

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20459

SCHEDULE TO-I

TENDER OFFER STATEMENT
UNDER SECTION 14(d) (1) OR 13(e) (1) OF THE
SECURITIES EXCHANGE ACT OF 1934

DYNEX CAPITAL, INC.
(NAME OF SUBJECT COMPANY (ISSUER))

DYNEX CAPITAL, INC. (OFFEROR)
(NAME OF FILING PERSON (IDENTIFYING STATUS AS OFFEROR, ISSUER OR OTHER PERSON))

SERIES A PREFERRED STOCK, PAR VALUE \$0.01 PER SHARE
SERIES B PREFERRED STOCK, PAR VALUE \$0.01 PER SHARE
SERIES C PREFERRED STOCK, PAR VALUE \$0.01 PER SHARE
(TITLE OF CLASS OF SECURITIES)

(26817Q 20 9)
(CUSIP NUMBER OF SERIES A PREFERRED STOCK)
(26817Q 30 8)
(CUSIP NUMBER OF SERIES B PREFERRED STOCK)
(26817Q 40 7)
(CUSIP NUMBER OF SERIES C PREFERRED STOCK)

STEPHEN J. BENEDETTI, CHIEF FINANCIAL OFFICER
DYNEX CAPITAL, INC.
4551 COX ROAD, SUITE 300
GLEN ALLEN, VIRGINIA 23060
(804) 217-5800

(NAME, ADDRESS AND TELEPHONE NUMBER OF PERSON AUTHORIZED TO
RECEIVE NOTICES AND COMMUNICATIONS ON BEHALF OF FILING PERSON
FILING THE STATEMENT)

COPY TO:
ELIZABETH R. HUGHES, ESQUIRE
VENABLE, BAETJER & HOWARD, LLP
8010 TOWERS CRESCENT DRIVE, SUITE 300
VIENNA, VA 22182
(703) 760-1649

CALCULATION OF FILING FEE

TRANSACTION VALUATION*:	AMOUNT OF FILING FEE:
\$50,000,000	\$10,000.00

*CALCULATED SOLELY FOR THE PURPOSE OF DETERMINING THE AMOUNT OF THE FILING FEE. THE AMOUNT ASSUMES THE PURCHASE OF THE MAXIMUM AMOUNT UNDER THE TERMS OF THE OFFER OF 492,425 SHARES OF SERIES A PREFERRED STOCK, THE PURCHASE OF 662,944 SHARES OF SERIES B PREFERRED STOCK, AND THE PURCHASE OF 683,703 SHARES OF SERIES C PREFERRED STOCK. IF THE MAXIMUM AMOUNT OF SHARES ARE TENDERED, DYNEX MAY PAY UP TO \$20 MILLION IN CASH AND ISSUE UP TO \$30 MILLION AGGREGATE PRINCIPAL AMOUNT OF SENIOR NOTES TO HOLDERS OF ITS PREFERRED STOCK. BASED ON THE MAXIMUM VALUE OF THE OFFER, THE TRANSACTION VALUE IS EQUAL TO \$50 MILLION. THE AMOUNT OF THE FILING FEE, CALCULATED IN ACCORDANCE WITH RULE 0-11 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, EQUALS 1/50TH OF ONE PERCENT OF THE TRANSACTION VALUE.

[] Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number or the form or schedule and the date of its filing

<TABLE>

<S>	<C>
Amount Previously Paid: Not applicable	Form or Registration No.: Not applicable
Filing Party: Not applicable	Filed: Not applicable

</TABLE>

[] Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

- [] third-party tender offer subject to Rule14d-1.
[X] issuer tender offer subject to Rule 13e-4.
[] going-private transaction subject to Rule13e-3.

[] amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer: []

ITEM 1. SUMMARY TERM SHEET

This Issuer Tender Offer Statement on Schedule TO (this "Schedule TO") relates to the offer by Dynex Capital, Inc., a Virginia corporation ("Dynex") to exchange up to an aggregate 492,425 shares of its Series A Preferred Stock, up to an aggregate 662,944 shares of its Series B Preferred Stock, and up to an aggregate 683,703 shares of its Series C Preferred Stock (or, in each case, such lesser number of shares as are properly tendered and not properly withdrawn), for cash, 9.50% Senior Notes, due February 28, 2005 (the "Senior Notes"), or a combination of cash and Senior Notes, each subject to the terms and conditions of the Offering Circular, dated January 8, 2003 (as amended from time to time, the "Offer to Exchange"), attached hereto as Exhibit (a)(1), is incorporated herein by reference. This Schedule TO is intended to satisfy the reporting requirements of Rule 13e-4(c)(2) of the Securities Exchange Act of 1934, as amended. Pursuant to Rule 13e-4(f)(1)(ii), the total number of shares purchased may be increased to 502,273 shares of Series A Preferred Stock, 676,202 shares of Series B Preferred Stock and 697,376 shares of Series C Preferred Stock.

The information in the Exchange Offer, including all schedules and annexes thereto, is hereby expressly incorporated herein by reference in response to all the items of this Statement, except as otherwise set forth below.

The information set forth under "Summary Term Sheet of the Offer" in the Offer to Exchange is incorporated herein by reference.

ITEM 2. SUBJECT COMPANY INFORMATION

(a) The name of the issuer is Dynex Capital, Inc., a Virginia corporation ("Dynex"), and the address and telephone number of its principal executive offices is, 4551 Cox Road, Suite 300 Glen Allen, Virginia 23060, (804) 217-5800. The information set forth in the Offer to Exchange under "Business," "Summary Historical and Pro Forma Financial Information," and "Risk Factors" is incorporated herein by reference.

(b) The information set forth under "Description of Capital Stock."

(c) The information set forth in the Offer to Exchange under "Price Range of Preferred Stock" is incorporated herein by reference.

ITEM 3. IDENTITY AND BACKGROUND OF FILING PERSON

(a) The information set forth under Item 2(a) above and in "Executive Officer and Director Beneficial Ownership" of the Offer to Exchange is incorporated herein by reference. Dynex is both the filing person and the subject company.

Pursuant to General Instruction C to Schedule TO promulgated by the United States Securities and Exchange Commission (the "SEC"), the following persons are the directors and/or executive officers of Dynex:

Name	Position
J. Sidney Davenport	Director
Thomas H. Potts	Director
Barry S. Shein	Director
Donald B. Vaden	Director
Eric P. Von der Porten	Director
Leon A. Felman	Director
Barry Igdaloff	Director
Stephen J. Benedetti	Executive Officer

The address of each director and executive officer listed above is, c/o Dynex Capital, Inc., 4551 Cox Road, Suite 300, Glen Allen, Virginia 23060. The telephone number for each director and executive officer listed above is (804) 217-5800.

ITEM 4. TERMS OF THE TRANSACTION

(a) This Tender Offer Statement on Schedule TO relates to the solicitation by Dynex to its shareholders for the tender of its shares of Series A preferred stock (the "Series A Preferred Stock"); shares of its Series B preferred stock (the "Series B Preferred Stock"), and shares of its Series C preferred stock (the "Series C Preferred Stock", and collectively, the "Preferred Stock") all upon the terms and subject to the conditions set forth in the Offer to Exchange and in the related letters of transmittal. Pursuant to the Offer to Exchange, Dynex is offering to exchange up to an aggregate 492,425 shares of its Series A Preferred Stock, up to an aggregate 662,944 shares of its Series B Preferred

Stock, and up to an aggregate 683,703 shares of its Series C Preferred Stock (or, in each case, such lesser number of shares as are properly tendered and not properly withdrawn), under the following exchange options:

1. Cash. Cash, net to the seller, in the amount of \$24.00 for each share tendered of Series A Preferred Stock, \$24.50 for each share tendered of Series B Preferred Stock, and \$30.00 for each share tendered of Series C Preferred Stock, which equates to 100% of the issue price of such series of Preferred Stock; or

2. Senior Notes. Senior Notes in the aggregate principal amount of \$25.20 for each share tendered of Series A Preferred Stock, \$25.725 for each share tendered of Series B Preferred Stock, and \$31.50 for each share tendered of Series C Preferred Stock in principal amount of our 9.50% Senior Notes due February 28, 2005. The Senior Notes will be issued in denominations of \$25 or in integral multiples of \$25. In cases where the consideration for shares of each series you tender is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 not to exceed \$24.99.

The principal amount received for each share of Preferred Stock tendered equates to 105% of the issue price of such Preferred Stock; or

3. A combination of cash and Senior Notes.

The information set forth in the Offer to Exchange under "Summary Term Sheet of the Offer," "The Offer," "Risk Factors," "Purposes and Effect of the Offer," "Business," "Summary Historical and Pro Forma Financial Information," "Certain United States Federal Income Tax Consequences," "Description of Capital Stock," "Description of Senior Notes" are incorporated herein by reference.

(b) The information set forth in the Offer to Exchange under "Executive Officer and Director Beneficial Ownership" is incorporated herein by reference.

ITEM 5. PAST CONTACTS, TRANSACTIONS, NEGOTIATIONS AND AGREEMENTS

(e) The information set forth in the Offer to Exchange under "Executive Officer and Director Beneficial Ownership" is incorporated herein by reference.

ITEM 6. PURPOSES OF THE TRANSACTION AND PLANS OR PROPOSALS

(a) The information set forth "Purposes and Effect of the Offer," and "Business" is incorporated herein by reference.

(b) The information set forth in the Offer to Exchange under "Purposes of the Offer," is incorporated herein by reference.

(c) The information set forth in the Offer to Exchange under "Business," is incorporated herein by reference.

ITEM 7. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION

(a) The information set forth in the Offer to Exchange under "Summary Term Sheet of the Offer - How will Dynex pay for the Shares and How will Dynex pay interest and principal on the Senior Notes," "The Offer - Source and Amounts of Funds" and "Purposes and Effects of the Offer" is incorporated herein by reference.

(b) Not applicable.

(d) Not applicable.

ITEM 8. INTEREST IN SECURITIES OF THE SUBJECT COMPANY

(a) The information set forth in the Offer to Exchange under "Executive Officer and Director Beneficial Ownership" is incorporated herein by reference.

(b) The information set forth in the Offer to Exchange under "Executive Officer and Director Beneficial Ownership" is incorporated herein by reference.

ITEM 9. PERSONS/ASSETS, RETAINED, EMPLOYED, COMPENSATED OR USED

(a) The information set forth in the Offer to Exchange under "The Offer - Payment of Expenses" is incorporated by reference herein.

ITEM 10. FINANCIAL STATEMENTS

(a) The information set forth in the Offer to Exchange under "Summary Historical and Pro Forma Financial Information," "Capitalization," and in Dynex's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, as amended, and its Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, June 30, and September 30, 2002 are incorporated herein by reference.

(b) Not applicable.

ITEM 11. ADDITIONAL INFORMATION

(a) With respect to regulatory requirements, the Indenture under which the Senior Notes are issued must be qualified under the Trust Indenture Act of 1939. The Issuer has filed a Form T-3 for this purpose. The information set forth in the Offer to Exchange under "Executive Officer and Director Beneficial Ownership" and "Legal Matters; Regulatory Approvals" is incorporated herein by reference.

(b) Not applicable.

ITEM 12. EXHIBITS

EXHIBIT NUMBER - - - - -	DESCRIPTION - - - - -
(a) (1) (A)	Offering Circular dated January 8, 2003.
(a) (1) (B) (i)	Series A Preferred Stock Letter of Transmittal.
(a) (1) (B) (ii)	Series B Preferred Stock Letter of Transmittal.
(a) (1) (B) (iii)	Series C Preferred Stock Letter of Transmittal.
(a) (1) (C)	Notice of Guaranteed Delivery.
(a) (1) (D)	Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees dated January 8, 2003.
(a) (1) (E)	Letter to Clients from Brokers, Dealers, Commercial Banks, Trust Companies and other Nominees dated January 8, 2003.
(a) (1) (F)	Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.
(a) (1) (G)	Press Release dated January 2, 2003 (incorporated by reference to Dynex Capital, Inc.'s Schedule TO, filed with the Securities and Exchange Commission on January 3, 2003).
(a) (2)-(5)	Not applicable.
(b)	Not applicable.
(d) (1)	Indenture between Dynex and Wachovia Bank, as Trustee, with respect to the 9.50% Senior Notes due 2005.
(e)	Not applicable.
(g)	Not Applicable.

ITEM 13. INFORMATION REQUIRED BY SCHEDULE 13E-3

(a) Not applicable.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

DYNEX CAPITAL, INC.

By: /s/ Stephen J. Benedetti

Stephen Benedetti
Chief Financial Officer

Dated: January 8, 2003
EXHIBIT INDEX

EXHIBIT NUMBER - - - - -	DESCRIPTION - - - - -
(a) (1) (A)	Offering Circular dated January 8, 2003.

- (a) (1) (B) (i) Series A Preferred Stock Letter of Transmittal.
- (a) (1) (B) (ii) Series B Preferred Stock Letter of Transmittal.
- (a) (1) (B) (iii) Series C Preferred Stock Letter of Transmittal.
- (a) (1) (C) Notice of Guaranteed Delivery.
- (a) (1) (D) Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees dated January 8, 2003.
- (a) (1) (E) Letter to Clients from Brokers, Dealers, Commercial Banks, Trust Companies and other Nominees dated January 8, 2003.
- (a) (1) (F) Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.
- (a) (1) (G) Press Release dated January 2, 2003 (incorporated by reference to Dynex Capital, Inc.'s Schedule TO, filed with the Securities and Exchange Commission on January 3, 2003).
- (a) (2)-(5) Not applicable.
- (b) Not applicable.
- (d) (1) Indenture between Dynex and Wachovia Bank, as Trustee, with respect to the 9.50% Senior Notes due 2005.
- (e) Not applicable.
- (g) Not Applicable.

Offering Circular

Dynex Logo

Exhibit (a) (1) (A)

DYNEX CAPITAL, INC.

Cash Tender Offer and
Offer to Exchange
up to

492,425 Shares of Its Series A Preferred Stock,
662,944 Shares of Its Series B Preferred Stock, and
683,703 Shares of Its Series C Preferred Stock

THE CASH TENDER OFFER AND EXCHANGE OFFER, AND RELATED WITHDRAWAL RIGHTS AND
PRORATION PERIOD, WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON TUESDAY,
FEBRUARY 11, 2003, UNLESS EXTENDED OR EARLIER TERMINATED BY US.

Dynex Capital, Inc., a Virginia corporation ("Dynex" or the "Company"), invites its shareholders to tender shares of its Series A preferred stock (the "Series A Preferred Stock"), shares of its Series B preferred stock (the "Series B Preferred Stock"), and shares of its Series C preferred stock (the "Series C Preferred Stock," and, collectively, with the Series A Preferred Stock and the Series B Preferred Stock, the "Preferred Stock"), all upon the terms and subject to the conditions set forth in this document and in the related letters of transmittal (which, as amended or supplemented from time to time, together constitute the "Offer"). Each share of Preferred Stock has a par value of \$0.01 per share. Upon the terms and subject to the conditions of the Offer, we are offering to acquire up to an aggregate of 492,425 shares of Series A Preferred Stock, up to an aggregate of 662,944 shares of Series B Preferred Stock, and up to an aggregate of 683,703 shares of Series C Preferred Stock (or, in each case, such lesser number of shares as are properly tendered and not properly withdrawn), under any of the following options, as so noted on the enclosed Letter of Transmittal:

Option 1 (for consideration in Cash)

- o \$24.00 in cash per share of Series A Preferred Stock tendered, up to an aggregate maximum of 202,763 shares of Series A Preferred Stock;
- o \$24.50 in cash per share of Series B Preferred Stock tendered, up to an aggregate maximum of 272,977 shares of Series B Preferred Stock; and
- o \$30.00 in cash per share of Series C Preferred Stock tendered, up to an aggregate maximum of 281,525 shares of Series C Preferred Stock;

Under this Option 1 (Cash), the per share cash amount to be received for each share of Preferred Stock tendered in the Offer is equal to 100% of the original issue price of such share of Preferred Stock;

or

Option 2 (for consideration in Senior Notes)

- o \$25.20 in principal amount of our 9.50% Senior Notes due February 28, 2005, the principal of which will be paid back in eight equal quarterly installments commencing May 31, 2003 (collectively, the "Senior Notes" and each, a "Senior Note"), per share of Series A Preferred Stock tendered, up to an aggregate maximum of 289,662 shares of Series A Preferred Stock;
- o \$25.725 in principal amount of the Senior Notes per share of Series B Preferred Stock tendered, up to an aggregate maximum of 389,967 shares of Series B Preferred Stock; and
- o \$31.50 in principal amount of the Senior Notes per share of Series C Preferred Stock tendered, up to an aggregate maximum of 402,178 shares of Series C Preferred Stock;

Under this Option 2 (Senior Notes), the per share principal amount of Senior Notes to be received for each share of Preferred Stock tendered in the Offer is equal to 105% of the original issue price of such share of Preferred Stock. The Senior Notes will be issued in denominations of \$25 or in integral multiples of \$25. In cases where the consideration for shares of each series you tender is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 not to exceed \$24.99. For a more detailed description of the terms of the Senior Notes being

offered, please see "Description of Senior Notes;"

or

Option 3 (for a combination of consideration in Cash and Senior Notes)

A combination of Option 1 (Cash) and Option 2 (Senior Notes) in amounts you designate on the enclosed Letter of Transmittal.

Subject to the terms and conditions of the Offer, we will (i) pay up to an aggregate of approximately \$20,000,000 in cash, and (ii) issue up to approximately \$30,000,000 aggregate principal amount of Senior Notes, in exchange for up to 1,839,072 shares of Preferred Stock, with an aggregate original issue price of \$48,571,418 and an aggregate liquidation preference as of December 31, 2002 of \$63,845,505.

We reserve the right, in our sole discretion, to increase the total number of shares that may be exchanged pursuant to this Offer to up to 502,273 shares of Series A Preferred Stock, to up to 676,202 shares of Series B Preferred Stock, and to up to 697,376 shares of Series C Preferred Stock. Shares of Preferred Stock not purchased because of the proration provisions described in this Offering Circular will be returned at Dynex' expense. See "The Offer--How to Tender."

THE OFFER IS NOT CONDITIONED UPON ANY MINIMUM NUMBER OF SHARES OF PREFERRED STOCK BEING TENDERED. THE OFFER IS, HOWEVER, SUBJECT TO CERTAIN OTHER CONDITIONS. SEE "THE OFFER-CONDITIONS TO THE OFFER."

Tendering holders of Preferred Stock will not be obligated to pay brokerage commissions, solicitation fees, or, upon the terms and subject to the conditions of the Offer, stock transfer taxes on the sale of shares of Preferred Stock to Dynex. However, any tendering shareholder or other payee required to complete a Letter of Transmittal who fails to complete fully and sign the box captioned "Substitute Form W-9" included in the Letter of Transmittal or, in the case of a non-U.S. holder, who fails to certify its non-U.S. status, may be

subject to a required tax withholding of 31% of the gross proceeds paid to the shareholder or other payee pursuant to the Offer. See "Certain United States Federal Income Tax Consequences." We will pay all charges and expenses of Wachovia Bank, N.A., the Exchange Agent, and MacKenzie Partners, Inc., the Information Agent, incurred in connection with the Offer.

Tendering holders of Preferred Stock will not receive any dividends with respect to such shares, including dividends in arrears that have accumulated to date, which dividends will be cancelled if the tendered shares are accepted by us. As of February 28, 2003, a total of approximately \$7,931,000, \$11,022,000 and \$13,801,000 in dividends in arrears will have accumulated per share on the Series A Preferred Stock, the Series B Preferred Stock and the Series C Preferred Stock, respectively.

Tenders pursuant to the Offer may be withdrawn at any time prior to 5:00 p.m., New York City time, on Tuesday, February 11, 2003, which is the expiration time of the Offer, or such later expiration time if we extend the Offer, and, if not yet accepted for payment, after March 11, 2003.

As of January 2, 2003 (the last trading day ending prior to our public announcement of our intention to commence the Offer), the closing sales price per share for each series of our Preferred Stock, as reported on the Nasdaq National Market, was \$22.50 for our Series A Preferred Stock, \$22.25 for our Series B Preferred Stock, and \$28.00 for our Series C Preferred Stock. Under Option 1 (Cash) and Option 2 (Senior Notes) described above, the exchange price for the Series A Preferred Stock represented a premium of 6.67% and 12.00%, respectively, above the market price as of January 2, 2003, the exchange price for the Series B Preferred Stock represented a premium of 10.11% and 15.62%, respectively, above the market price as of January 2, 2003, and the exchange price for the Series C Preferred Stock represented a premium of 7.14% and 12.50%, respectively, above the market price as of January 2, 2003. SHAREHOLDERS ARE URGED TO OBTAIN CURRENT MARKET QUOTATIONS FOR THE SHARES. SEE "PRICE RANGE OF PREFERRED STOCK."

PLEASE READ THE ENCLOSED MATERIALS CAREFULLY.

For a further description of our Preferred Stock, see "Description of Capital Stock." We intend to apply for listing of the Senior Notes for trading on the American Stock Exchange. However, there is no assurance that the Senior Notes will be listed on the American Stock Exchange or that a liquid trading market will develop for the Senior Notes. If a trading market does develop, there can be no assurance as to any price at which the Senior Notes will trade. See "Risk Factors--By Tendering Your Preferred Stock for the Senior Notes, You Will Lose Rights Associated with Your Preferred Stock."

The Senior Notes will be unsecured obligations of Dynex. The Senior Notes mature February 28, 2005 and bear interest at 9.50% per annum on the

outstanding principal balance. Principal and interest will be paid quarterly on May 31, August 31, November 30 and February 28. Principal payments will be made quarterly in eight equal installments commencing on May 31, 2003. We will have the right to prepay the Senior Notes in whole or in part, including all interest accrued thereon, without penalty. The Senior Notes will be issued under an Indenture between Dynex and Wachovia Bank, N.A., as trustee. The terms of the Senior Notes Indenture are governed by certain provisions contained in the Trust Indenture Act of 1939 (the "Trust Indenture Act"). See "Description of Senior Notes."

