Credit Exposure, Net of Credit Reserves	Actual Credit Losses	Credit Exposure, Net of Credit Reserves to Outstanding Loan Balance
1998, Quarter 3	$ 4,440.2	$ 193.3	$ 132.4	$ 6.4	2.98%
1998, Quarter 4	4,389.7	219.3	159.7	3.8	3.64%
1999, Quarter 1	4,340.8	220.1	161.6	4.3	3.72%
1999, Quarter 2	3,965.6	209.3	155.5	4.6	3.92%
1999, Quarter 3	3,949.2	245.9	194.5	5.3	4.93%
1999, Quarter 4	3,770.3	238.3	183.2	5.5	4.86%
2000, Quarter 1	3,731.9	264.9	158.7	4.8	4.25%
2000, Quarter 2	3,677.3	303.9	165.2	5.4	4.49%

</TABLE>

The following table summarizes single family mortgage loan, manufactured housing loan, funding notes 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 1.86% at June 30, 2000 from 2.12% at June 30, 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 June 30, 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)

	60 to 90 days delinquent	90 days and over delinquent (2)	Total
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%
2000, Quarter 2	0.34%	1.52%	1.86%

(1) Excludes other investments and loans held for sale.
(2) Includes foreclosures, repossessions and REO.

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. In June 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133" ("FAS No. 138"). FAS No. 138 amends FAS No. 133's accounting for certain derivative instruments and certain hedging activities. FAS No. 138 is effective for all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company believes that the adoption of FAS No. 133 will not have a material impact on its financial statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically financed its operations from a variety of sources. These sources have included 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. Over the first six months of 2000, the Company has been focused on substantially reducing both its short-term debt and capital requirements. The Company's current focus is the release of its obligations under letters of credit and the repayment of its recourse debt, which includes substantially all of the short-term warehouse lines of credit.

A majority of the Company's 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.

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 June 30, 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 June 30, 2000, Dynex REIT had two non-revolving credit facilities aggregating $199 million, comprised of (i) a $195 million non-revolving credit line agented by Chase Bank of Texas ("the Chase Facility"), expiring on July 31, 2000) (which expiration date has been subsequently extended to September 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), and (ii) a $4 million non-revolving 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. Subsequent to June 30, 2000, Dynex REIT sold certain commercial and multifamily loans which repaid all borrowings under the Chase Facility, and provided $24.7 million of cash collateral (in addition to the $76.8 million in TEBs and other collateral) for the $79.1 million of letters of credit issued pursuant to this facility that support Dynex REIT's remaining $76.8 million TEB position. Dynex REIT is working with two prospective buyers for its remaining tax-exempt bond position in order to release the Chase letters of credit by the respective facility maturity date.

The following table summarizes the committed credit facilities at June 30, 2000 expiring in 2000. At June 30, 2000, Dynex REIT had $90.1 million outstanding under its committed credit facilities expiring in 2000.

Committed Credit Facilities
At June 30, 2000
($ in millions)

<TABLE>
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Collateral Type	Credit Limit	Current Outstanding Borrowings	Balance of Pledged Collateral	Contracted Expiration of Facility
Various (primarily commercial loans)	$ 195.0	$89.5	$153.3	September 29, 2000
Model homes	3.7	0.6	0.8	December 15, 2000
Total	$ 198.7	$ 90.1	$154.1	

</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 June 30, 2000, outstanding obligations under all recourse repurchase agreements totaled $46.0 million compared to $163.0 million at December 31, 1999. Dynex REIT has provided collateral worth an estimated fair market value of $55.8 million to support the amount of the repurchase agreement outstanding. All of the recourse repurchase agreements are on an "overnight" or one-day basis. Dynex REIT also has $15.5 million of non-recourse repurchase agreements which are due September 29, 2000. The following table summarizes the outstanding balances of recourse 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.

Recourse Repurchase Agreements by Rating of Investments Financed (1)
($ in millions)

	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
2000, Quarter 2	26.2	4.7	-	14.7	0.4	46.0

(1) Excludes $15.5 million of non-recourse repurchase agreements which are secured by $20.0 million of non-rated collateralized bonds.