OUR BOARD OF DIRECTORS HAS APPROVED THE MAKING OF THE OFFER. YOU MUST, HOWEVER, MAKE YOUR OWN DECISION WHETHER TO TENDER SHARES AND, IF SO, HOW MANY SHARES TO TENDER AND WHETHER TO TENDER FOR CASH AND/OR SENIOR NOTES. NEITHER WE NOR OUR BOARD OF DIRECTORS MAKES ANY RECOMMENDATION TO YOU WITH RESPECT TO THE OFFER, AND NO PERSON HAS BEEN AUTHORIZED BY US OR OUR BOARD OF DIRECTORS TO MAKE ANY SUCH RECOMMENDATION. CERTAIN MEMBERS OF OUR BOARD OF DIRECTORS HAVE INFORMED THE COMPANY THAT THEY WILL PARTICIPATE IN THE OFFER.

YOU SHOULD EVALUATE CAREFULLY ALL OF THE INFORMATION CONTAINED OR REFERRED TO IN THIS DOCUMENT AND MAKE YOUR OWN DECISION WHETHER TO TENDER SHARES PURSUANT TO THE OFFER. YOU ARE URGED TO CONSULT A TAX ADVISOR CONCERNING ANY FEDERAL, STATE, LOCAL OR FOREIGN TAX CONSEQUENCES OF A SALE OF PREFERRED STOCK PURSUANT TO THE OFFER.

The address and telephone number of the principal executive offices of Dynex are 4551 Cox Road, Suite 300, Glen Allen, Virginia 23060, (804) 217-5800.

THE DATE OF THIS OFFERING CIRCULAR IS JANUARY 8, 2003

IMPORTANT

Any shareholder of record desiring to tender all or any portion of his, her or its shares of Preferred Stock should either complete and sign the Letter of Transmittal or a facsimile thereof in accordance with the instructions set forth therein and mail or deliver the Letter of Transmittal, together with the stock certificates for such shares and any required signature guarantee and any other required documents, to the Exchange Agent or comply with the book-entry transfer facility's automated tender offer program procedures described in "The Offer--How to Tender" to the extent it is available. A shareholder having shares of Preferred Stock registered in the name of a broker or a dealer, commercial bank, trust company or other nominee must contact those persons if such shareholder desires to tender such shares. Shareholders who desire to tender shares of Preferred Stock and whose certificates for such shares are not immediately available or whose other required documentation cannot be delivered to the Exchange Agent by the expiration of the Offer should tender such shares by following the procedures for guaranteed delivery described in "The Offer-How to Tender." Any shareholder of record desiring to tender shares of Preferred Stock for Senior Notes, or electing to receive Senior Notes in the event of an oversubscription for cash consideration, must have or establish an account with, and tender such shares through, a broker, dealer, bank or other financial institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of The Depository Trust Corporation ("DTC"). The Senior Notes will be issued only in book-entry form pursuant to a global note to be registered in the name of DTC's nominee, Cede & Co., Inc. See "The Offer--How to Tender--Tender Procedure for Shareholders Tendering for Senior Notes."

Questions and requests for assistance may be directed to the Information Agent at the address and telephone number set forth on the back cover of this Offering Circular. Requests for additional copies of this Offering Circular and all related documents may also be directed to the Information Agent.

THE SENIOR NOTES ARE BEING OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER SECTION 3(a)(9) OF THE SECURITIES ACT OF 1933, AS AMENDED. THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION DOES NOT PASS UPON THE MERITS OF THE SENIOR NOTES NOR DOES IT PASS UPON THE ACCURACY OR COMPLETENESS OF ANY OFFERING CIRCULAR OR OTHER SELLING LITERATURE.

For a discussion of certain risks and other factors to be considered in connection with the Offer, see "Risk Factors" beginning on page 12.

We have made no arrangements for and have no understanding with any dealer, salesman or other person regarding the solicitation of tenders hereunder, other than the Information Agent, and no person has been authorized to give any information or to make any representation not contained in this Offering Circular in connection with the Offer, and, if given or made, such information or representation must not be relied upon as having been authorized by us or any other person. Neither the delivery of this Offering Circular nor any exchange or sale shall, under any circumstances, create any implication that there has been no change in our affairs since the respective dates as of which information is given.

This Offering Circular does not constitute an offer to exchange or sell, or a solicitation of an offer to exchange or buy, any securities other than the securities covered by this Offering Circular by us or any other person, or any such offer or solicitation of such securities by us or any such other person in any state or other jurisdiction to any person to whom it is unlawful to make any such offer or solicitation. In any state or other jurisdiction where it is required that the securities offered by this Offering Circular be qualified for offering or that the offering be approved pursuant to tender offer statutes in such state or jurisdiction, no offer is hereby being made to, and tenders will not be accepted from, residents of any such state or jurisdiction unless and until such requirements have been satisfied.

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AVAILABLE INFORMATION

MacKenzie Partners, Inc. will act as Information Agent in connection with the Offer. For further assistance or additional copies of documents call the Information Agent at (212) 929-5500 (call collect) or (800) 322-2885 (toll free) or write to the Information Agent at: MacKenzie Partners, Inc., 105 Madison Avenue, New York, New York 10016. See "The Offer--Information Agent" and the information set forth on the back cover of this Offering Circular. Any questions, requests for assistance, or requests for additional copies of this Offer, the Letter of Transmittal or the Notice of Guaranteed Delivery should be directed to the Information Agent.

You may also contact your broker, dealer, commercial bank or trust company or any other nominee for assistance concerning this Offer.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and file reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. Copies of such materials can be obtained by mail from the Public Reference Section of the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. In addition, the Commission maintains a site on the World Wide Web that contains reports, proxy and information statements and other information filed electronically by Dynex with the Commission which can be accessed over the Internet at <http://www.sec.gov>.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed with the Commission are enclosed with this Offering Circular and are hereby incorporated by reference into this Offering Circular:

- o The Company's Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2001;
- o The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002;
- o The Company's Current Reports on Form 8-K filed with the Commission on April 29, 2002, August 20, 2002, September 19, 2002 and October 7, 2002; and
- o The Company's Notice and Proxy Statement dated April 29, 2002.

The Company's Quarterly Reports on Form 10-Q, as amended, for the quarters ended March 31, 2002 and June 30, 2002, as filed with the Commission, are also hereby incorporated by reference into this Offering Circular. Dynex incorporates by reference additional documents that it may file with the Commission between the date of this Offer and the date the Offer proration period and withdrawal rights expire. Those documents include periodic reports, such as Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and proxy statements, which will also be provided to holders of our Preferred Stock.

If any statement contained in any of the foregoing documents is modified or superseded by a statement in this Offering Circular or in any document subsequently filed and incorporated by reference herein, the statement in any such foregoing document will be deemed for the purposes of this Offering Circular to have been modified or superseded by such statement in this Offering Circular or subsequently filed document, and the statement in any such foregoing document is incorporated by reference herein only as modified or to the extent it is not superseded.

SUMMARY TERM SHEET OF THE OFFER

The following is a summary of certain features of the Offer and other matters, and all statements contained herein are qualified in their entirety by reference to the more detailed information and financial statements hereinafter set forth. When used in this Offering Circular, the terms "Company," "Dynex," "we," "our," "ours" and "us" refer to Dynex Capital, Inc., and its consolidated subsidiaries, unless otherwise specified or the context requires otherwise.

Who is offering to acquire my shares in the Offer?

Dynex is offering to acquire your shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock. For information about our business and certain recent developments, see "Business," and for information about the Offer, see "The Offer."

What is the purpose of the Offer?

Our Board of Directors believes that, given Dynex' financial condition

and the current market environment, the acquisition of our shares of Preferred Stock at this time is a prudent course of action to enhance shareholder value and to provide greater liquidity for holders of the Preferred Stock. Holders of shares of Preferred Stock electing to participate in the Offer should review the considerations set forth herein under the heading "Purposes and Effects of the Offer."

How long will I have to tender my Preferred Stock?

You may tender your shares of Preferred Stock until the Offer expires. The Offer will expire on Tuesday, February 11, 2003 at 5:00 p.m., New York City time, unless we extend it. We may choose to extend the Offer for any reason. See "The Offer-Expiration Time, Extensions, Termination and Amendments."

How many shares of Preferred Stock are being sought in the Offer and what consideration is being offered for my shares?

We are offering to acquire up to 492,425 shares (or such lesser number as are properly tendered) of Series A Preferred Stock, up to 662,944 shares (or such lesser number as are properly tendered) of Series B Preferred Stock, and up to 683,703 shares (or such lesser number as are properly tendered) of Series C Preferred Stock.

Upon the terms and subject to the conditions of the Offer set forth in this Offering Circular and the accompanying Letter of Transmittal, you can choose to receive the following for your shares of Preferred Stock:

Option 1 (for consideration in Cash)

- o \$24.00 in cash for each share of Series A Preferred Stock you tender, up to an aggregate maximum of \$4,866,312 in cash for all shares of Series A Preferred Stock tendered for cash in the Offer and up to an aggregate maximum of 202,763 shares of Series A Preferred Stock;
- o \$24.50 in cash for each share of Series B Preferred Stock you tender, up to an aggregate maximum of \$6,687,937 in cash for all shares of Series B Preferred Stock tendered for cash in the Offer and up to an aggregate maximum of 272,977 shares of Series B Preferred Stock; and

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- o \$30.00 in cash for each share of Series C Preferred Stock you tender, up to an aggregate maximum of \$8,445,750 in cash for all shares of Series C Preferred Stock tendered for cash in the Offer and up to an aggregate maximum of 281,525 shares of Series C Preferred Stock;

Under this Option 1 (Cash), the per share cash amount to be received for each share of Preferred Stock tendered in the Offer is equal to 100% of the original issue price of such share of Preferred Stock;

or

Option 2 (for consideration in Senior Notes)

- o \$25.20 in principal amount of our 9.50% Senior Notes due February 28, 2005 (collectively, the "Senior Notes" and each, a "Senior Note") for each share of Series A Preferred Stock you tender, up to \$7,299,475 in aggregate maximum principal amount of Senior Notes for all shares of Series A Preferred Stock tendered for Senior Notes in the Offer and up to an aggregate maximum of 289,662 shares of Series A Preferred Stock;
- o \$25.725 in principal amount of the Senior Notes for each share of Series B Preferred Stock you tender, up to \$10,031,900 in aggregate maximum principal amount of Senior Notes for all shares of Series B Preferred Stock tendered for Senior Notes in the Offer and up to an aggregate maximum of 389,967 shares of Series B Preferred Stock; and
- o \$31.50 in principal amount of the Senior Notes for each share of Series C Preferred Stock you tender, up to \$12,668,600 in aggregate maximum principal amount of Senior Notes for all shares of Series C Preferred Stock tendered for Senior Notes in the Offer and up to an aggregate maximum of 402,178 shares of Series C Preferred Stock;

Under this Option 2 (Senior Notes), the per share principal amount to be received for each share of Preferred Stock tendered in the Offer is equal to 105% of the original issue price of such

share of Preferred Stock. The Senior Notes will be issued in denominations of \$25 or integral multiples thereof. In cases where the consideration for shares of each series you tender is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 not to exceed \$24.99. For a more detailed description of the terms of the Senior Notes being offered, please see "Description of Senior Notes;"

or

Option 3 (for a combination of consideration in Cash and Senior Notes)

A combination of cash and Senior Notes in amounts which you designate in your Letter of Transmittal. Under this Option 3, with respect to the shares of each series of Preferred Stock you tender, you will designate the number of tendered shares of such series for which you choose to receive cash (which cash shall be subject to Option 1) and you will designate the number of tendered shares of such series for which you choose to receive Senior Notes (which Senior Notes shall be subject to Option 2).

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We have the right to extend or amend the Offer in our sole and absolute discretion and the right to terminate the Offer at any time prior to the expiration time of the Offer if the conditions to the Offer are not satisfied. The Offer is not conditioned on any minimum number of shares being tendered.

You should choose only one Option for the shares of Preferred Stock that you tender. If you choose Option 3, you will need to designate on the Letter of Transmittal how many shares are being tendered for cash and how many shares are being tendered for Senior Notes. You do not have to tender all of your shares of Preferred Stock to participate in the Offer.

Will I receive a premium above the current market value for tendering my Preferred Stock?

Whether you will receive a premium above the current market value of the Preferred Stock for tendering shares of Preferred Stock will depend on the market value of our Preferred Stock on the date the Offer is completed. As of January 2, 2003 (the last trading day ending prior to our public announcement of our intention to commence the Offer), the closing sales price per share for each series of our Preferred Stock, as reported on the Nasdaq National Market, was \$22.50 for our Series A Preferred Stock, \$22.25 for our Series B Preferred Stock, and \$28.00 for our Series C Preferred Stock. Under Option 1 (Cash) and Option 2 (Senior Notes) described above, the exchange price for the Series A Preferred Stock represented a premium of 6.67% and 12.00%, respectively, above the market price as of January 2, 2003, the exchange price for the Series B Preferred Stock represented a premium of 10.11% and 15.62%, respectively, above the market price as of January 2, 2003, and the exchange price for the Series C Preferred Stock represented a premium of 7.14% and 12.50%, respectively, above the market price as of January 2, 2003. See "Purposes and Effects of the Offer."

Is there a minimum or maximum number of shares of Preferred Stock you will accept in the Offer?

We will accept up to an aggregate of 492,425 shares of Series A Preferred Stock, up to an aggregate of 662,944 shares of Series B Preferred Stock, and up to an aggregate of 683,703 shares of Series C Preferred Stock. This represents approximately 49% of the shares of each series of our Preferred Stock outstanding as of December 31, 2002.

This Offer is not conditioned upon any minimum number of shares of Preferred Stock being tendered.

How will Dynex determine which shares to accept of a series of Preferred Stock if such series is oversubscribed?

If more shares of any series of Preferred Stock are tendered than we are offering to acquire (regardless of which form of consideration the tendering shareholders elect to receive), we will accept shares of such series that are validly tendered on a pro-rata basis, based on the number of shares tendered. Furthermore, if, after giving effect to this prorationing, one form of consideration that we are offering is oversubscribed, Dynex will accept shares of such series that are validly tendered for such consideration on a pro-rata basis. In that instance, and assuming an undersubscription for the other type of consideration, you will have the option (but are not required) to elect to receive, by checking the "Oversubscription Allocation" box on the Letter of Transmittal, the other consideration for the excess shares you tendered in lieu of having your excess shares returned.

If you validly tender shares of your Preferred Stock but fail to elect

properly in your Letter of Transmittal the form of consideration which you wish to receive in the Offer, you will be deemed to have elected to receive cash for such tendered shares pursuant to Option 1 described in the Offer.

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Will the Company's officers and directors be participating in the Offer?

Certain members of the Board of Directors have informed the Company that they will participate in the Offer. At least one Director has indicated that he will tender a portion of the shares of Preferred Stock which he owns under Option 2. No executive officer of Dynex owns any Preferred Stock.

Are there any conditions to the Offer?

The Offer is subject to certain conditions, including the absence of court and government actions prohibiting the Offer, general market conditions, the condition of our business, and the Indenture under which the Senior Notes will be issued being qualified under the Trust Indenture Act. See "The Offer--Conditions to the Offer."

How do I tender my Preferred Stock?

If you wish to tender your shares of Preferred Stock in the Offer:

- o You must deliver the share certificate(s) representing your Preferred Stock, a properly completed and duly executed Letter of Transmittal for such shares and other documents required by the Letter of Transmittal to the Exchange Agent at the address set forth in the section entitled "Available Information" and appearing on the back cover of this Offering Circular prior to 5:00 p.m., New York City time, on Tuesday, February 11, 2003;
- o If your shares of Preferred Stock are held in street name - that is, through a broker, dealer or other nominee - you must contact that institution to tender your shares of Preferred Stock. The Exchange Agent must receive a confirmation of receipt of your shares by book-entry transfer and a properly completed and duly executed Letter of Transmittal for such shares;
- o You must comply with The Depository Trust Company's Automated Tender Offer Program; or
- o If you cannot provide the Exchange Agent with all required documents by the Expiration Time of the Offer, you may obtain additional time to submit any missing items by submitting a Notice of Guaranteed Delivery to the Exchange Agent. See "The Offer--How to Tender." However, for your tender to be valid, the Exchange Agent must receive the missing items within three Nasdaq trading days of the date the Exchange Agent received your Notice of Guaranteed Delivery.

Further, because the Senior Notes issued pursuant to this Offer will be issued in book-entry form only, if you desire to tender shares of Preferred Stock for Senior Notes, or elect to receive Senior Notes in the event of an oversubscription for cash consideration, you must have or establish an account with, and tender those shares through, a broker, dealer, bank or other financial institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of the DTC.

Contact the Information Agent for assistance. See "The Offer--How to Tender."

Will I be able to withdraw shares of Preferred Stock that I tender into the Offer?

You can withdraw tenders of shares of Preferred Stock pursuant to the Offer at any time prior to 5:00 p.m. on Tuesday, February 11, 2003, the expiration time of the Offer, or such later expiration time as we specify if we

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extend the Offer. Unless we have previously accepted the shares you have tendered, you may also withdraw your shares after March 11, 2003. Except for these rights of withdrawal, all tenders are irrevocable. See "The Offer--Withdrawal Rights."

How will I be notified if Dynex extends the Offer?

We will issue a press release by 9:00 a.m., New York City time, no later than the business day after the previous scheduled expiration time if we

decide to extend the Offer. See "The Offer--Expiration Time, Extensions, Termination and Amendments."

When will I receive cash and/or Senior Notes in exchange for my Preferred Stock tendered?

Subject to the satisfaction or waiver of all conditions to the Offer, and assuming we have not previously elected to terminate or amend the Offer, we will accept shares that are properly tendered and not withdrawn prior to the expiration of the Offer at 5:00 p.m., New York City time, on February 11, 2003, or such later expiration time as we specify if we extend the Offer. As soon as practicable following the expiration time of the Offer, in accordance with your election, either cash, without interest, or Senior Notes, or a combination thereof, will be delivered for your shares, in the manner described in this Offering Circular (subject to any required prorationing), up to the maximum aggregate amount we are offering to acquire. Payment of cash and issuance of the Senior Notes is expected to occur no later than February 28, 2003 (the "Closing Date"). See "The Offer--Acceptance of Shares of Preferred Stock for Exchange; Delivery of Senior Notes to be Exchanged."

What are the principal terms of the Senior Notes I will receive in exchange for my Preferred Stock?

The Senior Notes will be unsecured obligations of Dynex. The Senior Notes mature February 28, 2005 and bear interest at 9.50% per annum on the outstanding principal balance. Interest shall accrue on the Senior Notes commencing on the Closing Date. Principal and interest will be paid quarterly in eight equal installments. A principal payment of \$3.125 (or such lesser principal amount as is then outstanding) per each \$25 of principal amount on each Senior Note will be made on each quarterly payment date on such Senior Note until such Senior Note is paid in full. Dynex will have the right to prepay the Senior Notes in whole or in part, including all interest accrued thereon, without penalty. Dynex also will have the right to purchase the Senior Notes in the open market. The Senior Notes will be issued under an Indenture between Dynex and Wachovia Bank, N.A., as trustee. The terms of the Senior Notes Indenture are governed by certain provisions contained in the Trust Indenture Act. See "Description of Senior Notes."

Will the Senior Notes be listed for trading on a securities exchange?

We intend to apply for listing of the Senior Notes for trading on the American Stock Exchange. However, there is no assurance that the Senior Notes will be listed on the American Stock Exchange or that a liquid trading market will develop for the Senior Notes. If a trading market does develop, there can be no assurance as to any price at which the Senior Notes will trade. The Senior Notes will be issued only in book-entry form. Generally, the Senior Notes that you receive in the Offer will be freely tradable, unless you are considered an affiliate of ours, as that term is defined in the Securities Act of 1933, as amended (the "Securities Act"). See "Risk Factors--By Exchanging Preferred Stock for the Senior Notes, You Will Lose Rights Associated with Your Preferred Stock."

Will I be paid any dividends with respect to my Preferred Stock?

You will not receive any dividends with respect to the shares of Preferred Stock that are tendered, including dividends in arrears that have accumulated to date which will be cancelled.

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How will Dynex pay for the shares?

We expect to fund the acquisition of the shares of Preferred Stock tendered under the cash option of the Offer, and the payment of related fees and expenses, from available cash. Purchases of Preferred Stock tendered for Senior Notes will be funded through the issuance of the Senior Notes. In addition, to the extent that we pay any cash in connection with tenders for Senior Notes (because Senior Notes will only be issued in denominations of \$25 or in integral multiples of \$25 and cash consideration will be paid for amounts in excess of the nearest \$25 not to exceed \$24.99), we expect to fund such cash payments from available cash.

How will Dynex pay the interest and repay the principal on the Senior Notes?

We expect to pay the interest and repay the principal on the Senior Notes from cash flow generated by our investment portfolio. For the quarter ended December 31, 2002, our investment portfolio produced a cash flow of approximately \$13,000,000 (unaudited).

Will the Offer affect trading of the Preferred Stock on the Nasdaq National Market?

We expect that following the Offer our Preferred Stock will continue to be quoted on Nasdaq, although we cannot assure you that a liquid market to trade our Preferred Stock will exist.

Will the Senior Notes be registered with the Securities and Exchange Commission?

In making the Offer, we are relying on the exemption from the registration requirements of the Securities Act contained in Section 3(a)(9) of that Act for the Senior Notes. Under that exemption, if the shares of Preferred Stock you tender are freely tradable, the Senior Notes you will receive in the Offer will be freely tradable. If the shares of Preferred Stock you tender in the Offer are restricted, the Senior Notes you receive will be restricted to the same degree. See "The Offer--Exemption from Registration Requirements."

Has Dynex or its Board of Directors adopted a position on the Offer?

Our Board of Directors has approved the making of this Offer. However, neither we nor our directors make any recommendation as to whether you should tender shares pursuant to this Offer. You must make the decision whether to tender shares and, if so, how many shares to tender and what consideration to tender those shares for.

Will I have to pay brokerage commissions if I tender my shares?

If you are a registered shareholder and you tender your shares directly to the Exchange Agent, you will not incur any brokerage commissions. If you hold shares through a broker or bank, we urge you to consult your broker or bank to determine whether any transaction costs are applicable.

Will I have to pay a stock transfer tax if I tender my shares?

If you instruct the Exchange Agent in the related Letter of Transmittal to make the payment for the shares to the registered holder, you will not incur any stock transfer tax.

Who will serve as the Exchange Agent in connection with the Offer?

Wachovia Bank, N.A., will serve as the Exchange Agent for the Offer. See "The Offer--Exchange Agent" and the information set forth on the back cover of this Offering Circular.

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Who will serve as the Information Agent in connection with the Offer?

MacKenzie Partners, Inc. will serve as Information Agent in connection with the Offer. The Information Agent's telephone number is (212) 929-5500 or (800) 322-2885 (toll free). See "The Offer--Information Agent" and the information set forth on the back cover of this Offering Circular. The Information Agent can help answer your questions.

What are the tax consequences if I tender my Preferred Stock?

The exchange of shares of Preferred Stock for cash, Senior Notes or cash and Senior Notes by a tendering shareholder will be a taxable event treated for United States federal income tax purposes as either (i) a sale or exchange of the shareholder's shares or (ii) a deemed distribution of property by us with respect to such shares (which the Company expects will not result in ordinary income to the shareholder). Stated interest on the Senior Notes will be taxable as ordinary income to holders of Senior Notes at the time such amounts are received or accrued in accordance with the holder's method of accounting. See "Certain United States Federal Income Tax Consequences" for a discussion of certain federal income tax consequences associated with the Offer and the ownership of Senior Notes, and "Risk Factors--Certain United States Federal Income Tax Risks Associated with the Offer."

What if I decide not to tender shares of my Preferred Stock?

We expect that any shares of your Preferred Stock which you do not tender in the Offer will continue to be quoted on Nasdaq. However, following the completion of the Offer, we cannot assure you that a liquid market to trade our Preferred Stock will exist, nor can we assure you that your shares of Preferred Stock will not decline in price as quoted on Nasdaq. In addition, until the Senior Notes have been fully repaid, the Indenture effectively prohibits us from engaging in any future tender offers with respect to our Preferred Stock and from making any distributions with respect to the Preferred Stock other than distributions required for us to maintain our status as a real estate investment trust ("REIT").

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SUMMARY HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

This summary historical and pro forma financial information should be read in conjunction with our unaudited condensed consolidated financial statements set forth in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 which reflect all adjustments which, in the opinion of management, are necessary to a fair statement of results for all interim periods presented, our audited consolidated financial statements set forth in our Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2001, and the sections of such Forms 10-Q and 10-K captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations," each of which is incorporated herein by reference and enclosed with this Offering Circular.

The following summary historical financial information is derived from our audited consolidated financial statements for the years ended December 31, 2001 and 2000, and the unaudited consolidated financial statements for the nine months ended September 30, 2002 and 2001, which are incorporated by reference into this Offering Circular.

(amounts in thousands except share data)

	Nine Months Ended September 30,		Year Ended December 31	
	2002	2001	2001	2000
<S>	<C>		<C>	
Total interest income	\$ 130,230	\$ 174,387	\$ 222,760	\$ 291,160
Total interest and related expense	97,636	139,133	174,678	259,673
Provision for losses	(16,292)	(22,075)	(19,672)	(29,110)
Net interest margin	16,302	13,179	28,410	2,377
Net gain (loss) on sales, write-downs, and impairment charges (3)	(9,151)	1,544	(20,954)	(84,039)
Trading losses	(3,307)	(2,881)	(3,091)	-
Other income (expense)	688	39	104	(428)
General and administrative expenses	(6,744)	(6,777)	(10,526)	(8,712)
Extraordinary item - gain (loss) on extinguishment of debt	230	1,835	2,972	-
Net (loss) income	\$ (1,982)	\$ 6,939	\$ (3,085)	\$ (91,863)
Net income (loss) applicable to common shareholders	\$ (9,171)	\$ 11,379	\$ 6,246	\$ (104,774)
Income (loss) per common share before extraordinary item:				
Basic and Diluted(1)	\$ (0.86)	\$ 0.83	\$ 0.29	\$ (9.15)
Net income (loss) per common share:				
Basic and Diluted (1)	\$ (0.84)	\$ 0.99	\$ 0.55	\$ (9.15)

</TABLE>

	September 30,		December 31	
	2002	2001	2001	2000

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<S>	<C>	<C>	<C>	<C>
Investments (2)	\$2,323,553	\$2,662,135	\$2,549,579	\$3,193,234
Total assets	2,337,620	2,695,033	2,569,859	3,239,921
Non-recourse debt	2,098,202	2,384,670	2,264,213	2,856,728
Recourse debt	94	64,964	58,134	134,168
Total liabilities	2,103,478	2,452,308	2,327,749	3,002,465
Shareholders' equity	234,142	242,726	242,110	237,456
Number of common shares outstanding	10,873,903	11,446,206	10,873,853	11,446,206
Average number of common shares	10,873,903	11,446,167	11,430,471	11,445,236
Book value per common share (1)	\$ 9.77	\$ 10.31	\$ 11.06	\$ 7.39

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- (1) Inclusive of the liquidation preference on the Company's preferred stock.
(2) Investments classified as available for sale are shown at fair value.
(3) Net loss on sales, write-downs, and impairment charges for the year ended December 31, 2000 include several adjustments related largely to non-recurring items. See Footnote 14 to the consolidated financial statements included in the Annual Report on Form 10-K, as amended, for the year ended December 31, 2001, and Footnote 12 to the unaudited consolidated financial statements included in the Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

The following unaudited pro forma condensed consolidated balance sheet data as of September 30, 2002 gives pro forma effect to this Offer, assuming the maximum number of shares are tendered for cash and Senior Notes at the prices offered herein, as if the payment of such cash and exchange of such Senior Notes had occurred on September 30, 2002. The unaudited condensed consolidated statement of operations data for the year ended December 31, 2001 and the nine months ended September 30, 2002 gives pro forma effect to this Offer, assuming the maximum number of shares are tendered for cash and Senior Notes at the prices offered herein, as if the payment of such cash and exchange of such Senior Notes was effective as of January 1, 2001, the beginning of Dynex' 2001 fiscal year. The unaudited pro forma condensed consolidated statements of operations data for the year ended December 31, 2001 and the nine months ended September 30, 2002 also assumes that the Company was free to make this Offer as of January 1, 2001 without restriction, and further assumes that no repayments of principal on the Senior Notes occurs during the pro forma periods presented.

The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable under the circumstances. The summary unaudited pro forma financial information is not necessarily indicative of what our results would have been if the exchange of the Senior Notes and payment of cash, assuming the maximum number of shares tendered at the exchange prices offered herein in this Offering, actually had occurred as of the dates indicated or of what our future operating results will be.

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<TABLE>

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
As of September 30, 2002
(amounts in thousands except share data)

	Historical	Pro Forma Adjustments	Pro Forma
<S>	<C>	<C>	<C>
Collateral for collateralized bonds	\$2,247,276		\$2,247,276
Other investments, securities and loans	76,277		76,277
Cash and other assets	14,067	(\$20,000) (1)	(5,933)
Total assets	2,337,620	(20,000)	2,317,620
Non-recourse debt	2,098,202		2,098,202
Recourse debt	94	30,000 (2)	30,094
Accrued expenses and other liabilities	5,182		5,182
Total liabilities	2,103,478	30,000	2,133,478
Shareholders' equity	234,142	(50,000) (3)	184,142
Total liabilities and Shareholders' equity	\$2,337,620	(\$20,000)	\$2,317,620

- (1) Payment of cash consideration for Preferred Stock tendered.
(2) Issuance of Senior Notes for Preferred Stock tendered.
(3) Reduction for aggregate purchase price for Preferred Stock tendered and subsequently retired.

</TABLE>

<TABLE>

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Nine Months Ended September 30, 2002
(amounts in thousands except share data)

	Historical	Pro Forma Adjustments	Pro Forma
<S>	<C>	<C>	<C>
Interest income:			
Collateral for collateralized bonds	\$129,066		\$129,066
Other investments, securities, and loans	1,164	(228) (1)	936
	130,230	(228)	130,002
Interest expense:			
Non-recourse debt	95,040		95,040
Recourse debt	2,596	2,138 (2)	4,734
	97,636	2,138	99,774
Net interest margin before provision for losses	32,594	(2,366)	30,228
Provision for losses	(16,292)		(16,292)
Net interest margin	16,302	(2,366)	13,936
Net loss on sales, write-downs and impairment charges	(9,151)		(9,151)
Trading losses	(3,307)		(3,307)
Other income	688		688
General an administrative expenses	(6,744)		(6,744)
Loss before extraordinary items	(2,212)	(2,366)	(4,578)
Extraordinary item - gain on extinguishment of debt	230		230
Net loss	(1,982)	(2,366)	(4,348)
Preferred stock charges	(7,189)	3,524 (3)	(3,665)
Net loss applicable to common shareholders	(\$9,171)	\$1,158	(\$8,013)
Loss per common share before extraordinary item:			
Basic and Diluted	\$ (0.86)		\$ (0.76)
Loss per common share:			
Basic and Diluted	\$ (0.84)		\$ (0.74)

- (1) Reduction in interest income at average effective investment yield for reduction in cash of \$20,000.
(2) Interest expense for the nine months ended September 30, 2002 for the Senior Notes issued for Preferred Stock tendered.
(3) Reduction for dividend charges associated with Preferred Stock tendered and subsequently retired.

</TABLE>

<TABLE>

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 2001
(amounts in thousands except share data)

	Historical	Pro Forma Adjustments	Pro Forma
<S>	<C>	<C>	<C>
Interest income:			
Collateral for collateralized bonds	\$215,018		\$215,018
Other investments, securities, and loans	7,742	(800) (1)	6,942
	222,760	(800)	221,960
Interest expense:			
Non-recourse debt	167,098		167,098
Recourse debt	7,580	2,850 (2)	10,430
	174,678	2,850	177,528
Net interest margin before provision for losses	48,082	(3,650)	44,432
Provision for losses	(19,672)		(19,672)
Net interest margin	28,410	(3,650)	24,760
Net loss on sales, write-downs and impairment	(20,954)		(20,954)

charges				
Trading losses	(3,091)			(3,091)
Other income	104			104
General and administrative expenses	(10,526)			(10,526)
<hr/>				
Loss before extraordinary items	(6,057)	(3,650)		(9,707)
Extraordinary item - gain on extinguishment of debt	2,972			2,972
<hr/>				
Net loss	(3,085)	(3,650)		(6,735)
Preferred stock benefit	9,331	4,699	(3)	14,030
<hr/>				
Net income applicable to common shareholders	\$6,246	\$1,049		\$7,295
<hr/>				
Net income per common share before extraordinary item:				
Basic and Diluted	\$0.29			\$0.38
Net income per common share:				
Basic and Diluted	\$0.55			\$0.64
<hr/>				

- (1) Reduction in interest income at estimated average effective investment yield for reduction in cash of \$20,000.
- (2) Interest expense for the year ended December 31, 2001 on the Senior Notes issued for Preferred Stock tendered.
- (3) Reduction for dividend charges associated with Preferred Stock tendered and subsequently retired.
- </TABLE>

USE OF PROCEEDS

We will not receive any cash proceeds from the Offer. All shares of Preferred Stock that are properly tendered and accepted by us will be retired and cancelled.

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RISK FACTORS

Before deciding to tender your securities, you should consider carefully the risks described in this Offering Circular, as well as other information we include or incorporate by reference in this Offering Circular, and the additional information in the reports that we file with the Commission. The risks and uncertainties described below are not the only ones we face or the only ones that may exist with respect to the Offer. Additional risks and uncertainties that we do not presently know about, that we currently believe are immaterial or which are similar to those faced by other companies in our industry or business in general, may also adversely impact our business.

Risks Particular to Dynex

Our Business Is Affected By General Economic Conditions

We are affected by general economic conditions. The risk of defaults, delinquencies, foreclosures and credit losses could increase during an economic slowdown or recession, which may be accompanied by declining real estate values. This could have an adverse effect on our financial performance and the performance on our securitized loan pools. For example, any material decline in real estate values reduces the ability of borrowers to use home equity to support borrowings and increases the loan-to-value ratios of loans previously made, thereby weakening collateral coverage and increasing the possibility of a loss in the event of default.

Our Income Is Dependent On Our Ability To Manage Interest Rate Spreads and Changes in Interest Rates May Affect our Investment Portfolio

Our income depends on our ability to earn greater interest on our investments than the interest cost to finance these investments. Interest rates in the markets we serve generally rise or fall with interest rates as a whole. A majority of the loans we currently pledge as collateral for collateralized bonds are fixed-rate. We currently finance these fixed-rate assets through non-recourse debt, approximately \$280,000,000 of which is variable rate. In addition, a significant amount of the investments we hold are adjustable-rate collateral for collateralized bonds. These investments are financed through non-recourse variable-rate long-term collateralized bonds. The net interest spread for these investments could decrease during a period of rapidly rising short-term interest rates, since the investments generally have interest rates which reset on a delayed basis and have periodic interest rate caps; the related borrowings have no delayed resets or such interest rate caps. Our variable-rate collateralized bonds are substantially based on the one-month London InterBank Offered Rate ("LIBOR") and interest-rates reset monthly, while the associated assets are principally six-month LIBOR or one-year Constant Maturity Treasury ("CMT") based and interest-rates generally reset every six to twelve months.

Our Investment Portfolio Is Subject To Credit Risk

Credit risk is the risk of loss from the failure of a borrower (or the proceeds from the liquidation of the underlying collateral) to fully repay the principal balance and interest due on a loan. A borrower's ability to repay, or the value of the underlying collateral, could be negatively influenced by economic and market conditions. The Company has credit risk principally by virtue of its investment in collateral for collateralized bonds, which credit risk is generally limited to our net investment in the collateralized bond structure (also known as over-collateralization) and subordinated securities that it may retain from the securitization. We provide reserves for expected losses and record impairment charges for other than temporary declines in value based on the current performance of the respective pool of loans; however, if losses are experienced more rapidly than we had provided for in our reserves, we may be required to provide for additional reserves for these losses.

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An Increase In Defaults By Borrowers Could Adversely Impact Our Business

Defaults by borrowers on loans we hold may have an adverse impact on our financial performance, if actual credit losses differ materially from our estimates. The allowance for losses is calculated on the basis of historical experience and management's best estimates. Actual default rates or loss severity may differ from our estimate as a result of economic conditions. In particular, the default rate and loss severity on our portfolio of manufactured housing loans has been higher than initially estimated. Actual defaults on adjustable rate mortgage loans may increase during a rising interest rate environment.

An Increase In Prepayments By Borrowers Could Adversely Impact Our Business

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

Our Business Is Dependent Upon Third-Party Servicers

Third-party servicers service the majority of our investment portfolio. To the extent that these servicers are financially impaired, the performance of our investment portfolio may deteriorate, and defaults and credit losses may be greater than estimated.

We May Invest in a New Business Strategy

We intend to explore various new business strategies, including the possible acquisition of a depository institution. The pursuit of any strategy is subject to the outcome of our investigation, but it is the Company's belief that a new business strategy may be the best use of the Company's available capital on a go-forward basis after the completion of this Offer. In addition, we have no experience in operating a depository institution and no business plan has been prepared for such a strategy. Consequently, there can be no assurance that the acquisition of a depository institution would result in any benefit to the Company.

Regulatory Changes Could Affect Our Business

The Company's businesses as of December 31, 2002 are not subject to any material federal or state regulation or licensing requirements. However, changes in existing laws and regulations or in the interpretation thereof, or the introduction of new laws and regulations, could adversely affect the Company and the performance of the Company's securitized loan pools or its ability to collect on its delinquent property tax receivables.

Risks Particular To The Offer

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The Offer Will Increase Our Leverage And Debt Service Obligations, Which May Adversely Effect Continuing Operations

Following the Offer, we will be more leveraged and have additional debt service obligations in addition to operating expenses and planned capital expenditures. At September 30, 2002, as adjusted to give effect to the issuance of the maximum \$30,000,000 principal amount of the Senior Notes, our total recourse indebtedness would have been approximately \$30,094,000. Assuming the

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issuance of the maximum \$30,000,000 principal amount of the Senior Notes pursuant to the Offer, we would incur additional debt service obligations of approximately \$13,120,000 in 2003, \$16,246,000 in 2004 and \$3,839,000 in 2005.

Increased levels of indebtedness may have several important effects on our future operations, including, without limitation, (i) a substantial portion of our cash flow from operations must be dedicated to the payment of interest and principal on its indebtedness, reducing the funds available for operations and for capital expenditures, (ii) our leveraged position will increase our vulnerability to adverse changes in general economic, industry and competitive conditions, and (iii) our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes may be limited. Our ability to meet debt service obligations and to reduce total indebtedness will be dependent upon our future performance, which will be subject to general economic, industry and competitive conditions and to financial, business and other factors affecting operations, or ability to raise additional equity, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service debt, we may be required, among other things, to seek additional financing in the debt or equity markets, to refinance or restructure all or a portion of our indebtedness, including the Senior Notes, to sell selected assets, or to reduce or delay planned capital expenditures and growth or business strategies. There can be no assurance that any such measures would be sufficient to enable us to service our debt, or that any of these measures could be effected on satisfactory terms, if at all.

If we fail to pay any required payment of interest or principal with respect to the Senior Notes on a timely basis, such failure will constitute a default under the terms of the Indenture. An event of default under the Indenture also may trigger an event of default under certain other obligations, if any should exist at that time. As of the date of this Offer, no such obligations exist. As a result, the incurrence of additional debt resulting from the Offer will increase the risk of possible default with respect to future obligations. The Indenture does not contain restrictions on our ability to incur additional indebtedness.

The Offer Will Reduce Our Amount of Cash and Cash Equivalents

At December 31, 2002, our cash and cash equivalents were approximately \$15,000,000 (unaudited). If the Offer to purchase Preferred Stock for cash is fully subscribed, we will pay out \$20,000,000 in cash to tendering shareholders. In addition, we will pay out additional cash to the extent that we are required to pay cash to tendering shareholders in connection with tenders for Senior Notes (because Senior Notes will only be issued in denominations of \$25 or in integral multiples of \$25 and cash consideration will be paid for amounts in excess of the nearest \$25 not to exceed \$24.99). As a result, our ability to internally finance working capital, capital expenditures, acquisitions, general corporate and other purposes may be impaired. In addition, if the maximum principal amount of the Senior Notes is issued, we will pay principal payments in the amount of \$3,750,000 quarterly until the Senior Notes are fully paid off. If we are unable to generate sufficient cash flow from operations in the future to service our debt and other liabilities, we may be required, among other things, to seek additional financing in the debt or equity markets, to refinance or restructure all or a portion of our indebtedness, including the Senior Notes, to sell selected assets, or to reduce or delay planned capital expenditures and growth or business strategies. There can be no assurance that any such measures would be sufficient to enable us to meet our obligations, or that any of these measures could be effected on satisfactory terms, if at all.

By Tendering Your Preferred Stock For The Senior Notes, You Will Lose Rights Associated With Your Preferred Stock

To the extent that shares of your Preferred Stock you tender are accepted by us, you will be relinquishing rights available to you as a shareholder. If your Preferred Stock is validly tendered and accepted for exchange you will lose the right to share in any capital appreciation of our Preferred Stock, will not be entitled to vote upon any matters submitted to our shareholders for which you might otherwise be eligible to vote, and will no longer be entitled to dividends paid, if any, on our Preferred Stock. In addition, while we intend to apply for the listing of the Senior Notes for trading on the American Stock Exchange, there is no assurance that such

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application will be accepted. Therefore, there is no assurance that a liquid trading market will develop for the Senior Notes. If a trading market does develop, it is likely that trading in the Senior Notes will be thin and the liquidity of your investment in Dynex may be reduced.

The Market May View The Offer Unfavorably, Which May Adversely Effect The Market Price Of The Preferred Stock And The Senior Notes

The Offer will reduce our shareholders' equity and increase our

indebtedness, thereby increasing our debt to equity ratio and debt service obligations. The market may regard these results unfavorably and the price of our Common Stock and Preferred Stock may be adversely affected. To the extent that the market does not regard the Offer as favorable, the market price, if any, of the Senior Notes also could be adversely affected. Dynex has been informed by Nasdaq that the shares of each series of Preferred Stock not tendered in the Offer will continue to be eligible to be included on the Nasdaq National Market immediately after the closing of the Offer. There can be no assurance, however, that each series will continue to qualify for inclusion on the Nasdaq National Market as continued inclusion requires the maintenance of price, float and other standards.

The Senior Notes May Be Prepaid By Dynex, Which Could Prevent You From Realizing Interest Income Associated With The Senior Notes

The Senior Notes are subject to redemption at our option in whole at any time or in part from time to time without penalty or premium upon notice to the holders of the Senior Notes. As a result, holders of the Senior Notes will be subject to a risk of prepayment at a time when interest rates may be generally declining. In such case, holders of Senior Notes will no longer have the right to receive interest and may be forced to reinvest the redemption proceeds in securities with a lower rate of interest.

The Offer Could Be Deemed A Fraudulent Conveyance by a Court of Law, Which Could Result In Such Court Voiding All Or A Portion of Our Obligations To Holders Of The Senior Notes

Various fraudulent conveyance laws enacted for the protection of creditors may apply to the issuance of the Senior Notes. Under federal or state fraudulent transfer laws, if a court were to find that, at the time the Senior Notes were issued, we (i) issued the Senior Notes with the intent of hindering, delaying or defrauding current or future creditors or (ii) (A) received less than fair consideration or reasonably equivalent value for incurring the indebtedness represented by the Senior Notes and (B) (1) were insolvent or were rendered insolvent or contemplated insolvency by reason of the issuance of the Senior Notes, (2) were engaged, or about to engage, in a business or transaction for which our assets or capital were unreasonably small or (3) intended to incur, or believed (or should have believed) we would incur, debts beyond our ability to pay as such debts mature (as all of the foregoing terms are defined in or interpreted under such fraudulent transfer statutes), such court could void all or a portion of our obligations to the holders of the Senior Notes, or void or subordinate our obligations to the holders of the Senior Notes, and take other action detrimental to the holders of the Senior Notes, including in certain circumstances, invalidating the Senior Notes. In that event, repayment on the Senior Notes may not be recovered by the holders of the Senior Notes.