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 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 June 30, 2000 of $100.7 million. The Company has $97.3 million outstanding of its July 2002 senior notes (the "2002 Notes") and $3.5 million outstanding on notes issued in September 1994 (the "1994 Notes"). The 2002 Notes mature July 15, 2002. The 1994 Notes amortize monthly at approximately $1.7 million per month, with the final payment of $1.8 million due on August 31, 2000. The Company expects to repay this amount on that date. As of June 30, 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 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. Dynex is not in breach of any covenants under the 2002 Notes.

Total recourse debt decreased to $244.6 million at June 30, 2000 from $537.1 million at December 31, 1999. This decrease was primarily due to the sale of $112.4 million of retained collateralized bonds and $115.2 million of loans, during the six months ended June 30, 2000, which had been financed with $91.3 million of repurchase agreements and $98.0 million of notes payable, respectively. In addition, $71.2 million of fixed-rate funding notes were securitized as collateral for collateralized bonds during the second quarter of 2000. These funding notes were previously financed by $27.3 million of notes payable. Also during the six month ended June 30, 2000, Dynex REIT paid off approximately $30.3 million of notes payable as a result of $33.7 million of paydowns on investments.

Total Recourse Debt
($ in millions)

	Total Recourse Debt	Total Recourse Debt to Equity
1998, Quarter 3	$ 1,614.5	321%
1998, Quarter 4	1,032.7	228%
1999, Quarter 1	781.4	173%
1999, Quarter 2	880.0	201%
1999, Quarter 3	1,215.0	285%
1999, Quarter 4	537.1	165%
2000, Quarter 1	420.7	137%
2000, Quarter 2	244.6	138%

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

<TABLE>
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	June 30, 2000	December 31, 1999
ASSETS		
Investments:		
Collateral for collateralized bonds	$ 3,409,281	$ 3,700,714
Less: Collateralized bonds issued	(3,276,229)	(3,498,883)
Net investment in collateralized bonds	133,052	201,831
Collateralized bonds retained	119,822	215,062
Securities	11,972	129,331
Other investments	38,367	48,927
Loans held for sale	127,559	232,384
	430,772	827,535
Investment in and advances to Dynex Holding, Inc.	3,873	4,814
Cash, including restricted	8,923	54,433
Accrued interest receivable	1,517	3,651
Other assets	15,467	19,705
	$ 460,552	$ 910,138
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	$ 61,277	$ 163,046
Notes payable	199,019	374,052
Accrued interest payable	4,292	6,303
Other liabilities	18,767	41,665
	283,355	585,066
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, 11,444,706 and 11,444,099 issued and outstanding, respectively	114	114
Additional paid-in capital	351,997	351,995
Accumulated other comprehensive loss	(116,985)	(48,507)
Accumulated deficit	(185,336)	(105,937)
	177,197	325,072

$ 460,552	$ 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.

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</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'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, to the extent that it has loan production activity. 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 pledged as collateral for collateralized bonds by the Company are fixed-rate. The Company currently finances these fixed-rate assets through non-recourse debt, approximately $215 million of which is variable rate. In addition, significant amount 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 default rates or loss severities 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 June 30, 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 June 30, 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)	% Change in Net Interest Margin from

in Interest Rates	Base Case
+200	(10.93)%
+100	(5.42)%
Base	-
-100	5.41%
-200	11.30%

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 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 $1.4 billion of the Company's investment portfolio as of June 30, 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 64% and 27% 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. The Company had no interest rate swap, cap or floor agreements as of June 30, 2000.

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 may enter 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. The Company may 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. 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. The Company had no hedges in place as of June 30, 2000.

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 June 30, 2000, approximately $2.2 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 $1.7 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.

PART 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.

On June 9, 2000, the Company settled the matter with AutoBond for a cash payment of $20 million. In return for the payment, the Company received a complete release of all claims against it by AutoBond, and ownership of the AutoBond subsidiaries which own the underlying automobile installment contracts, and that issued the securities that were purchased from AutoBond.

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

At the Company's annual meeting of shareholders held on June 27, 2000, for which proxies were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934, the following matters were voted upon and approved by shareholders.

1. The election of four directors for a term expiring in 2001:

   J. Sidney Davenport
   Thomas H. Potts
   Barry S. Shein
   Donald B. Vaden

2. Approval of the appointment of Deloitte & Touche LLP, independent certified public accountants, as the Company's auditors for the year ended December 31, 2000.

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: August 14, 2000

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