The definition of insolvency for purposes of the foregoing consideration varies among jurisdictions depending upon the federal or state law that is being applied in any such proceeding. Generally, however, we would be considered insolvent at the time we incur the indebtedness constituting the Senior Notes, if (i) the fair market value (or fair saleable value) of our assets is less than the amount required to pay our total existing debts and liabilities (including the probable liability on contingent liabilities) as they become absolute or matured or (ii) we were incurring debts beyond our ability to pay as such debts mature. Based upon financial and other information, we believes that we are solvent and will continue to be solvent after issuing the

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Senior Notes, will have sufficient capital for carrying on our business after such issuance and will be able to pay our debts as they mature. There can be no assurance, however, that a court passing on such standards would agree with the Company. There can also be no assurance as to what standard a court would apply in order to determine whether we were "insolvent" as of the date the Senior Notes were issued, or that, regardless of the method of valuation, a court would not determine that we were insolvent on that date or otherwise agree with us with respect to the above standards.

The Offer Is Subject To Certain Contingencies Which May Prevent Its Consummation

The consummation of the Offer is subject to certain conditions that are not within our control. For example, the Offer requires qualification of the Indenture under the Trust Indenture Act. The consummation of the Offer is also conditioned on, among other things, there being no material adverse changes in our business, no pending or threatened action by a governmental body challenging the Offer and no general suspension of trading in the securities markets. The Company expects the Trust Indenture to qualify under the Trust Indenture Act.

Certain United States Federal Income Tax Risks Associated With The Offer

Tax Consequences of Offer

The exchange of shares of Preferred Stock for cash, Senior Notes or cash and Senior Notes by a tendering shareholder pursuant to the Offer will be a

taxable event treated for United States federal income tax purposes as either (1) a sale or exchange of the shareholder's shares or (2) a deemed distribution of property by the Company with respect to such shares.

Sale or exchange treatment will result if a tendering shareholder satisfies any of three tests under Section 302 of the Internal Revenue Code (the "Code") which measure reductions in a shareholder's overall equity interest. If treated as a sale or exchange, a shareholder should recognize gain or loss in an amount equal to the difference between (a) the amount of any cash and the fair market value of the Senior Notes received, and (b) the shareholder's adjusted tax basis of the shares exchanged pursuant to the Offer.

If none of the Section 302 tests is satisfied, then to the extent of the Company's current or accumulated "earnings and profits" (as determined for federal income tax purposes), a tendering shareholder will be treated as having received a dividend taxable as ordinary income in an amount equal to the amount of any cash and the fair market value of the Senior Notes received without reduction for the adjusted tax basis of the shares tendered and accepted by the Company pursuant to the Offer. Dynex does not expect to report any accumulated or current "earnings and profits" for 2003. To the extent, if any, that the amount of any cash and the fair market value of the Senior Notes exceeds the Company's current and accumulated earnings and profits (as determined for federal income tax purposes), the excess will be treated first as a tax-free return of such shareholder's tax basis in the shares exchanged for Senior Notes and thereafter as capital gain. Corporate shareholders receiving a dividend must assess the applicability of the dividends-received deduction to the extent applicable and the impact of Section 1059 of the Code governing "extraordinary dividends."

The Company cannot predict whether or to what extent the Offer will be oversubscribed. If the Offer is oversubscribed, pro-ration of the tenders pursuant to the Offer will cause the Company to accept fewer shares than are tendered. Therefore, a shareholder can be given no assurance that a sufficient number of such shareholder's shares will be exchanged for cash, Senior Notes or cash and Senior Notes pursuant to the Offer to ensure that such exchange will satisfy one or more of the Section 302 tests and be treated as a sale, rather than as a dividend, for United States federal income tax purposes.

To the extent that a tendering shareholder does not receive a sufficient amount of cash pursuant to the Offer to satisfy any tax liability in connection with the exchange of shares of Preferred Stock for cash, Senior Notes

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or cash and Senior Notes, a shareholder will need to use other cash resources of the shareholder (including possible dispositions of the Senior Notes) to satisfy any tax liability arising from an exchange of Preferred Stock for Senior Notes.

See "Certain United States Federal Income Tax Consequences"--"Certain Federal Income Tax Consequences to Tendering Shareholders"--"Characterization of the Exchange" for the circumstances in which a sale or exchange treatment would apply as well as other relevant rules.

Interest on Senior Notes - General

Depending upon a shareholder's particular circumstances, the tax consequences of holding Senior Notes may be less advantageous than the consequences of holding shares of Preferred Stock because, for example, interest payments on the Senior Notes will not be eligible for any dividends-received deduction that might otherwise be available to corporate shareholders.

Withholding for Non-United States Holders.

Even if a Non-United States Holder has provided the required certification to avoid backup withholding, the Exchange Agent may withhold United States federal income taxes equal to 31% of the gross payments payable to a Non-United States Holder or his agent unless the Exchange Agent determines that a reduced rate of withholding is available under a tax treaty or that an exemption from withholding is applicable. To obtain a reduced rate of withholding under a tax treaty, a Non-United States Holder must deliver to the Exchange Agent before the payment a properly completed and executed IRS Form W-8BEN (or successor form). To obtain an exemption from withholding on the grounds that the gross proceeds paid pursuant to the offer are effectively connected with the conduct of a trade or business within the United States, a Non-United States Holder must deliver to the Exchange Agent a properly completed and executed IRS Form W-8ECI (or successor form).

A Non-United States Holder may be eligible to obtain a refund of all or a portion of any tax withheld if the Non-United States holder is qualified for a sale or exchange treatment or is otherwise able to establish that no tax or a reduced amount of tax is due.

SHAREHOLDERS CONTEMPLATING AN EXCHANGE OF SHARES FOR NOTES PURSUANT TO THE OFFER ARE URGED TO CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE SPECIFIC FEDERAL,

STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES OF EXCHANGES MADE BY THEM PURSUANT TO THE OFFER AS WELL AS THE SPECIFIC FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES ASSOCIATED WITH THE OWNERSHIP OF ANY SENIOR NOTES RECEIVABLE IN CONNECTION WITH THE OFFER.

Forward Looking Statements

This Offering Circular contains certain forward looking statements. Additional written or oral forward looking statements may be made by the Company from time to time in filings with the Commission or otherwise. Such statements may include, but not be limited to, estimates of the value of the Company's Preferred Stock, expectations as to future revenues and other results of operations, capital expenditures, plans for future operations, financing needs or plans, the Company's ability to service its debt obligations, and plans relating to products or services of the Company as well as assumptions relating to the foregoing. The words "believe," "expect," "anticipate," "estimate," "project," and similar expressions identify forward looking statements. Forward looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward looking statements. Statements in this Offering Circular, including those contained in the section entitled "Risk Factors," and in the section entitled "Purposes and Effect of the Offer," describe factors, among others,

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that could contribute to or cause such differences. The Company undertakes no obligation to update any forward looking statements. Sections 27A(b)(2)(C) of the Securities Act and 21E(b)(2)(C) of the Exchange Act expressly state that the safe harbor for forward looking statements does not apply to statements made in connection with a tender offer such as this Offer. As such, forward looking statements made in connection with the Offer will not be eligible for the safe harbor protection.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth Dynex' ratio of earnings to fixed charges on a historical basis for each of the five fiscal years ended December 31, 1997 through December 31, 2002 and the nine-months ended September 30, 2002.

	Year Ended December 31,					
	2002	2001	2000	1999	1998	1997
<hr/>						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Ratio of earnings to fixed charges (1) (2) (3)	0.07:1	0.56:1	(3.18):1	(0.23):1	1.20:1	1.82:1
<hr/>						

- </TABLE>
- For purposes of computing the ratios, "earnings" consists of net income (loss) plus interest and debt expense and excludes fixed charges related to the collateralized bonds issued by the Company which are non-recourse to the Company. This sum is divided by fixed charges, which includes total interest and debt expense, to determine the ratio of available earnings to fixed charges.
 - That ratio of earnings to fixed charges is below 1:1 in 2002, 2001, 2000 and 1999 due to non-cash charges associated with provision for losses and impairment and other charges. The shortfall for the ratio of earnings to fixed charges relative to a ratio of 1:1 was \$1,985,000, \$3,085,000, \$91,863,000, and \$75,135,000 for 2002, 2001, 2000 and 1999, respectively.
 - The ratio of earnings to fixed charges on a pro forma basis, assuming the Senior Notes were issued effective as of January 1, 1997, was 0.04:1 for the nine months ended September 30, 2002, 0.40:1 for 2001, (2.81):1 for 2000, (0.22):1 for 1999, 1.16:1 for 1998 and 1.76:1 for 1997, respectively. The shortfall for the ratio of earnings to fixed charges relative to a ratio of 1:1 was \$4,120,000, \$5,935,000, \$94,713,000, and \$77,985,000 for 2002, 2001, 2000 and 1999, respectively.

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THE OFFER

General

We invite our shareholders to tender shares of our Preferred Stock to us under one of the three options set forth below. Tendering holders of Preferred Stock will not receive any dividends with respect to their shares, including unpaid dividends accumulated to date which will be cancelled. Shares of Preferred Stock must be tendered on the terms and subject to the conditions set forth in this Offer and in the related Letters of Transmittal included herewith.

We are offering to acquire up to 492,425 shares (or such lesser number as are properly tendered) of Series A Preferred Stock, up to 662,944 shares (or such lesser number as are properly tendered) of Series B Preferred Stock, and up to 683,703 shares (or such lesser number as are properly tendered) of Series C Preferred Stock.

Upon the terms of and subject conditions of the Offer, you can choose to receive the following for your shares of Preferred Stock:

Option 1 (for consideration in Cash)

- o \$24.00 in cash for each share of Series A Preferred Stock you tender, up to an aggregate maximum of \$4,866,312 in cash for all shares of Series A Preferred Stock tendered for cash in the Offer and up to an aggregate maximum of 202,763 shares of Series A Preferred Stock;
- o \$24.50 in cash for each share of Series B Preferred Stock you tender, up to an aggregate maximum of \$6,687,937 in cash for all shares of Series B Preferred Stock tendered for cash in the Offer and up to an aggregate maximum of 272,977 shares of Series B Preferred Stock; and
- o \$30.00 in cash for each share of Series C Preferred Stock you tender, up to an aggregate maximum of \$8,445,750 in cash for all shares of Series C Preferred Stock tendered for cash in the Offer and up to an aggregate maximum of 281,525 shares of Series C Preferred Stock;

Under this Option 1 (Cash), the per share cash amount to be received for each share of Preferred Stock tendered in the Offer is equal to 100% of the original issue price of such share of Preferred Stock;

or

Option 2 (for consideration in Senior Notes)

- o \$25.20 in principal amount of our 9.50% Senior Notes due February 28, 2005 for each share of Series A Preferred Stock you tender, up to \$7,299,475 in aggregate maximum principal amount of Senior Notes for all shares of Series A Preferred Stock tendered for Senior Notes in the Offer and up to an aggregate maximum of 289,662 shares of Series A Preferred Stock;
- o \$25.725 in principal amount of the Senior Notes for each share of Series B Preferred Stock you tender, up to \$10,031,900 in aggregate maximum principal amount of Senior Notes for all shares of Series B Preferred Stock tendered in the Offer for Senior Notes and up to an aggregate maximum of 389,967 shares of Series B Preferred Stock; and

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- o \$31.50 in principal amount of the Senior Notes for each share of Series C Preferred Stock you tender, up to \$12,668,600 in aggregate maximum principal amount of Senior Notes for all shares of Series C Preferred Stock tendered in the Offer for Senior Notes and up to an aggregate maximum of 402,178 shares of Series C Preferred Stock;

Under this Option 2 (Senior Notes), the per share principal amount to be received for each share of Preferred Stock tendered in the Offer is equal to 105% of the original issue price of such share of Preferred Stock. The Senior Notes will be issued in denominations of \$25 or integral multiples thereof. In cases where the consideration for shares of each series you tender is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 not to exceed \$24.99. For a more detailed description of the terms of the Senior Notes being offered, please see "Description of Senior Notes;" or

Option 3 (for a combination of consideration in Cash and Senior Notes)

A combination of cash and Senior Notes in amounts which you designate in your Letter of Transmittal. Under this Option 3, with respect to the shares of each series of Preferred Stock you tender, you will designate the number of such tendered shares of such series for which you choose to receive cash (which cash shall be subject to Option 1) and you will designate the number of such tendered shares of such series for which you choose to receive Senior Notes (which Senior Notes shall be subject to Option 2).

The number of shares being tendered for in the Offer is equal to approximately 49% of the shares of each series of our Preferred Stock currently outstanding.

The Offer for the Preferred Stock provides preferred shareholders who elect to tender a premium over the market prices for the preferred stocks as of January 2, 2003, and provides greater liquidity for the holders of our Preferred Stock at such price levels. Under Option 1 (Cash) and Option 2 (Senior Notes) described above, the exchange price for the Series A Preferred Stock represented a premium of 6.67% and 12.00%, respectively, above the market price as of January 2, 2003, the exchange price for the Series B Preferred Stock represented a premium of 10.11% and 15.62%, respectively, above the market price as of January 2, 2003, and the exchange price for the Series C Preferred Stock represented a premium of 7.14% and 12.50%, respectively, above the market price as of January 2, 2003.

THE OFFER IS NOT CONDITIONED UPON ANY MINIMUM NUMBER OF SHARES BEING TENDERED. THE OFFER IS, HOWEVER, SUBJECT TO CERTAIN OTHER CONDITIONS. SEE "THE OFFER--CONDITIONS TO THE OFFER."

Shareholders tendering Preferred Stock will not be obligated to pay brokerage commissions, solicitation fees, or, upon the terms and subject to the conditions of the Offer, stock transfer taxes on the acceptance of shares of Preferred Stock by Dynex. However, any tendering shareholder or other payee required to complete a Letter of Transmittal who fails to complete fully and sign the box captioned "Substitute Form W-9" included in the Letter of Transmittal may be subject to a required federal backup withholding tax of 31% of the gross proceeds paid to the shareholder or other payee pursuant to the Offer. See "Certain United States Federal Income Tax Consequences." Dynex will pay all charges and expenses of Exchange Agent and the Information Agent incurred in connection with the Offer.

Tendering holders of Preferred Stock will not receive any dividends with respect to such shares, including unpaid dividends accumulated to date which will be cancelled. There can be no assurance that holders that do not tender their shares will receive any dividends in the future.

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Tenders pursuant to the Offer may be withdrawn at any time prior to Tuesday, February 11, 2003, at 5:00 p.m., New York City time, the expiration time of the Offer (including any extensions), and, if not yet accepted for payment, after March 11, 2003.

OUR BOARD OF DIRECTORS HAS APPROVED THE MAKING OF THE OFFER. YOU MUST, HOWEVER, MAKE YOUR OWN DECISION WHETHER TO TENDER SHARES AND, IF SO, HOW MANY SHARES TO TENDER. NEITHER WE NOR OUR BOARD OF DIRECTORS MAKE ANY RECOMMENDATION TO YOU WITH RESPECT TO THE OFFER, AND NO PERSON HAS BEEN AUTHORIZED BY US OR OUR BOARD OF DIRECTORS TO MAKE ANY SUCH RECOMMENDATION.

YOU SHOULD EVALUATE CAREFULLY ALL OF THE INFORMATION CONTAINED OR REFERRED TO IN THIS DOCUMENT AND MAKE YOUR OWN DECISION WHETHER TO TENDER SHARES PURSUANT TO THE OFFER. YOU ARE URGED TO CONSULT A TAX ADVISOR CONCERNING ANY FEDERAL, STATE, LOCAL OR FOREIGN TAX CONSEQUENCES OF A SALE OF PREFERRED STOCK PURSUANT TO THE OFFER.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THIS TRANSACTION OR DETERMINED IF THIS DOCUMENT IS ACCURATE OR COMPLETE.

Any shareholder of record desiring to tender all or any portion of his, her or its shares should complete and sign the applicable Letter of Transmittal or a facsimile thereof in accordance with the instructions in the applicable Letter of Transmittal, mail or deliver it with any required signature guarantee and any other required documents to the Exchange Agent and either mail or deliver the stock certificates for such shares of Preferred Stock to the Exchange Agent (with all such other documents). A shareholder having shares registered in the name of a broker or a dealer, commercial bank, trust company or other nominee (each, a "Nominee") must contact that Nominee if such shareholder desires to tender such shares. Nominees may also tender shares in accordance with the Automated Tender Offer Program procedures of The Depository Trust Company. Shareholders who desire to tender shares of Preferred Stock and whose certificates for such shares are not immediately available or whose other required documentation cannot be delivered to the Exchange Agent by the

Expiration Time should tender such shares by following the procedures for guaranteed delivery set forth in the section entitled "The Offer--How to Tender." In addition, because the Senior Notes issued pursuant to this Offer will be issued in book-entry form only, if you desire to tender shares of Preferred Stock for Senior Notes, or elect to receive Senior Notes in the event of an oversubscription for cash consideration, you must have or establish an account with, and tender those shares through, a broker, dealer, bank or other financial institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of DTC. See "The Offer--How to Tender--Tender Procedure for Shareholders Tendering for Senior Notes."

The Series A Preferred Stock is listed for trading on the Nasdaq National Market under the symbol "DXCPP." Dynex announced its intention to make the Offer after the close of the Nasdaq National Market on January 2, 2003. As of January 2, 2003 (the last trading day ending prior to such announcement), the closing per share sales price of the Series A Preferred Stock, as reported on the Nasdaq National Market, was \$22.50. The Series B Preferred Stock is listed for trading on the Nasdaq National Market under the symbol "DXCPO." As of January 2, 2003, the closing per share sales price of the Series B Preferred Stock, as reported on the Nasdaq National Market, was \$22.25. The Series C Preferred Stock is listed for trading on the Nasdaq National Market under the symbol "DXCPN." As of January 2, 2003, the closing per share sales price of the Series C Preferred Stock, as reported on the Nasdaq National Market, was \$28.00. SHAREHOLDERS ARE URGED TO OBTAIN CURRENT MARKET QUOTATIONS FOR THE SHARES. SEE "PRICE RANGE OF PREFERRED STOCK."

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Dynex Capital, Inc. was incorporated on December 18, 1987 in Virginia and commenced operations in February 1988. Dynex is a financial services company which invests in a portfolio of securities and investments backed principally by single family mortgage loans, commercial mortgage loans, manufactured housing installment loans and delinquent property tax receivables. Currently, the Company's business operations primarily consists of managing its investment portfolio (which may include the sale of investments and/or the call and re-securitization of securities previously issued by Dynex or its affiliates), reinvesting the cash flow from its investment portfolio, and managing the collections on delinquent property tax receivables. During 2000 and 2001, Dynex incurred losses before any charges or benefits on its Preferred Stocks of approximately \$91,863,000 and \$3,085,000, respectively. During the nine months ended September 30, 2002, Dynex reported a net loss of \$1,982,000 before any charges or benefits related to its Preferred Stocks. See "Business."

Shareholders who tender for Senior Notes (and shareholders who elect to receive Senior Notes pursuant to the terms of this Offer in the event of an oversubscription of cash) will receive Senior Notes with the following rights compared to those associated with the ownership of Preferred Stock.

Preferred Stock	Senior Notes
<s> <c> Equity; specified liquidation preference senior to that of common shareholders but junior to that of debtholders and creditors, plus right to share in future capital appreciation, if any;	Debt; right to receive a specified principal amount with a claim on our assets senior to holders of equity, plus the right to receive interest, but no right to capital appreciation;
No interest payable on Preferred Stock; however, holders of Preferred Stock are entitled to cumulative cash dividends prior to any payment of dividends on our common stock; we are in arrears in the payment of dividends to holders of our Preferred Stock;	Interest payable at a rate of 9.50% per annum, payable quarterly in cash in eight equal installments until redemption or maturity; principal repayments received on a quarterly basis (subject to adjustment for redemptions and purchases);
Right to convert your shares to common stock;	No right of conversion;
Voting rights on certain matters submitted to shareholders; and	No voting rights; and
Listed on The Nasdaq Stock Market and are subject to an established trading market, although the public float is relatively low and the historic trading activity has been thin.	We intend to apply to list the Senior Notes for trading on the American Stock Exchange; however, even if the Senior Notes are listed on the American Stock Exchange there is no assurance that a liquid trading market in the Senior Notes will develop.

</TABLE>

The foregoing table is set forth for comparative purposes only and does not take into account all factors relating to a comparison of the shares of Preferred Stock to the Senior Notes, nor does it take into account any factors relating to the tax consequences of accepting the Offer. For a more complete description of the Senior Notes and the Preferred Stock, see "Description of Senior Notes" and "Description of Capital Stock." See also "Certain United States Federal Income Tax Consequences."

Proration if Shares of Series of Preferred Stock Tendered Exceed
Maximum; Limitations on Cash and Senior Notes Consideration

We will accept up to an aggregate of 492,425 shares of Series A Preferred Stock, up to an aggregate of 662,944 shares of Series B Preferred Stock, and up to an aggregate of 683,703 shares of Series C Preferred Stock. This represents approximately 49% of the shares of each series of our Preferred Stock outstanding as of December 31, 2002. If the number of shares validly tendered and not properly withdrawn prior to the Expiration Time is less than or equal to an aggregate 492,425 shares in the case of Series A Preferred Stock, less than or equal to 662,944 shares of its Series B Preferred Stock, or less than or equal to 683,703 shares of its Series C Preferred Stock (or such greater number of shares as Dynex may elect to accept in accordance with the Offer), Dynex will, upon the terms and subject to the conditions of the Offer, accept all shares of such series so tendered.

If more shares of any series of Preferred Stock are tendered than we are offering to acquire (regardless of which form of consideration the tendering shareholders elect to receive), we will accept shares of such series that are validly tendered and not properly withdrawn prior to the expiration time of the Offer on a pro-rata basis, disregarding fractions that arise as a result of such pro-rationing, according to the number of shares of such series tendered by each holder of such series of Preferred Stock prior to the expiration time of the Offer. Thus, with respect to each oversubscribed series of Preferred Stock, we will accept from each holder tendering shares of such series that number of shares of such series equal to the total number of shares of such series tendered by such tendering holder multiplied by a fraction, the numerator of which is the total number of shares of such series sought by us in the Offer and the denominator of which is the total number of shares of such series tendered by all tendering holders. For purposes of the foregoing proration, shares tendered for cash and shares tendered for Senior Notes will be accepted based on the same pro rata percentage. Notwithstanding the foregoing, we reserve the right, in our sole discretion, to elect to purchase any and all of the excess shares tendered; and so long as the excess number accepted by us does not exceed two percent (2%) of the issued and outstanding shares of such series of Preferred Stock, no extension of the Offer period and no further notice to the shareholders will be required or given. If we elect to accept excess tendered shares of a series, but less than all of the tendered shares of a series, then the shares of such series tendered shall be accepted on a pro-rata basis, as described above.

Of the shares of each series of Preferred Stock that we are offering to acquire, we are only offering to pay a limited amount of cash for such shares and issue a limited aggregate maximum principal amount of our Senior Notes in exchange for such shares, as described elsewhere in this Offering Circular. With respect to tendered shares of each series of Preferred Stock that are accepted by us (after any proration that we may make in the event that more shares of such series are tendered than we are offering to acquire, as described above), if there is an oversubscription for cash and an undersubscription for Senior Notes, or vice versa, all holders whose tendered shares of such series of Preferred Stock are accepted by us and who elected the oversubscribed consideration will receive a portion of the oversubscribed consideration on a pro-rata basis, disregarding fractions that arise as a result of such pro-rationing, according to the number of shares of such series of Preferred Stock that were tendered for such oversubscribed consideration and accepted by us. Thus, if the cash or Senior Notes consideration that we are offering with respect to any series of Preferred Stock is oversubscribed, all holders whose tendered shares of such series are accepted by us and who elected the oversubscribed consideration will receive a portion of such oversubscribed consideration in exchange for that number of shares of such series equal to the total number of shares of such series tendered by such tendering holder for such oversubscribed consideration and accepted by us multiplied by a fraction, the numerator of which is the total number of shares of such series sought by us in the Offer for exchange for such oversubscribed consideration and the denominator of which is the total number of shares of such series tendered for such oversubscribed consideration by all tendering holders and accepted by us.

Further, in the event that the consideration which you DID select is oversubscribed, you have the right to have the shares you tender and which we accept but which are not exchanged for the consideration that you selected for

such shares (because of the oversubscription of the consideration you selected) automatically tendered for the consideration which you DID NOT select, AT YOUR OPTION AND IN LIEU OF RECEIVING BACK YOUR PORTION OF THE EXCESS SHARES TENDERED THAT ARE NOT EXCHANGED AS A RESULT OF THE OVERSUBSCRIPTION, by noting your desire to receive such consideration by checking the "Oversubscription Allocation" box on the Letter of Transmittal. If you so note this by checking the appropriate box on the Letter of Transmittal, your shares will FIRST be tendered under for the consideration that you selected, and, in the event that such consideration is oversubscribed, that portion of the excess shares you

tendered and which are not exchanged for such oversubscribed consideration will be automatically tendered for the other consideration.

If you validly tender shares of your Preferred Stock but fail to elect properly in your Letter of Transmittal the form of consideration which you wish to receive in the Offer, you will be deemed to have elected to receive cash for such tendered shares pursuant to Option 1 described in the Offer.

As described under "Certain United States Federal Income Tax Consequences," the number of shares of a series that Dynex will accept from a shareholder pursuant to the Offer may affect the United States federal income tax consequences to the tendering shareholder and, therefore may be relevant to a shareholder's decision whether or not to tender shares.

Executive Officer and Director Participation

Certain members of the Board of Directors have informed the Company that they will participate in the Offer. At least one Director has indicated that he will tender a portion of his shares of Preferred Stock pursuant to Option 2. No executive officer of Dynex owns any Preferred Stock.

Expiration Time, Extensions, Termination and Amendments

The Offer will terminate at 5:00 p.m., New York City time, on Tuesday, February 11, 2003, unless extended by the Company in its sole discretion. During any extension of the Offer, all shares of Preferred Stock previously tendered and not yet exchanged will remain subject to the Offer (subject to withdrawal rights specified herein) and may be accepted for exchange by the Company. The later of 5:00 p.m., New York City time, on Tuesday, February 11, 2003, or the latest time and date to which the Offer may be extended by Dynex, is referred to herein as the "Expiration Time." The Company expressly reserves the right, at any time or from time to time, to extend the period of time for which the Offer is to remain open by giving oral or written notice to the Exchange Agent of such extension prior to 9:00 a.m., New York City time, on the business day after the previously scheduled Expiration Time. We will issue a press release by 9:00 a.m., New York City time, no later than the business day after the previous scheduled expiration time if we decide to extend the Offer.

Dynex expressly reserves the right, in its sole discretion, at any time and from time to time, and regardless of whether or not any of the events set forth herein under "The Offer--Conditions to the Offer" shall have occurred or shall be deemed by Dynex to have occurred, to extend the period of time during which the Offer is open and thereby delay acceptance for payment of, and payment for, and issuance of Senior Notes for, any shares by giving oral or written notice of such extension to the Exchange Agent and making a public announcement thereof. Dynex also expressly reserves the right, in its sole discretion, to terminate the Offer and not accept for payment or pay for, or issue Senior Notes for, any shares not previously accepted for payment or paid for, or with respect to which Senior Notes were issued or, subject to applicable law, to postpone payment for shares upon the occurrence of any of the conditions specified herein under "The Offer--Conditions to the Offer" by giving oral or written notice of such termination or postponement to the Exchange Agent and making a public announcement thereof. Dynex' reservation of the right to delay payment for shares which it has accepted for payment is limited by Rule 13e-4(f) (5) promulgated under the Exchange Act, which requires that Dynex must pay the consideration offered or return the shares tendered promptly after termination or withdrawal of an Offer.

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Subject to compliance with applicable law, Dynex further reserves the right, in its sole discretion, and regardless of whether any of the events set forth herein under "The Offer--Conditions to the Offer" shall have occurred or shall be deemed by Dynex to have occurred, to amend the Offer in any respect (including, without limitation, by decreasing or increasing the consideration offered in the Offer to holders of shares or by decreasing or increasing the number of shares being sought in the Offer). Amendments to the Offer may be made at any time and from time to time by public announcement thereof. In the case of an extension, such announcement will be issued no later than 9:00 a.m., New York City time, on the next business day after the last previously scheduled or announced Expiration Time. Any material change to the terms of the Offer will be disseminated promptly to shareholders in a manner reasonably designed to inform shareholders of such change. Without limiting the manner in which Dynex may choose to inform shareholders, except as required by applicable law, Dynex shall have no obligation to publish, advertise or otherwise communicate any such change other than by making a release to the Dow Jones News Service. If Dynex materially changes the terms of the Offer or the information concerning the Offer, or if it waives a material condition of the Offer, Dynex will extend the Offer to the extent required by Rules 13e-4(d) (2) and 13e-4(e) (3) promulgated under the Exchange Act. Under these rules, the minimum period during which an offer must remain open following material changes in the terms of the Offer or information concerning the Offer will depend on the facts and circumstances, including the relative materiality of such terms or information. If (i) Dynex

increases or decreases the price to be paid for shares, increases or decreases the number of shares being sought in the Offer or, in the event of an increase in the number of shares being sought, such increase exceeds 2% of the number of outstanding shares of a series of Preferred Stock, and (ii) the Offer is scheduled to expire at any time earlier than the expiration of a period ending on the tenth business day from, and including, the date that such notice of an increase or decrease is first published, sent or given in the manner specified herein, the Offer will be extended until the expiration of such period of ten business days. For the purposes of the Offer, a "business day" means any day other than a Saturday, Sunday or Federal holiday and consists of the time period from 12:01 a.m. through 12:00 Midnight, New York City time.

How to Tender

A SHAREHOLDER WHOSE SHARES ARE REGISTERED IN THE NAME OF A NOMINEE MUST CONTACT THAT NOMINEE FOR INFORMATION ON HOW TO TENDER SHARES. ALL OTHER SHAREHOLDERS MUST COMPLY WITH THE PROCEDURES SET FORTH BELOW.

Tender Procedures for Shareholders of Record. A Letter of Transmittal for the respective series is provided for use by shareholders of record tendering shares. To properly tender shares pursuant to the Offer, a shareholder of record must (i) complete and duly execute the Letter of Transmittal for the respective series (or facsimile thereof), in accordance with the instructions included within the Letter of Transmittal (together with a signature guarantee, if required, as well as any other documents required by the Letter of Transmittal) and deliver the same to the Exchange Agent at its address set forth on the back cover of this Offer which material must be received by the Exchange Agent prior to the Expiration Time, and (ii) either (A) deliver the stock certificate or certificates evidencing the tendered shares to the Exchange Agent at its address set forth on the back cover of this Offer, which certificate(s) must also be received by the Exchange Agent prior to the Expiration Time, or (B) comply with the guaranteed delivery procedures described below.

Tender Procedures for Nominees. The Exchange Agent will establish an account with respect to the shares of each series subject to this Offer, for purposes of the Offer, at The Depository Trust Company (the "Book-Entry Transfer Facility") within two business days after the date of this Offer. Any Nominee that is a participant in the Book-Entry Transfer Facility's system may tender shares in accordance with the Book-Entry Transfer Facility's Automated Tender Offer Program ("ATOP") to the extent it is available to such participants for the shares they wish to tender by making book-entry delivery of the shares by causing the Book-Entry Transfer Facility to transfer shares into the Exchange Agent's account in accordance with the Book-Entry Transfer Facility's procedures for transfer. A shareholder tendering through ATOP must expressly acknowledge that the shareholder has received and agreed to be bound by the Letter of Transmittal and that the Letter of Transmittal may be enforced against such

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shareholder. In order to tender shares by means of ATOP, the procedures for ATOP delivery must be duly and timely completed prior to the Expiration Time. Alternatively, Nominees may also complete the Letter of Transmittal and deliver shares as provided under "The Offer--How to Tender--Tender Procedures for Shareholders of Record" above.

Tender Procedure for Shareholders Tendering for Senior Notes: The Senior Notes issued pursuant to this Offer will be issued in book-entry form only. See "Description of Senior Notes - Global Note; Book Entry Form" for a description of the book-entry nature of the Senior Notes. The Senior Notes will be issued solely in global form and be registered in the name of Cede & Company, Inc., the nominee of DTC. Consequently, shareholders who wish to tender any shares for Senior Notes, or who elect to receive Senior Notes in the instance of an oversubscription for cash consideration, must have or establish an account with, and tender those shares through, a broker, dealer, bank or other financial institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of DTC in order to be eligible to receive the Senior Notes. The DTC participant will then tender the shares on behalf of the shareholder using the procedures set forth above in "How to Tender--Tender Procedures for Nominees."

DELIVERY OF THE LETTER OF TRANSMITTAL FOR A SERIES OF PREFERRED STOCK AND ANY OTHER REQUIRED DOCUMENTS TO THE BOOK-ENTRY TRANSFER FACILITY DOES NOT CONSTITUTE DELIVERY TO THE EXCHANGE AGENT.

Signature Guarantees and Method of Delivery. No signature guarantee on the Letter of Transmittal is required: (i) if the Letter of Transmittal is signed by the shareholder(s) of record of the shares (which term, for purposes of this section, shall include any participant in the Book-Entry Transfer Facility) whose name appears on a security position listing as the owner of the shares tendered therewith and such holder has not completed either the box entitled "Special Delivery Instructions" or the box entitled "Special Payment Instructions" on the Letter of Transmittal; or (ii) if shares are tendered for the account of a bank, broker, dealer, credit union, savings association or other entity which is a member in good standing of the Securities Transfer

Agents Medallion Program or a bank, broker, dealer, credit union, savings association or other entity which is an "eligible guarantor institution," as such term is defined in Rule 17Ad-15 under the Exchange Act (each of the foregoing constituting an "Eligible Institution"). See Instruction 1 of the Letter of Transmittal. If a certificate is registered in the name of a person other than the person executing a Letter of Transmittal, or if payment is to be made to a person other than the shareholder of record, then the certificate must be endorsed or accompanied by an appropriate stock power, in either case, signed exactly as the name of the shareholder of record appears on the certificate, with the signature guaranteed by an Eligible Institution.

In all cases, payment for shares tendered and accepted for payment pursuant to the Offer will be made only after timely receipt by the Exchange Agent of certificates for such shares (or a timely confirmation of the book-entry transfer of the shares into the Exchange Agent's account at the Book-Entry Transfer Facility), a properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof) (unless such tender is made through ATOP) and any other documents required by the Letter of Transmittal or ATOP.

THE METHOD OF DELIVERY OF ALL DOCUMENTS, INCLUDING CERTIFICATES FOR SHARES, THE LETTER OF TRANSMITTAL AND ANY OTHER REQUIRED DOCUMENTS, IS AT THE ELECTION AND RISK OF THE TENDERING SHAREHOLDER. IF DELIVERY IS BY MAIL, THEN REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED.

Guaranteed Delivery. If a shareholder desires to tender shares of Preferred Stock pursuant to the Offer and the shareholder's share certificates are not immediately available or cannot be delivered to the Exchange Agent prior

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to the Expiration time (or the procedure for book-entry transfer cannot be completed on a timely basis) or if time will not permit all required documents to reach the Exchange Agent prior to the Expiration time, the shares may nevertheless be tendered, provided that all of the following conditions are satisfied:

(a) the tender is made by or through an Eligible Institution;

(b) the Exchange Agent receives by hand, mail, overnight courier, telegram or facsimile transmission, at or prior to the Expiration Time, a properly completed and duly executed Notice of Guaranteed Delivery substantially in the form Dynex has provided with this Offer, including (where required) a signature guarantee by an Eligible Institution in the form set forth in such Notice of Guaranteed Delivery; and

(c) the certificates for all tendered shares of Preferred Stock, in proper form for transfer (or confirmation of book-entry transfer of such shares into the Exchange Agent's account at the Book-Entry Transfer Facility), together with a properly completed and duly executed Letter of Transmittal for such series (or a manually signed facsimile thereof) and any required signature guarantees or other documents required by the Letter of Transmittal, are received by the Exchange Agent within three Nasdaq National Market trading days after the date of receipt by the Exchange Agent of the Notice of Guaranteed Delivery.

Return of Tendered and Unaccepted Shares of Preferred Stock. If any tendered shares of Preferred Stock are not accepted, or if fewer than all shares evidenced by a shareholder's certificates are tendered, certificates for unaccepted shares will be returned promptly after the expiration or termination of the Offer or, in the case of shares tendered by book-entry transfer at the Book-Entry Transfer Facility, the shares will be credited to the appropriate account maintained by the tendering shareholder at the Book-Entry Transfer Facility, in each case without expense to the shareholder.

Determination of Validity; Rejection of Shares of Preferred Stock; Waiver of Defects; No Obligation to Give Notice of Defects. All questions as to the number of shares of Preferred Stock to be accepted and the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of shares will be determined by Dynex, in its sole discretion, and its determination shall be final and binding on all parties. Dynex reserves the absolute right to reject any or all tenders of any shares that it determines are not in proper form or the acceptance for payment of or payment for which may, in the opinion of Dynex' counsel, be unlawful. Dynex also reserves the absolute right to waive any of the conditions of the Offer or any defect or irregularity in any tender with respect to any particular shares or any particular shareholder and Dynex' interpretation of the terms of the Offer will be final and binding on all parties. No tender of shares will be deemed to have been properly made until all defects or irregularities have been cured by the tendering shareholder or waived by Dynex. None of Dynex, the Exchange Agent, the Information Agent or any other person will be obligated to give notice of any defects or irregularities in tenders, nor will any of them incur any liability for failure to give any notice.

Tendering Shareholder's Representation and Warranty; Dynex Acceptance Constitutes an Agreement. A tender of shares pursuant to any of the procedures described above will constitute the tendering shareholder's acceptance of the terms and conditions of the Offer, as well as the tendering shareholder's representation and warranty to Dynex that (a) the shareholder has a net long position in the shares of the series of Preferred Stock tendered or equivalent securities at least equal to the number of shares tendered, within the meaning of Rule 14e-4 promulgated by Commission under the Exchange Act and (b) such tender of shares complies with Rule 14e-4. It is a violation of Rule 14e-4 for a person, directly or indirectly, to tender shares for that person's own account unless, at the time of tender and at the end of the proration period (including any extensions thereof), the person so tendering (i) has a net long position equal to or greater than the amount of (x) shares of the series of Preferred Stock tendered or (y) other securities convertible into or exchangeable or

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exercisable for the shares of the series tendered and will acquire the shares of the series of Preferred Stock for tender by conversion, exchange or exercise and (ii) will deliver or cause to be delivered the shares of the series tendered in accordance with the terms of the Offer. Rule 14e-4 provides a similar restriction applicable to the tender or guarantee of a tender on behalf of another person. Dynex' acceptance for payment of shares tendered pursuant to the Offer will constitute a binding agreement between the tendering shareholder and Dynex upon the terms and conditions of the Offer.

Lost or Destroyed Certificates. Shareholders whose certificates for part or all of their shares have been lost, stolen, misplaced or destroyed may contact the Exchange Agent at (888) 422-8979, for instructions as to the documents which will be required to be submitted together with the respective Letters of Transmittal in order to receive certificate(s) representing the shares. A bond may be required to be posted by the shareholder to secure against the risk that the certificates may be subsequently recirculated. Shareholders are urged to contact the Exchange Agent immediately in order to permit timely processing of this documentation and to determine if the posting of a bond is required.

CERTIFICATES FOR SHARES, TOGETHER WITH A PROPERLY COMPLETED LETTER OF TRANSMITTAL FOR SUCH SERIES OF PREFERRED STOCK AND ANY OTHER DOCUMENTS REQUIRED BY THE LETTER OF TRANSMITTAL, MUST BE DELIVERED TO THE EXCHANGE AGENT AND NOT TO DYNEX. ANY SUCH DOCUMENTS DELIVERED TO DYNEX WILL NOT BE FORWARDED TO THE EXCHANGE AGENT AND THEREFORE WILL NOT BE DEEMED TO BE PROPERLY TENDERED.

Withdrawal Rights

Except as otherwise provided in this Section, tenders made pursuant to the Offer are irrevocable. Shares of Preferred Stock tendered pursuant to this Offer may be withdrawn:

1. at any time prior to the Expiration Time; or
2. if not yet accepted for payment, after March 11, 2003.

For a withdrawal to be effective, the Exchange Agent must receive a notice of withdrawal in written, telegraphic or facsimile form in a timely manner at the appropriate address set forth on the back cover of this Offer and as set forth herein. Any such notice of withdrawal must specify the name of the person having tendered the shares to be withdrawn, the number of shares tendered, the number of shares to be withdrawn, and, if certificates representing such shares have been delivered to the Exchange Agent, the name of the shareholder of record of such shares, as set forth in such certificates. If the certificates have been delivered to the Exchange Agent, the tendering holder of Preferred Stock must also submit the serial numbers of the particular certificates for the shares to be withdrawn, and the signature on the shareholder's notice of withdrawal must be guaranteed by an Eligible Institution, as described previously (except in the case of shares tendered for the account of an Eligible Institution). If shares have been tendered pursuant to the ATOP (book-entry transfer) procedures set forth "The Offer--How to Tender," the notice of withdrawal also must specify the name and the number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn shares and must otherwise comply with such Book-Entry Transfer Facility's procedures.

All questions as to the form and validity (including the time of receipt) of notices of withdrawal will be determined by Dynex in its sole discretion, and its determination shall be final and binding on all parties. None of Dynex, the Information Agent or the Exchange Agent or any other person is or will be obligated to give notice of any defects or irregularities in any notice of withdrawal, and none of them will incur any liability for failure to give any such notice.

Withdrawals may not be rescinded, and shares properly withdrawn shall not be deemed to be duly tendered for purposes of the Offer. Withdrawn shares, however, may be re-tendered before the Expiration Time by again following the

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If Dynex extends the Offer, is delayed in its purchase of Preferred Stock or is unable to accept shares pursuant to the Offer for any reason, then, without prejudice to Dynex rights under the Offer, the Exchange Agent may, subject to applicable law, retain tendered shares on behalf of Dynex, and such shares may not be withdrawn except to the extent tendering shareholders are entitled to withdrawal rights as described herein.

Acceptance of Shares of Preferred Stock for Exchange; Delivery of Cash and Senior Notes to be Exchanged

Upon the terms and subject to the conditions of the Offer, promptly following the Expiration Time, Dynex will accept for exchange shares properly tendered prior to the Expiration Time. Dynex shall pay the cash and issue the Senior Notes for shares of Preferred Stock that are properly tendered and not properly withdrawn (subject to the proration provisions and the other terms and conditions of the Offer and any required prorationing) only when, as and if it gives oral or written notice to the Exchange Agent of its acceptance of shares for exchange pursuant to the Offer. That notice, subject to the provisions of the Offer, may be given at any time after the Expiration Time.

Upon the terms and subject to the conditions of the Offer, promptly following the Expiration Time, Dynex will accept up to an aggregate of 492,425 shares of its Series A Preferred Stock, up to an aggregate 662,944 shares of its Series B Preferred Stock, and up to an aggregate 683,703 shares of its Series C Preferred Stock (subject to increase or decrease as provided in this Offering Circular) properly tendered or such lesser number of shares as are properly tendered and not properly withdrawn.

Dynex will pay for shares purchased pursuant to the Offer by depositing the aggregate exchange price with the Exchange Agent, which will act as agent for the tendering shareholders for the purpose of receiving payment from Dynex and transmitting payment to the tendering shareholders. The Exchange Agent will pay the shareholders tendering for cash (other than The Depository Trust Company, which will be paid by wire transfer) for all purchased shares by check in the manner described in this Offering Circular promptly after the Expiration Time. The Senior Notes will be issued to DTC in the name of its nominee, Cede & Co., Inc., and the accounts of its participants appropriately credited. Payment of cash and issuance of the Senior Notes is expected to occur no later than the Closing Date. UNDER NO CIRCUMSTANCES WILL INTEREST ON THE PURCHASE PRICE BE PAID BY DYNEX BY REASON OF ANY DELAY IN MAKING PAYMENT. Certificates for all tendered shares not purchased, including shares not purchased due to proration, will be returned promptly after the Expiration Time or termination of the Offer to the tendering shareholder (or, in the case of shares tendered by book-entry transfer, will be credited to the account maintained with the Book-Entry Transfer Facility by the participant who so delivered the shares), without expense to the tendering shareholder. In addition, if certain events occur, Dynex may not be obligated to purchase any shares in the Offer. See "The Offer--Conditions to the Offer."

Dynex will pay all stock transfer taxes, if any, payable on the transfer to it of shares acquired pursuant to the Offer by shareholders of record. However, if the Senior Notes are to be registered in the name of any person other than the shareholder of record, or if tendered certificates are registered in the name of any person other than the person signing the respective Letters of Transmittal, the amount of any stock transfer taxes (whether imposed on the shareholder of record or such other person) payable on account of the transfer to such person will be deducted from the exchange price (i.e., the cash paid or the principal amount of the Senior Notes issued in the Offer), unless satisfactory evidence of the payment of such taxes or exemption therefrom is submitted. See Instruction 6 of the Letter of Transmittal.

ANY TENDERING SHAREHOLDER OF RECORD (OR OTHER PAYEE) WHO FAILS TO COMPLETE FULLY AND SIGN THE "SUBSTITUTE FORM W-9" INCLUDED AS PART OF THE RESPECTIVE LETTER OF TRANSMITTAL MAY BE SUBJECT TO REQUIRED BACK-UP FEDERAL INCOME TAX WITHHOLDING OF 31% OF THE GROSS PROCEEDS PAID TO SUCH SHAREHOLDER OR

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OTHER PAYEE PURSUANT TO THE OFFER. SEE "CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES."

Denominations

The Senior Notes will be issued only in denominations of \$25 and integral multiples thereof and we will issue cash in lieu of issuing Senior Notes in denominations less than \$25.

Conditions to the Offer

An application has been filed with the Commission for qualification of the Indenture under which the Senior Notes will be issued under the Trust Indenture Act. The Offer is conditioned upon the Indenture being qualified under the Trust Indenture Act. In addition, notwithstanding any term of the Offer, prior to the Expiration Time, Dynex may, at its option, terminate or amend the Offer or may postpone the acceptance for payment of, or the purchase of and the payment for, or the issuance of Senior Notes for, shares tendered pursuant to the Offer, subject to Rule 13e-4(f) promulgated under the Exchange Act, if at any time prior to the Expiration Time any of the following events has occurred (or shall have been determined by Dynex to have occurred) and, in Dynex' judgment and in any such case and regardless of the circumstances giving rise thereto (including any action or omission to act by Dynex) makes it inadvisable to proceed with the Offer or with such acceptance for payment:

(a) there shall have been threatened, instituted or pending any action or proceeding by any government or governmental, regulatory or administrative agency, authority or tribunal or any other person, domestic or foreign, before any court, authority, agency or tribunal that directly or indirectly (i) challenges the making of the Offer, the acquisition of some or all of the shares pursuant to the Offer or otherwise relates in any manner to the Offer, or (ii) in Dynex' reasonable judgment, could (A) materially and adversely affect the business, condition (financial or otherwise), assets, income, operations or prospects of Dynex and its subsidiaries, taken as a whole, or otherwise materially impair in any way the contemplated future conduct of the business of Dynex or any of its subsidiaries or materially impair the contemplated benefits of the Offer to Dynex, (B) make the acceptance for payment of, or payment for, some or all of the tendered shares illegal or otherwise restrict or prohibit consummation of the Offer or (C) delay or restrict the ability of Dynex, or render Dynex unable, to accept for payment or pay for or issue Senior Notes for some or all of the tendered shares;

(b) there shall have been any action threatened, pending or taken, or approval withheld, or any statute, rule, regulation, judgment, order or injunction threatened, proposed, sought, promulgated, enacted, entered, amended, enforced or deemed to be applicable to the Offer or Dynex or any of its subsidiaries, by any court or any authority, agency or tribunal that, in Dynex reasonable judgment, would or might directly or indirectly result in any of the consequences referred to in clauses (i) or (ii) of paragraph (a) above;

(c) there shall have occurred (i) any general suspension of trading in, or limitation on prices for, securities on any national securities exchange or in the over-the-counter market, (ii) the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, (iii) the commencement of a war, armed hostilities or other international or national calamity directly or indirectly involving the United States, (iv) any limitation (whether or not mandatory) by any government or governmental, regulatory or administrative agency, authority or tribunal on, or any event that, in Dynex' reasonable judgment, might affect, the extension of credit by banks or other lending institutions in the United States, (v) any significant decrease in the market price of the Preferred Stock or any change in the general political, market, economic or financial conditions in the United States or abroad that could, in the reasonable judgment of Dynex, have a material adverse effect on Dynex' business, condition (financial or otherwise), assets, income, operations or prospects or the trading in the Preferred Stock, (vi) in the case of any of the foregoing existing at the time of the

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commencement of the Offer, a material acceleration or worsening thereof, or (vii) any decline in either the Dow Jones Industrial Average or the Standard and Poor's Index of 500 Industrial Companies by an amount in excess of 10% measured from the close of business on January 2, 2003;

(d) a tender or exchange offer for any or all of the shares of any class of capital stock of Dynex (other than the Offer), or any merger, business combination or other similar transaction with or involving Dynex or any subsidiary, shall have been proposed, announced or made by any person;

(e) (i) any person, entity or "group" (as that term is used in Section 13(d)(3) of the Exchange Act) shall have acquired or proposed to acquire beneficial ownership of more than 5% of the outstanding shares of any class of capital stock (other than any such person, entity or group who has a Schedule 13G on file with the Commission as of January 2, 2003 relating to share ownership in Dynex and does not acquire beneficial ownership of an additional 2% or more of any class of capital stock or effect a change in filing status to Schedule 13D or (ii) any person, entity or group shall have filed a Notification and Report Form under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or shall have made a public announcement reflecting an intent to acquire Dynex or any of its subsidiaries or any of their respective assets or securities otherwise than in connection with a transaction authorized by the Board;

(f) any change or changes shall have occurred in the business,

condition (financial or otherwise), assets, income, operations, prospects or stock ownership of Dynex or its subsidiaries that, in Dynex reasonable judgment, is or may be material to Dynex or its subsidiaries; or

(g) Dynex determines that the consummation of the Offer and the acquisition of shares of a series of Preferred Stock may cause such series of Preferred Stock to be delisted from the Nasdaq National Market or to be eligible for deregistration under the Exchange Act or adversely affects Dynex ability to qualify as a real estate investment trust.

Any determination by Dynex concerning any events described in this section and any related judgment or decision by Dynex regarding the inadvisability of proceeding with the acquisition of, or the payment for, or the issuance of Senior Notes for, any shares tendered shall be final and binding upon all parties. The foregoing conditions are for the sole benefit of Dynex and may be asserted by Dynex in circumstances giving rise to those conditions or may be waived by Dynex in whole or in part. Dynex' failure at any time to exercise any of the foregoing shall not be deemed a waiver of any such right, and each such right shall be deemed an ongoing right that may be asserted at any time and from time to time. All conditions to the Offer, other than receipt of any necessary government approvals, will be satisfied or waived prior to the Expiration Time.

Source and Amount of Funds.

The cash to be paid in connection with this Offer for validly tendered shares of Preferred Stock, as well as for the costs and expenses of this Offer, will come from cash on hand, or funds generated in the ordinary course of business. At December 31, 2002, our cash and cash equivalents were approximately \$15,000,000 (unaudited). We expect to pay the interest and repay the principal on the Senior Notes from cash flow generated by our investment portfolio. For the quarter ended December 31, 2002, our investment portfolio produced a cash flow of approximately \$13,000,000 (unaudited).

Exchange Agent

The name and address of the Exchange Agent are set forth on the back cover of this Offering Circular.

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Information Agent

The name and address of the Information Agent are set forth on the back cover of this Offering Circular.

LETTERS OF TRANSMITTAL AND CERTIFICATES REPRESENTING THE SHARES SHOULD NOT BE SENT TO THE INFORMATION AGENT. See "The Offer--How to Tender."

No Financial Advisor

No financial advisor has been retained to render, and no financial advisor has rendered, an opinion as to the fairness of the Offer to holders of the Company's Preferred Stock or to solicit exchanges of Preferred Stock for Senior Notes.

Exemption from Registration Requirements

The shares of Preferred Stock to be included in the Offer are being offered pursuant to an exemption from the registration requirements of the Securities Act under Section 3(a)(9) of the Securities Act. Section 3(a)(9) provides for an exemption from registration for any security exchanged by an issuer with its existing security holders exclusively where no commission or other remuneration is paid or given directly or indirectly for soliciting such exchange. When securities are exchanged for other securities of an issuer under Section 3(a)(9), the securities received in essence assume the character of the exchanged securities for purposes of the Securities Act. Accordingly, if tendering shareholders tender shares of Preferred Stock that are "restricted securities" within the meaning of Rule 144 under the Securities Act, the Senior Notes tendering shareholders will receive in the Offer will not be freely tradable and any resale would have to comply with applicable exemptions under the securities laws, including without limitation, Rule 144(k) under the Securities Act. If the shares of Preferred Stock tendering shareholders tender are not so "restricted," the Senior Notes that tendering shareholders receive will be freely tradable.

Certain Legal Matters; Regulatory Approvals

Dynex is not aware of any license or regulatory permit material to Dynex business that is reasonably likely to be adversely affected by Dynex acquisition of shares of Preferred Stock as contemplated herein or of any approval or other action by any government or governmental, administrative or regulatory authority, agency, or tribunal, domestic or foreign, that would be

required for the acquisition or ownership of shares by Dynex as contemplated herein. Should any such approval or other action be required, Dynex presently contemplates that such approval or other action will be sought or taken. Dynex is unable to predict whether it will be required to delay the acceptance for payment of or payment for shares tendered pursuant to the Offer pending the outcome of any such matter. There can be no assurance that any such approval or other action, if needed, would be obtained or would be obtained without substantial conditions or that the failure to obtain any such approval or other action might not result in adverse consequences to Dynex business. Dynex' obligations under the Offer to accept for payment, and pay for and issue Senior Notes for, shares are subject to certain conditions. See "The Offer--Conditions to the Offer."

Miscellaneous Matters

Dynex is not aware of any jurisdiction in which the making of the Offer is not in compliance with applicable law. If Dynex becomes aware of any jurisdiction where the making of the Offer or the acceptance or purchase of the shares is not in compliance with any valid applicable law, Dynex will make a good faith effort to comply with such law. If, after such good faith effort, Dynex cannot comply with such law, the Offer will not be made to (nor will tenders be accepted from or on behalf of) the holders of shares residing in such jurisdiction. In any jurisdiction where the securities, blue sky or other laws require the Offer to be made by a licensed broker or dealer, the Offer shall be deemed to be made on Dynex behalf by one or more registered brokers or dealers licensed under the laws of the jurisdiction.

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Pursuant to Rule 13e-4 promulgated under the Exchange Act, Dynex has filed with the Commission an Issuer Tender Offer Statement on Schedule TO which contains additional information with respect to the Offer. The Schedule TO, including the Exhibits and any amendments thereto, may be examined, and copies may be obtained at the same places and in the same manner as is set forth under "Available Information."

Payment of Expenses

The Offer is being made by the Company in reliance on the exemption from the registration requirements of the Securities Act of 1933, as amended, afforded by Section 3(a)(9) thereof. Therefore, the Company will not pay any commission or other remuneration to any broker, dealer, salesman or other person for soliciting tenders of the Preferred Stock. However, regular employees of the Company (who will not be additionally compensated therefor) may solicit tenders and will answer inquiries concerning the Offer.

Dynex has retained MacKenzie Partners, Inc. to act as Information Agent and Wachovia Bank, N.A. to act as Exchange Agent in connection with the Offer. The Information Agent may contact holders of shares by mail, telephone, facsimile, telex, telegraph and personal interviews and may request Nominees to forward materials relating to the Offer to beneficial owners. The Information Agent and the Exchange Agent will each receive reasonable and customary compensation for their respective services.

No fees or commissions will be payable by Dynex to brokers, dealers or other persons (other than fees to the Information Agent as described above) for soliciting tenders of shares pursuant to the Offer. A shareholder holding shares through a Nominee is urged to consult such Nominee to determine whether transaction costs are applicable if such shareholder tenders shares through such Nominee and not directly to the Exchange Agent. Dynex will, however, upon request, reimburse Nominees for customary mailing and handling expenses incurred by them in forwarding the Offer and related materials to the beneficial owners of shares held by them as a nominee or in a fiduciary capacity. No Nominee has been authorized to act as the agent of Dynex, the Information Agent or the Exchange Agent for purposes of the Offer. Dynex will pay or cause to be paid all stock transfer taxes, if any, on its purchase of shares except as otherwise provided under "The Offer--Acceptance of Shares of Preferred Stock for Exchange; Delivery of Senior Notes to be Exchanged" or Instruction 6 in the Letter of Transmittal.

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<TABLE>

PURPOSES AND EFFECTS OF THE OFFER

Our Board of Directors believes the Offer gives holders of each series of Preferred Stock desiring to sell their shares of Preferred Stock the opportunity to liquidate a portion (or all if no proration applies) of their holdings of the Preferred Stock at respective exchange prices representing a premium to the current market price of each series of Preferred Stock, as set forth in the table below based on the closing price of each series of Preferred Stock on January 2, 2003, the last trading day ending before the announcement of the Offer.

	Option 1 Cash Price/Share	Option 2 Senior Notes Price/Share	Closing Price January 2, 2003	Option 1 Premium	Option 2 Premium
<S>	<C>	<C>	<C>	<C>	<C>
Series A Preferred Stock	\$24.00	\$25.200	\$22.50	6.67%	12.00%
Series B Preferred Stock	\$24.50	\$25.725	\$22.25	10.11%	15.62%
Series C Preferred Stock	\$30.00	\$31.500	\$28.00	7.14%	12.50%

In addition, our Board believes the Offer should provide greater liquidity for holders of the Preferred Stock at the price levels represented by the respective exchange prices. The table below sets forth (i) the recent monthly trading volume of each series of Preferred Stock on the Nasdaq National Market during the months of October, November, and December 2002, and (ii) the percentage of the number of shares outstanding represented by the annualized volume (based upon such three month period). In the aggregate, if the Offer is fully subscribed, the shares of Preferred Stock to be purchased pursuant to the Offer represents approximately 320% of such annualized trading volume.

	Trading Volume 2002				Annualized as % of Shares Outstanding
	October	November	December	Total	
Series A Preferred Stock	25,800	3,135	13,580	42,515	17.1%
Series B Preferred Stock	23,945	9,593	22,425	55,963	16.2%
Series C Preferred Stock	20,768	9,870	14,510	45,148	13.1%
Total:	70,513	22,598	50,515	143,626	15.3%

</TABLE>

While giving holders of Preferred Stock desiring such liquidity the opportunity to sell their Preferred Stock at a premium to the market prices as described above, the Offer also permits us to purchase shares of Preferred Stock tendered pursuant to the Offer at a substantial discount from the liquidation preference provided for in the articles of amendment governing the terms of the Preferred Stock. In the event of liquidation, the holders of all series of Preferred Stock will be entitled to receive out of our assets, prior to any such distribution to our common shareholders, the issue price per share of the series in cash, plus any accrued and unpaid dividends.

Assuming that the Offer is fully subscribed, on a pro-forma basis, as of September 30, 2002, total shareholders' equity would have declined from \$234,142,578 to \$184,142,578; the aggregate liquidation preference of the Series A Preferred Stock would have declined from \$30,773,019 to \$15,497,972; the aggregate liquidation preference of the Series B Preferred Stock would have declined from \$43,456,567 to \$22,560,685; the aggregate liquidation preference of the Series C Preferred Stock would have declined from \$53,624,663 to \$27,124,868; the aggregate liquidation preference for all series of Preferred Stock will decline from \$127,854,248 to \$65,183,525; and the book value per common share inclusive of accrued and unpaid preferred dividends, will increase from \$9.77 to \$10.99 per share.

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In addition, the retirement of the tendered shares of the Preferred Stock at a discount to their respective full liquidation preferences will improve the ratio of net assets available to satisfy the liquidation preference of the shares of Preferred Stock that are not tendered in the Offer.

The Offer provides to shareholders the opportunity to dispose of those shares at a premium to the market prices as of January 2, 2003 and without the usual transaction costs associated with open market sales, where those shares are tendered by the shareholder of record directly to the Exchange Agent. The Offer also may provide such shareholders greater liquidity for their Preferred Stock than otherwise what is generally available in the market. A shareholder whose shares are held through a Nominee should contact such Nominee to determine whether any transaction costs apply to any sales of Preferred Stock pursuant to the Offer. In addition, the Offer gives shareholders the opportunity to dispose of their Preferred Stock at prices greater than the market prices prevailing prior to the announcement of the Offer. Shareholders are urged to obtain current market quotations for their shares. See "Price Range of Preferred Stock." The Offer also allows shareholders to dispose of a portion of their shares while retaining a continued equity interest in Dynex.

In determining whether to tender shares pursuant to the Offer, shareholders should consider the possibility that they may be able to sell their shares in the future on the Nasdaq National Market or otherwise, including in connection with any subsequent tender offer or any subsequent sale, merger or liquidation of Dynex (none of which is currently contemplated), at a net price higher than the respective exchange prices. See "Price Range of Preferred

Stock." Dynex can give no assurance, however, as to the price at which a shareholder may be able to sell non-tendered shares in the future.

THE BOARD HAS APPROVED THE OFFER AND BELIEVES THAT IT PROVIDES HOLDERS OF PREFERRED STOCK DESIRING TO DISPOSE OF SOME OR ALL OF THEIR SHARES A REASONABLE OPPORTUNITY TO DO SO AT A PREMIUM TO THE CLOSING PRICE OF THE RESPECTIVE SERIES OF PREFERRED STOCK ON JANUARY 2, 2003. YOU MUST, HOWEVER, MAKE YOUR OWN DECISION WHETHER TO TENDER SHARES AND, IF SO, HOW MANY SHARES TO TENDER. NONE OF DYNEX OR ITS BOARD MAKES ANY RECOMMENDATION TO YOU WITH RESPECT TO THE OFFER, AND NO PERSON HAS BEEN AUTHORIZED BY DYNEX OR ITS BOARD TO MAKE ANY SUCH RECOMMENDATIONS. CERTAIN MEMBERS OF THE BOARD OF DIRECTORS OF DYNEX HAVE INFORMED DYNEX THAT THEY WILL PARTICIPATE IN THE OFFER.

Shares of Preferred Stock that Dynex acquires under the Offer will be cancelled. At the present time, Dynex has no plans for the issuance of additional shares of Preferred Stock.

Except as otherwise disclosed in this document, Dynex has no plans, proposals or negotiations that relate to or would result in:

- o any extraordinary transaction, such as a merger, reorganization or liquidation, involving Dynex or any of its subsidiaries;
- o any purchase, sale or transfer of a material amount of assets of Dynex or any of its subsidiaries;
- o any change in the present policy to pay dividends only out of taxable income, or, if applicable, as required to maintain its status as a real estate investment trust;
- o any class of equity securities of Dynex being delisted from a national securities exchange;
- o any class of equity securities of Dynex becoming eligible for termination of registration under Section 12(g)(4) of the Exchange Act;

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- o any change in the present board of directors or management of Dynex, including, but not limited to, any plans or proposals to change the number or the term of directors or to fill any existing vacancies on the board of directors or to change any material term of the employment contract of any executive officer;
- o any other material change in Dynex corporate structure or business;
- o the suspension of Dynex obligation to file reports under the Exchange Act; the acquisition by any person of additional securities of Dynex or the disposition of securities of Dynex; or
- o any change in Dynex articles of incorporation and bylaws or other governing instruments or other actions which could impede the acquisition of control of Dynex.

Dynex has offered for sale its interest in certain subordinated collateralized bonds the Company retained from a securitization of commercial mortgage loans by its subsidiary Commercial Capital Access One. The subordinated collateralized bonds being offered are from Series 2 of CCA One. As the bonds being offered for sale are subordinated bonds, the Company has also offered for sale its entire ownership in Series 2, which, if sold, would result in the de-consolidation of Series 2. Accordingly, if Series 2 is de-consolidated, the carrying value of collateral for collateralized bonds would decline by approximately \$296,194,000 and the carrying value of collateralized bonds would decline by approximately \$290,668,000. To date, no acceptable offers for the subordinated bonds in Series 2 have been received.

Dynex has received and may continue to receive proposals from third parties regarding the possible sale of Dynex, and/or the infusion of capital into Dynex in the form of either a subordinated debt instrument or a new series of preferred stock. To the extent Dynex were to be sold to a third party, it could be at prices for the Preferred Stock that exceed the amounts offered hereunder. Further, Dynex could agree to an investment from a third party in the form of subordinated debt or preferred stock, the proceeds of which could be used for future tenders on Preferred Stock at prices higher than offered herein.

For holders of a series of Preferred Stock who do not tender shares of such series, there is no assurance that the price of such series of Preferred Stock will not trade below the price currently being offered by Dynex pursuant to the Offer. For holders of a series of Preferred Stock who do tender, there is no assurance that the trading price of such series of Preferred Stock will not

increase as a result of the Offer and at some point exceed the respective purchase price offered in the Offer. Dynex believes that there will still be a sufficient number of shares outstanding and publicly traded following the Offer to ensure a continued trading market in the shares of each series. The shares of each series are registered under the Exchange Act, which requires, among other things, that Dynex furnish certain information to its holders of Preferred Stock and to the Commission and comply with the Commission's proxy rules in connection with meetings of holders of the Preferred Stock.

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<TABLE>

CAPITALIZATION

The following table sets forth our capitalization at September 30, 2002 and pro forma information to give effect to the payment of cash pursuant to the Offer and the exchange of Senior Notes, assuming the maximum number of shares tendered, as if such tender and exchange had occurred on September 30, 2002 at the prices offered herein in this Offering.

(dollars in thousands, except share data)	September 30, 2002	
	Actual	As Adjusted
Total Debt:		
<S>	<C>	<C>
Non-recourse debt - collateralized bonds.....	\$ 2,098,202	\$ 2,098,202
Recourse debt.....	94	94
Senior Notes.....	-	30,000
Total debt.....	\$ 2,098,296	\$ 2,128,296
Shareholders' Equity:		
Preferred Stock, par value \$.01 per share, 50,000,000 shares authorized;		
9.75% Cumulative Convertible Series A, 992,038 and 499,612 shares issued and outstanding (\$30,773 and \$15,498 aggregate liquidation preference)	\$ 22,658	\$11,411
9.55% Cumulative Convertible Series B, 1,378,707 and 715,763 shares issued and outstanding (\$43,456 and \$22,561 aggregate liquidation preference)	32,273	16,755
9.73% Cumulative Convertible Series C, 1,383,532 and 699,829 shares issued and outstanding (\$53,625 and \$27,125 aggregate liquidation preference)	39,655	20,059
Common stock, par value \$.01 per share, 100,000,000 shares authorized; 10,873,903 issued and outstanding	109	109
Additional paid in capital.....	364,743	361,104
Net unrealized gain on investments available-for-sale.....	(19,612)	(19,612)
Accumulated deficit.....	(205,684)	(205,684)
Total shareholders' equity.....	234,142	184,142
Total capitalization.....	\$2,332,438	\$2,312,438

</TABLE>

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<TABLE>

PRICE RANGE OF PREFERRED STOCK

Our shares of Preferred Stock are listed for trading on the Nasdaq National Market under the symbol "DXCPP" for the Series A Preferred Stock, "DXCPB" for the Series B Preferred Stock, and "DXCPN" for the Series C Preferred Stock. The following table sets forth for the calendar quarters indicated the range of the high and low sale prices for each series of Preferred Stock on the Nasdaq National Market since the first quarter of 2000.

	SERIES A		SERIES B		SERIES C	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
2000						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1st Quarter	\$ 14.25	\$ 7.00	\$ 14.88	\$ 6.88	\$ 16.75	\$ 8.81
2nd Quarter	9.00	3.00	9.00	2.44	11.25	3.50
3rd Quarter	9.50	4.40	10.00	4.50	11.50	4.88
4th Quarter	10.00	5.25	9.75	6.25	11.00	7.06

2001

1st Quarter	\$ 12.25	\$ 6.63	\$ 12.31	\$ 7.00	\$ 13.25	\$ 7.81
2nd Quarter	12.90	10.15	12.60	9.93	15.55	12.05
3rd Quarter	14.20	11.40	14.40	11.89	18.00	13.97
4th Quarter	16.90	15.90	17.09	16.20	21.10	20.00
2002						
1st Quarter	\$ 18.80	\$ 15.63	\$ 19.00	\$ 15.85	\$ 23.00	\$ 20.00
2nd Quarter	22.75	18.46	22.75	18.40	28.25	22.50
3rd Quarter	22.25	20.50	22.46	21.00	28.00	24.60
4th Quarter	22.50	20.41	22.25	20.50	28.00	25.70

</TABLE>

On January 2, 2003, the last trading day ending prior to the announcement of the Offer, the closing per share sales price of the Series A Preferred Stock, as reported on the Nasdaq National Market, was \$22.50. As of January 2, 2003, the exchange price of \$24.00 per share for cash or \$25.20 per share for Senior Notes for the Series A Preferred Stock represented a premium of 6.67% and 12.00%, respectively, above the market price. As of January 2, 2003, the closing per share sales price of the Series B Preferred Stock was \$22.25. As of January 2, 2003, the exchange price of \$24.50 per share for cash or \$25.725 per share for Senior Notes for the Series B Preferred Stock represented a premium of 10.11% and 15.62%, respectively, above the market price. As of January 2, 2003, the closing per share sales price of the Series C Preferred Stock was \$28.00. As of January 2, 2003, the exchange price of \$30.00 per share for cash or \$31.50 per share for Senior Notes for the Series C Preferred Stock represented a premium of 7.14% and 12.50%, respectively, above the market price. YOU SHOULD OBTAIN CURRENT QUOTATIONS OF THE MARKET PRICE OF THE SHARES AND CONSULT AN INDEPENDENT FINANCIAL ADVISOR.

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DIVIDENDS

Dividends on the Preferred Stock are cumulative and equal, per share, to the greater of (i) the per quarter base rate of \$0.585 for Series A Preferred Stock and Series B Preferred Stock, and \$0.73 for Series C Preferred Stock, or (ii) one-half times the per share quarterly dividend declared on our common stock. During the first two quarters of 1999, we declared dividends in the aggregate amount of \$1.17 per share on our shares of Series A Preferred Stock and Series B Preferred Stock, and \$1.46 per share on our shares of Series C Preferred Stock. During 2000, we did not declare any dividends. During the second quarter of 2001, we declared dividends of \$0.2925 per share on our shares of Series A Preferred Stock and Series B Preferred Stock, and \$0.3649 per share on our shares of Series C Preferred Stock. During the third quarter of 2002, we declared dividends of \$0.2925 per share on our shares of Series A Preferred Stock and Series B Preferred Stock, and \$0.3651 per share on our shares of Series C Preferred Stock. The second quarter 2001 dividend and the third quarter 2002 dividend were both declared in order for us to maintain our status as a real estate investment trust. We have not declared a dividend on any shares of our Preferred Stock since the third quarter of 2002.

As of September 30, 2002, the total amount of dividends in arrears on the Series A Preferred Stock was \$6,964,107 (\$7.02 per Series A Preferred Stock share), on the Series B Preferred Stock \$9,678,245 (\$7.02 per Series B Preferred Stock share), and on the Series C Preferred Stock \$12,118,703 (\$8.76 per Series C Preferred Stock share). The aggregate amount of the tender offers for the Preferred Stock is approximately \$20,000,000 in cash and approximately \$30,000,000 in principal amount of Senior Notes.

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BUSINESS

General

We are 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. These loans have been pooled and pledged (i.e., securitized) as collateral for collateralized bonds ("collateralized bonds") which provided long-term, non-recourse, financing for these loans while limiting the Company's overall credit, interest rate and liquidity risk. We also invest in and service pools of delinquent property tax receivables. We have elected to be treated as a REIT for federal income tax purposes under the Internal Revenue Code of 1986, as amended, and, as such, must distribute substantially all of our taxable income to shareholders. Provided that we meet all of the prescribed Internal Revenue Code requirements for a REIT, we will generally not be subject to federal income tax.

We are actively managing our current investment portfolio, and are actively servicing our delinquent property tax portfolios. We are not generating additional investments other than through the "call" of adjustable-rate and fixed-rate single-family mortgage pass-through securities previously issued and

sold by the Company. We own the right to call these securities, at our option, once the outstanding balance of such securities reaches a call "trigger," generally either 10% or less of the original amount issued or a specified date. The aggregate callable balance of such securities at the time of the projected call is approximately \$131,751,000, relating to 10 securities. These securities are estimated to reach their call "triggers" over the ensuing 24-months. We have the right to call these securities at par, and may or may not elect to call one or more of these securities when eligible based on the value of the underlying securities. During the year ended December 31, 2002, we initiated the call of seventeen securities with a balance of \$163,785,000. We also own the right to purchase or redeem generally by class the collateralized bonds on our balance sheet once the outstanding balance of such bonds reaches 35% or less of the original amount issued or a specified date. We may or may not elect to call these collateralized bonds, depending on the current interest-rate environment at the time of the call and the performance of the underlying loans. If we elect not to call the collateralized bonds as they become eligible, the coupon on the bonds will increase. Collateralized bonds which are expected to be callable in the three-year period ending December 31, 2005, approximating \$550,000,000 at the anticipated call date, will increase in coupon on a weighted-average basis of 0.54% per annum if not called by the Company.

Our investment portfolio continues to generate reasonable cash flow, and we have been evaluating various new business alternatives to re-deploy this cash flow in an effort to improve shareholder value, including the possible acquisition of a depository institution. Although our Board of Directors has not yet concluded its evaluation as to a new business strategy for the Company, our Board has determined that it should evaluate alternatives with respect to the Preferred Stock as part of the process. The pursuit of any strategy is subject to the outcome of our Board's evaluation, but it is the Company's belief that a new business strategy may be the best use of the Company's available capital on a go-forward basis after the completion of this Offer. In particular, the Board is assessing whether various alternatives related to the Preferred Stock would be beneficial to our shareholders when considering the associated risks and potential returns in light of other strategic alternatives. With respect to the possible acquisition of a depository institution as previously disclosed, it is the Board's view that it would likely seek some resolution of the Preferred Stock dividends in arrears before we would move forward with an acquisition of a depository institution, although no assurance can be given that any resolution could be attained.

This "Business" section should be read in conjunction with the "Business" sections contained in our 2001 Annual Report on Form 10-K and our Third Quarter 2002 Quarterly Report on Form 10-Q, which are incorporated by reference and enclosed with this Offering Circular. If any statement contained in the 10-K or the 10-Q enclosed with this Offering Circular is modified or superseded by a statement in this Offering Circular, or any amended filings to this Offering Circular, such statement contained in the enclosed 10-K or 10-Q will be deemed for the purposes of this Offering Circular, or any amended filing, to have been modified or superseded by the statement in this Offering Circular, or the amended filing, and the statement contained in the enclosed 10-K or the 10-Q is incorporated by reference herein only as modified or to the extent it is not superseded.

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MANAGEMENT OF DYNEX

Our executive officer and his position is as follows:

Name	Age	Position(s) Held
Stephen J. Benedetti	40	Executive Vice President, Chief Financial Officer and Secretary

The position of President is currently vacant. Please see our Notice and Proxy Statement dated April 29, 2002 enclosed herewith, for a description of our management and Board of Directors, related party transactions, and compensation provided to such persons. Executive officers serve at the discretion of the Company's Board of Directors.

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DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 100,000,000 shares of common stock, par value \$0.01 per share and 50,000,000 shares of preferred stock, par value \$0.01 per share. The relative rights of our common stock and Preferred Stock are defined by our Amended Articles of Incorporation as well as by our Amended By-laws and the Virginia Stock Corporation Act. Set forth below is summary of the relative rights of our common stock and Preferred Stock.

COMMON STOCK

Subject to the rights of holders of any series of Preferred Stock which

may from time to time be issued, holders of common stock are entitled to one vote per share on matters acted upon at any shareholders' meeting, including the election of directors, and to dividends when, as and if declared by the board of directors out of funds legally available therefor. We have not paid any dividends on our common stock since 1998. There is no cumulative voting and the common stock is not redeemable. In the event of any liquidation, dissolution or winding up of Dynex, each holder of common stock is entitled to share ratably in all of our assets remaining after the payment of liabilities and any amounts required to be paid to holders of preferred stock, if any. Holders of common stock have no preemptive or conversion rights and are not subject to further calls or assessments by Dynex. All shares of common stock now outstanding are fully paid and non-assessable. The common stock is traded on the New York Stock Exchange under the ticker symbol "DX." As of January 2, 2003, there were approximately 3,662 holders of record of common stock and we have issued and outstanding 10,873,903 shares of common stock. This number was derived from our shareholder records, and does not include beneficial owners of the our common stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries.

PREFERRED STOCK

Our Board of Directors is authorized to issue shares of preferred stock in one or more series and to determine the voting rights, preferences as to dividends, and the liquidation, conversion, redemption and other rights of each series. The issuance of a series with voting and conversion rights may adversely affect the voting power of the holders of common stock. As of the close of business January 2, 2003, we have issued and outstanding 992,038 shares of Series A Preferred Stock, 1,378,707 shares of Series B Preferred Stock and 1,383,532 shares of Series C Preferred Stock.

The Series A Preferred Stock is listed and traded on the Nasdaq National Market under the symbol "DXCPP." As of January 2, 2003 (the last trading day ending prior to the announcement of the Offer), the closing per share sales price of the Series A Preferred Stock, as reported on the Nasdaq National Market, was \$22.50. Shareholders are encouraged to obtain current market quotations of the Series A Preferred Stock. The 492,425 shares of Series A Preferred Stock that Dynex is offering to accept in this Offer represented approximately 49.6% of the outstanding Series A Preferred Stock as of January 2, 2003, the most recent practicable date prior to the announcement of the Offer.

The Series B Preferred Stock is listed and traded on the Nasdaq National Market under the symbol "DXCPO." As of January 2, 2003 (the last trading day ending prior to the announcement of the Offer), the closing per share sales price of the Series B Preferred Stock, as reported on the Nasdaq National Market, was \$22.25. Shareholders are encouraged to obtain current market quotations of the Series B Preferred Stock. The 662,944 shares of Series B Preferred Stock that Dynex is offering to accept in this Offer represented approximately 48.1% of the outstanding Series B Preferred Stock as of January 2, 2003, the most recent practicable date prior to the announcement of the Offer.

The Series C Preferred Stock is listed and traded on the Nasdaq National Market under the symbol "DXCPN." As of January 2, 2003 (the last trading day ending prior to the announcement of the Offer), the closing per share sales price of the Series C Preferred Stock, as reported on the Nasdaq National Market, was \$28.00. Shareholders are encouraged to obtain current

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market quotations of the Series C Preferred Stock. The 683,703 shares of Series C Preferred Stock that Dynex is offering to accept in this Offer represented approximately 49.4% of the outstanding Series C Preferred Stock as of January 2, 2003, the most recent practicable date prior to the announcement of the Offer.

For a description of dividends with respect to the Preferred Stock, see "Dividends."

Shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock are convertible at any time at the option of the holder. Two shares of Preferred Stock are convertible into one share of common stock. In April 2002, one holder of Series B Preferred Stock converted 100 shares of Series B Preferred Stock into 50 shares of Dynex common stock. No other shares of Series A Preferred Stock, Series B Preferred Stock or Series C Preferred Stock were converted during 2002 or 2001.

Each series is redeemable by us at any time, in whole or in part at a rate of (i) two shares of preferred stock for one share of common stock, plus accrued and unpaid dividends, provided that for 20 trading days within any period of 30 consecutive trading days, the closing price of the common stock equals or exceeds two times the issue price, or (ii) for cash at the issue price, plus any accrued and unpaid dividends.

In the event of liquidation, the holders of all series of Preferred Stock will be entitled to receive out of our assets, prior to any such distribution to our common shareholders, the issue price per share of the series

in cash, plus any accrued and unpaid dividends. As of September 30, 2002 and December 31, 2001, the total liquidation preference on the Preferred Stock was \$127,854,248 and \$121,866,547 respectively, and the total amount of dividends in arrears on Preferred Stock were \$28,761,055 and \$22,770,904 respectively.

In 2001, we completed two separate tender offers for our Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock, resulting in the purchase of 1,307,118 shares of our Preferred Stock, consisting of 317,023 shares of Series A Preferred Stock, 533,627 shares of Series B Preferred Stock and 456,468 shares of Series C Preferred Stock, for an aggregate purchase price of \$19,998,368 and which had an aggregate issue price of \$34,376,454, a book value of \$32,819,259 and including dividends in arrears, a liquidation preference of \$40,854,027.

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<TABLE>

EXECUTIVE OFFICER AND DIRECTOR BENEFICIAL OWNERSHIP

Listed in the following table and the notes thereto is certain information with respect to the beneficial ownership of Preferred Stock as of December 31, 2002, by each director and executive officer of Dynex owning any Preferred Stock and by all such directors and executive officers as a group. Unless otherwise specified in the table, the business address for each of the following persons is 4551 Cox Road, Suite 300, Glen Allen, Virginia 23060.

Name of Beneficial Owner	No. of Shares of Series A Preferred	Percent of Series A Preferred	No. of Shares of Series B Preferred	Percent of Series B Preferred	No. of Shares of Series C Preferred	Percent of Series C Preferred
<S> Leon A. Felman, Director (1)	<C> 0	<C> 0.00%	<C> 0	<C> 0.00%	<C> 28,470	<C> 2.06%
Barry Igdaloff, Director(2)	62,000	6.25%	61,000	4.42%	52,500	3.79%
Eric P. Von der Porten, Director(3)	0	0.00%	27,500	1.99%	42,500	3.07%
All Directors as a group	62,000	6.25%	88,500	6.42%	123,470	8.92%

</TABLE>

- (1) Includes 11,670 shares of Series C Preferred Stock owned of record by Homebaker Brand Profit Sharing Plan, of which Mr. Felman is the trustee; 11,310 shares of Series C Preferred Stock owned of record by The Leon A. Felman Keogh Profit Sharing Plan, of which Mr. Felman is the trustee; 350 shares of Series C Preferred Stock owned of record by The Felman Family Trust, of which Mr. Felman is the trustee; and 980 shares of Series C Preferred Stock owned of record by HLF Corporation, of which Mr. Felman is an officer.
- (2) Includes 41,600 shares of Series A Preferred Stock, 34,700 shares of Series B Preferred Stock and 10,100 shares of Series C Preferred Stock owned by clients of Rose Capital of which Mr. Igdaloff is the sole proprietor.
- (3) Includes 27,500 shares of Series B Preferred Stock and 42,500 shares of Series C Preferred Stock owned of record by Leeward Capital, L.P. Mr. Von der Porten is the managing member of Leeward Investments, LLC, the general partner of Leeward Capital, L.P.

To the best knowledge of Dynex, no executive officer or director has effected any transaction in the Preferred Stock during the past 60 days.

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DESCRIPTION OF SENIOR NOTES

The Senior Notes are to be issued under an Indenture, to be dated as of the Closing Date, between us and Wachovia Bank, N.A., as trustee. A copy of the Senior Note Indenture is available from us upon request and is on file with the Commission. The following summaries of certain provisions of the Senior Notes and the Indenture do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all the provisions of the Senior Notes and the Indenture, including the definitions therein of certain terms

which are not otherwise defined in this Offering Circular. Wherever particular provisions or defined terms of the Senior Note Indenture (or of the form of Senior Notes which is a part thereof) are referred to, such provisions or defined terms are incorporated herein by reference in their entirety.

GENERAL

The Senior Notes will represent general unsecured senior obligations of the Company and have no conversion rights. The Senior Notes will be limited to \$30,000,000 aggregate principal amount, will be issued in book entry form only, in denominations of \$25.00 in original principal amount or any integral multiple thereof and will mature on February 28, 2005, unless earlier redeemed at the option of the Company or repurchased at the option of the Senior Note holder upon a change of control.

The Senior Notes bear interest from the Closing Date, at an annual rate of 9.50% on the outstanding principal balance. Payments of principal on the Senior Notes in the amount of \$3.125 (or such lesser principal amount as is then outstanding) per each \$25 of principal amount on each Senior Note will be made each quarter until paid in full. Payments of principal and interest will be made quarterly in arrears in cash on each of February 28, May 31, August 31 and November 31, commencing May 31, 2003, to holders of record at the close of business on the preceding February 15, May 15, August 15 and November 15, respectively. Payments of principal will be made at the office of the Senior Notes Trustee in Richmond, Virginia. Interest will be computed on the basis of a 360-day year composed of twelve 30-day months. The Senior Notes are unrated.

GLOBAL NOTE; BOOK ENTRY FORM

The Senior Notes will be issued solely in global form. A recipient of Senior Notes pursuant to this Offer will receive a beneficial interest in an unrestricted global note. The global note will be issued to DTC, and registered in the name of Cede as DTC's nominee, and shall be deposited with Wachovia Bank, N.A., as custodian for Cede. Upon issuance of the global note, DTC will credit, on its book-entry registration and transfer systems, the respective principal amounts of the Senior Notes represented by that global note to the accounts of institutions or persons, commonly known as participants, that have accounts with DTC or its nominee. Ownership of beneficial interests in the global note will be limited to participants or persons that may hold beneficial interests through participants. Owners of beneficial interests in the global note will not receive certificates representing their ownership interests in the Senior Notes, except in the event use of the book-entry system for the Senior Notes is discontinued. Except as set forth below, the record ownership of the global note may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

Payment of principal and interest on and the redemption and repurchase price of the global note will be made to Cede, the nominee for DTC, as registered owner of the global note, by wire transfer of immediately available funds on each principal and interest payment date, each redemption date and each repurchase date, as applicable. None of the Company, the trustee or any paying agent will have any responsibility or liability for:

- o any aspect of the records relating to or payments made on account of beneficial ownership interests in the global note; or

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- o for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

We have been informed by DTC that, with respect to any payment of principal of or interest on, or the redemption or repurchase price of, the global note, DTC's practice is, upon receipt of payment, to credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount represented by the global note as shown on the records of DTC. Payments by participants to owners of beneficial interests in the principal amount represented by the global note held through such participants will be the responsibility of such participants, as is now the case with securities held for the accounts of customers registered in "street name."

Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in immediately available funds. Because DTC can only act on behalf of participants, who in turn act on behalf of persons who hold interests through them and certain banks, the ability of a person having a beneficial interest in the principal amount represented by the global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate evidencing such interest.

Neither the Company nor the trustee (or any registrar or paying agent under the Indenture) will have responsibility for the performance of DTC or its

participants or persons who hold interests through the participants of their respective obligations under the rules and procedures governing their operations. DTC has advised us that it will take any action permitted to be taken by a holder of Senior Notes (including, without limitation, the presentation of Senior Notes for exchange as described below) only at the direction of one or more participants to whose account with DTC interests in the global note are credited, and only in respect of the principal amount of the Senior Notes represented by the global note as to which such participant or participants has or have given such direction.

DTC has advised us as follows:

- o DTC is a limited purpose trust company organized under the laws of the State of New York;
- o DTC is a member of the Federal Reserve System;
- o DTC is a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- o DTC is a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC holds securities for its participants and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes to accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its participants and by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Indirect access to the DTC system is available to others such as banks, securities brokers and dealers and trust companies that clear through, or maintain a custodial relationship with, a participant, either directly or indirectly. The Rules applicable to DTC and its participants and indirect participants are on file with the Commission.

Although DTC may agree to the foregoing procedures in order to facilitate transfers of interests in the global note among participants, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. If DTC is at any time unwilling

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or unable to continue as depository and a successor depository is not appointed by the Company within 90 days, we will cause the Senior Notes to be issued in definitive form in exchange for the global note.

REGISTRATION AND TRANSFER

This Offer is being extended to you in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act. As a result, the Senior Notes we issue to you in exchange for your Preferred Stock will have similar characteristics to the Preferred Stock with respect to transfer to third parties. If your shares of Preferred Stock are freely tradable, then the Senior Notes you receive in the exchange can be transferred freely.

CHANGE OF CONTROL

Upon the occurrence of a Change of Control (as defined below), each holder of Senior Notes shall have the right to require that we repurchase such holder's Senior Notes in whole or in part at a purchase price in cash in an amount equal to 101% of the outstanding principal amount, together with accrued and unpaid interest to the date of purchase, pursuant to an offer (the "Change of Control Offer") made in accordance with the procedures described below and the other provisions in the Indenture.

The term "Change in Control" shall mean an event or series of events in which (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) acquires "beneficial ownership" (as determined in accordance with Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 50% of the total Voting Stock (as defined below) of the Company whether by purchase, tender, merger or otherwise; provided, however, that any such person or group shall not be deemed to be the beneficial owner of, or to beneficially own, any Voting Stock tendered in a tender offer until such tendered Voting Stock is accepted for purchase under the tender offer; or (ii) all or substantially all of the assets of the Company are sold, exchanged or otherwise is transferred to such person or group (other than any pledges or transfers made in connection with such acquisition of our assets).

"Voting Stock" means stock of the class or classes pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of a corporation (irrespective whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of

any contingency).

Within 30 days following any Change of Control, we shall send by first-class mail, postage prepaid, to the trustee and to each holder of Senior Notes, at such holder's address appearing in the note register, a notice stating, among other things, that a Change of Control has occurred, the repurchase price, the repurchase date, which shall be a business day no earlier than 30 days nor later than 60 days from the date such notice is mailed (or such later date as is necessary to comply with the requirements of the Securities Exchange Act of 1934, as amended), and certain other procedures that a holder of Senior Notes must follow to accept a Change of Control Offer or to withdraw such acceptance. We will comply, to the extent applicable, with the requirements of Rule 13e-4 and Rule 14e-1 under the Exchange Act and other securities laws or regulations, to the extent such laws are applicable, in connection with the repurchase of the Senior Notes as described above. Future indebtedness may contain prohibitions of certain events which would constitute a Change of Control or require us to offer to repurchase such indebtedness upon a Change of Control. Moreover, the exercise by the holders of Senior Notes of their right to require the Company to purchase the Senior Notes could cause a default under such indebtedness, even if the Change of Control itself does not, due to the financial effect of such purchase on the Company. Finally, our ability to pay cash to holders of Senior Notes upon a purchase may be limited by the Company's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required purchases. Furthermore, the Change of Control provisions may in certain circumstances make more difficult or discourage a takeover of the Company and the removal of the incumbent.

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MERGER, CONSOLIDATION AND SALE OF ASSETS

The Indenture prohibits us from consolidating with or merging with or into, or conveying, transferring or leasing all or substantially all our assets (determined on a consolidated basis), to any person unless: (i) either the Company is the resulting, surviving or transferee person (the "Successor Company") or the Successor Company is a person organized and existing under the laws of the United States or any state thereof or the District of Columbia, and the Successor Company (if not the Company) expressly assumes by a supplemental Indenture, executed and delivered to the trustee, in form satisfactory to the trustee, all the obligations of the Company under the Senior Note Indenture and the Senior Notes, (ii) immediately after giving effect to such transaction no Event of Default (as defined below) has happened and is continuing and (iii) the Company delivers to the trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger or transfer and such supplemental Indenture (if any) comply with the Indenture.

RESTRICTIONS AND LIMITATIONS

The terms of the indenture for the Senior Notes contain certain financial covenants which prohibit us from engaging in certain activities while the Senior Notes are outstanding. For example, the terms of the Indenture prohibits us from, directly or indirectly, making any Restricted Payments, unless:

(a) no Default or Event of Default shall have occurred and be continuing at the time of or after giving effect to such Restricted Payment; and

(b) the aggregate amount of all such Restricted Payments does not exceed the sum of (i) the cumulative real estate investment trust taxable income of the Company earned for the tax years ended after December 31, 2001, as determined by Section 857(b)(2) of the Code, without giving effect to the dividends paid deduction defined in Section 561 of the Code and (ii) \$1 million.

The provisions of this covenant do not prohibit any distribution that is necessary to maintain our status as a real estate investment trust under the Code.

As a result of the Restricted Payments provisions, the Indenture also effectively prohibits us from engaging in any future tender offers with respect to our Preferred Stock until the Senior Notes have been fully repaid.

In addition, under the terms of the Indenture, we and any of our subsidiaries is prohibited from conducting any business or entering into any transactions or series of transactions with or for the benefit of any of our Affiliates (each, an "Affiliate Transaction"), except in good faith and on terms that are, in the aggregate, no less favorable to the Company, as the case may be, than those that could have been obtained in a comparable transaction on an arm's-length basis from a person or entity who is not such an Affiliate.

For purposes of this section of the Offering Circular, the term "Restricted Payment" means any of the following: (i) the declaration or payment of any dividend or any other distribution on the Capital Stock of the Company or

any payment made to the direct or indirect holders (in all their capacities as such) of Capital Stock of the Company (other than dividends or distributions payable solely in capital stock (other than Disqualified Stock) or in options, warrants or other rights to purchase capital stock (other than Disqualified Stock); (ii) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or (iii) the making of any principal payment on, or the purchase, defeasance, repurchase, redemption or other acquisition or retirement for value, prior to any scheduled maturity, scheduled repayment or scheduled sinking fund payment, of any indebtedness existing on the

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issue date of the Senior Notes which is subordinated in right of payment to the Senior Notes (other than indebtedness acquired in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition).

In addition, all Affiliate Transactions (and each series of related Affiliate Transactions which are a part of a common plan) involving aggregate payments or other market value in excess of \$3 million, are required to be approved unanimously by the Board of Directors of the Company, with such approval being evidenced by a board resolution stating that such directors have, in good faith, determined that such transactions or related transactions comply with the foregoing provision; and if the Company or any subsidiary of the Company enters into an Affiliate Transaction (or a series of related Affiliate Transactions which are part of a common plan) involving aggregate payments or market value in excess of \$5 million, the Company or such subsidiary is required, prior to the consummation thereof, to obtain a favorable opinion as to the fairness of such transaction or related transactions from an independent financial advisor and file the same with the Trustee; provided that this sentence shall not be applicable with respect to sales or purchases of products or services by the Company or from its Affiliates in the ordinary course of business on terms similar to those that could have been obtained in a comparable transaction on an arms-length basis from a Person who is not such an Affiliate. Notwithstanding the foregoing, the restrictions set forth in this covenant shall not apply to (i) customary directors' fees and (ii) customary fees or transactions by and among the Company and its wholly owned subsidiaries.

For purposes of this section of the Offering Circular, the term "Affiliate" shall mean an "affiliate" as defined in Rule 144(a) as promulgated under the Securities Act.

For purposes of this section of the Offering Circular, the term "Capital Stock" of any person shall mean any and all shares, interests, participations or other equivalents (however designated) of such person's corporate stock or any and all equivalent ownership interests in a person (other than a corporation) whether now outstanding or issued after the date hereof.

For purposes of this section of the Offering Circular, the term "Disqualified Stock" means, with respect to any Person, any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is exchangeable for indebtedness, or is redeemable at the option of the holder thereof, in whole or in part on or prior to the stated maturity.

EVENTS OF DEFAULT AND REMEDIES

An Event of Default is defined in the Indenture as being, among other things: default in payment of the principal on the Senior Notes when due, at maturity, upon redemption or otherwise, including failure by the Company to purchase the Senior Notes when required as described under "Description of Senior Notes--Change of Control" (whether or not such payment shall be prohibited by the subordination provisions of the Indenture); default for 30 days in payment of any installment of interest on the Senior Notes; default by the Company for 90 days after notice in the observance or performance of any other covenants in the Indenture; failure to pay certain indebtedness for money borrowed under any mortgage, indenture, or instrument aggregating \$25 million or more; final judgments or decrees entered into by a court of competent jurisdiction against the Company, which have not been vacated, discharged, satisfied or stayed pending appeal within 60 days of entry, involving liabilities of \$40 million or more after deducting the portion of such liabilities accepted by an insurance company; or certain events involving bankruptcy, insolvency or reorganization of the Company. The Indenture provides that the trustee may withhold notice to the holders of Senior Notes of any default (except in payment of principal or interest with respect to the Senior Notes) if the trustee, in good faith, considers it in the interest of the holders of the Senior Notes to do so.

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The Senior Note Indenture provides that if an Event of Default (other

than an Event of Default with respect to certain events, including bankruptcy, insolvency or reorganization of the Company) shall have occurred and be continuing, the trustee or the holders of not less than 25% in principal amount of the Senior Notes then outstanding may declare the principal on the Senior Notes to be due and payable immediately, but if the Company shall pay or deposit with the trustee a sum sufficient to pay all matured installments of interest on all Senior Notes and the principal on all Senior Notes that have become due other than by acceleration and certain expenses and fees of the trustee and if all defaults (except the nonpayment of interest on and principal of any Senior Notes which shall have become due by acceleration) shall have been cured or waived and certain other conditions are met, such declaration may be canceled and past defaults may be waived by the holders of a majority in principal amount of the Senior Notes then outstanding.

The holders of a majority in principal amount of the Senior Notes then outstanding shall have the right to direct the time, method and place of conducting any proceedings for any remedy available to the trustee, subject to certain limitations specified in the Indenture. The Indenture provides that, subject to the duty of the trustee following an Event of Default to act with the required standard of care, the trustee will not be under an obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless the trustee receives satisfactory indemnity against any associated costs, liability or expense.

SATISFACTION AND DISCHARGE; DEFEASANCE

The Senior Note Indenture will cease to be of further effect as to all outstanding Senior Notes (except as to (i) rights of the holders of Senior Notes to receive payments of principal and interest on, the Senior Notes, (ii) our right of optional redemption, (iii) rights of registration of transfer and exchange, (iv) substitution of apparently mutilated, defaced, destroyed, lost or stolen Senior Notes, (v) rights, obligations and immunities of the trustee under the Indenture and (vi) rights of the holders of Senior Notes as beneficiaries of the Indenture with respect to the property so deposited with the trustee payable to all or any of them) if (A) we will have paid or caused to be paid the principal and interest on the Senior Notes as and when the same will have become due and payable or (B) all outstanding Senior Notes (except lost, stolen or destroyed Senior Notes which have been replaced or paid) have been delivered to the trustee for cancellation or (C) (x) the Senior Notes not previously delivered to the trustee for cancellation will have become due and payable or are by their terms to become due and payable within one year or are to be called for redemption under arrangements satisfactory to the trustee upon delivery of notice and (y) we will have irrevocably deposited with the trustee, as trust funds, cash, in an amount sufficient to pay principal of and interest on the outstanding Senior Notes, to maturity or redemption, as the case may be. Such trust may only be established if such deposit will not result in a breach or violation of, or constitute a default under, any agreement or instrument pursuant to which we are a party or by which we are bound and we have delivered to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions related to such defeasance have been complied with.

The Senior Note Indenture will also cease to be in effect (except as described in clauses (i) through (vi) in the immediately preceding paragraph) and the indebtedness on all outstanding Senior Notes will be discharged on the 123rd day after the irrevocable deposit by the Company with the trustee, in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Senior Notes, of cash, U.S. Government Obligations (as defined in the Indenture) or a combination thereof, in an amount sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the trustee, to pay the principal and interest on the Senior Notes then outstanding in accordance with the terms of the Indenture and the Senior Notes ("legal defeasance"). Such legal defeasance may only be effected if (i) no Event of Default has occurred or is continuing, (ii) such deposit will not result in a breach or violation of, or constitute a default under, any agreement or instrument to which the Company is a party or by which it is bound, (iii) the Company has delivered to the trustee an opinion of counsel stating that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date of the Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, based thereon, the holders of the Senior Notes will not recognize income, gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge by the Company

and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred, (iv) the Company has delivered to the trustee an opinion of counsel to the effect that after the 123rd day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and (v) the Company has delivered to the trustee an officers' certificate and an opinion of counsel stating that all conditions related to the defeasance have been complied with. The Company may also be released from its

obligations under the covenants described above captioned "Description of Senior Notes--Change of Control" and "Description of Senior Notes -Merger, Consolidation and Sale of Assets" with respect to the Senior Notes outstanding on the 123rd day after the irrevocable deposit by the Company with the trustee, in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Senior Notes, of cash, U.S. Government Obligations or a combination thereof, in an amount sufficient in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the trustee, to pay the principal and interest on the Senior Notes then outstanding in accordance with the terms of the Indenture and the Senior Notes ("covenant defeasance").

Such covenant defeasance may only be effected if (i) no Event of Default has occurred or is continuing (ii) such deposit will not result in a breach or violation of, or constitute a default under, any agreement or instrument to which the Company is a party or by which it is bound, (iii) the Company has delivered to the trustee an officers' certificate and an opinion of counsel to the effect that the holders of the Senior Notes will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and covenant defeasance by the Company and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit and covenant defeasance had not occurred, (iv) the Company has delivered to the trustee an opinion of counsel to the effect that after the 123rd day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and (v) the Company has delivered to the trustee an officers' certificate and an opinion of counsel stating that all conditions related to the covenant defeasance have been complied with.

Following such covenant defeasance, the Company will no longer be required to comply with the obligations described above under "Merger, Consolidation and Sale of Assets" and "Restrictions and Limitations" and will have no obligation to repurchase the Senior Notes pursuant to the provisions described under "Description of Senior Notes -Change of Control."

MODIFICATIONS OF THE INDENTURE

The Senior Note Indenture contains provisions permitting the Company and the trustee, with the consent of the holders of not less than a majority in principal amount of the Senior Notes at the time outstanding, to modify the Indenture or any supplemental Indenture or the rights of the holders of the Senior Notes, except that no such modification shall (i) extend the fixed maturity or due date for principal installments thereunder, of any Senior Note or due date for principal installments thereunder, reduce the rate or extend the time of payment of interest thereon, reduce the principal amount thereof, reduce any amount payable upon redemption thereof, change the obligation of the Company to repurchase the Senior Notes, at the option of the holder, upon the happening of a Change of Control, impair or affect the right of a holder to institute suit for the payment thereof, change the currency in which the Senior Notes are payable, without the consent of the holder of each Senior Note so affected or (ii) reduce the aforesaid percentage of the Senior Notes, without the consent of the holders of all of the Senior Notes then outstanding. The Company and the trustee may amend or supplement the Indenture without notice to or consent of any holder in order to provide for the issuance of Senior Notes in coupon form, to correct or supplement any inconsistent or deficient provision in the Indenture, to comply with the provisions of the Trust Indenture Act of 1939 or to appoint a successor trustee.

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CONCERNING THE TRUSTEE

Wachovia Bank, N.A., the trustee under the Senior Note Indenture, has been appointed by the Company as the paying agent, registrar and custodian with regard to the Senior Notes. The trustee and/or its affiliates may in the future provide banking and other services to us in the ordinary course of their respective businesses. Under the Indenture, each holder or former holder of a Senior Note agrees to indemnify the Company and the trustee against any liability that may result from the transfer, exchange or assignment of such holder's or former holder's Senior Note in violation of any provision of the Indenture or applicable United States federal or state securities laws.

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LEGAL PROCEEDINGS

Dynex is subject to lawsuits or claims which arise in the ordinary course of its business. Below is set forth a description of all material outstanding litigation relating to Dynex.

GLS Capital, Inc. ("GLS"), a subsidiary of the Company, together with

the County of Allegheny, Pennsylvania ("Allegheny County"), were defendants in a lawsuit in the Commonwealth Court of Pennsylvania (the "Commonwealth Court"), the appellate court of the state of Pennsylvania, wherein the plaintiffs challenged the right of Allegheny County and GLS to collect certain interest, costs and expenses related to delinquent property tax receivables in Allegheny County. This lawsuit was related to the purchase by GLS of delinquent property tax receivables from Allegheny County in 1997, 1998, and 1999 for approximately \$58.3 million. In July 2001, the Commonwealth Court issued a ruling that addressed, among other things, (i) the right of the Company to charge to the delinquent taxpayer a rate of interest of 12% versus 10% on the collection of its delinquent property tax receivables, (ii) the charging of attorney's fees to the delinquent taxpayer for the collection of such tax receivables, and (iii) the charging to the delinquent taxpayer of certain other fees and costs. The Commonwealth Court remanded for further consideration to the lower court items (i) and (iii) above, and ruled that neither Allegheny County nor GLS had the right to charge attorney's fees to the delinquent taxpayer related to the collection of such tax receivables. In October 2001, GLS along with Allegheny County filed an Application for Extraordinary Jurisdiction appealing the Commonwealth Court's ruling. No damages have been claimed in the action; however, the decision if it remains as issued by the Commonwealth Court and pending the further consideration of items (i) and (iii) above by the lower court, may impact the ultimate amount recoverable on the delinquent property tax receivables, including attorney fees incurred in the collection process.

The Company and Dynex Commercial, Inc. ("DCI"), formerly an affiliate of the Company, are defendants in state court in Dallas County, Texas in the matter of Basic Capital Management et al ("BCM") versus Dynex Commercial, Inc. et al. The suit was filed in April 1999 originally against DCI, and in March 2000, BCM amended the complaint and added the Company. The current complaint alleges that, among other things, DCI and the Company failed to fund tenant improvement or other advances allegedly required on various loans made by DCI to BCM, which loans were subsequently acquired by the Company; that DCI breached an alleged \$160 million "master" loan commitment entered into in February 1998 and a second alleged loan commitment of approximately \$9 million; that DCI and the Company made negligent misrepresentations in connection with the alleged \$160 million commitment; and that DCI and the Company fraudulently induced BCM into canceling the alleged \$160 million master loan commitment in January 1999. Plaintiff BCM is seeking damages approximating \$40 million, including approximately \$36.5 million for DCI's breach of the alleged \$160 million master loan commitment, approximately \$1.6 million for alleged failure to make additional tenant improvement advances, and approximately \$1.9 million for DCI's not funding the alleged \$9 million commitment. DCI and the Company are vigorously defending the claims on several grounds. The Company was not a party to the alleged \$160 million master commitment or the alleged \$9 million commitment. The Company has filed a counterclaim for damages approximating \$11 million against BCM. Commencement of the trial of the case in Dallas, Texas is anticipated in 2003.

In November 2002, the Company received notice of a Second Amended Complaint filed in the First Judicial District, Jefferson County, Mississippi in the matter of Barbara Buie and Elizabeth Thompson versus East Automotive Group, World Rental Car Sale of Mississippi, AutoBond Acceptance Corporation, Dynex Capital, Inc. and John Does # 1-5. The Second Amended Complaint represents a re-filing of the First Amended Complaint against the Company which was dismissed by the Court without prejudice in August 2001. The Second Amended Complaint in reference to the Company alleges that Plaintiffs were the beneficiaries of a contract entered into between AutoBond Acceptance Corporation and the Company, and alleges that the Company breached such contract and that such breach caused them to suffer economic loss. The Plaintiffs are seeking compensatory damages of \$1 million and punitive damages of \$1 million. Defendants East Automotive Group

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and World Rental Car Sale of Mississippi have also filed cross complaints against the Company. The Company intends to defend itself vigorously against the allegations made in these lawsuits, and believes that the ultimate resolution of such lawsuits will not have a material impact on its financial position.

Although no assurance can be given with respect to the ultimate outcome of the above litigation, the Company believes the resolution of these lawsuits, or any other claims against the Company, 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.

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CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

General

The following discussion summarizes certain United States federal income tax consequences associated with the Offer and the ownership of Senior Notes. The discussion is intended only as a summary and does not purport to be a

complete analysis of all potential tax considerations that may be relevant in connection with the Offer. The discussion is based upon the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), existing and proposed United States Treasury regulations promulgated thereunder, current administrative pronouncements and judicial decisions, changes to any of which could materially affect the continued validity of the discussion herein and could be made on a retroactive basis. No rulings will be sought from the Internal Revenue Service with respect to the treatment of the Offer and no assurance may be given that contrary positions may not be taken by the Internal Revenue Service or by a court of law.

Scope

The discussion relating to shareholders who participate in the Offer addresses only shareholders who hold shares of Preferred Stock as capital assets within the meaning of Section 1221 of the Code, and does not address all of the tax consequences that may be relevant to particular shareholders in light of their personal circumstances, or to certain types of shareholders (such as certain financial institutions, brokers, dealers or traders in securities or commodities, insurance companies, "S" Corporations, expatriates, tax-exempt organizations, persons who acquired shares of Preferred Stock as compensation and persons who hold such shares as a position in a "straddle" or as a part of a "hedging" or "conversion" transaction for United States federal income tax purposes). In the context of the discussion pertaining to the Senior Notes, the discussion describes certain United States federal income tax consequences applicable only to original holders of the Senior Notes and who hold Senior Notes as capital assets. The discussion does not include any description of the tax laws of any state, local, or non-U.S. government that may be applicable to a particular shareholder. As used herein, a "United States Holder" means (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States, any State or any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source, or (iv) a trust if (A) a court within the United States is able to exercise primary supervision of the administration of the trust and (B) one or more United States Holders have the authority to control all substantial decisions of the trust. As used herein, a "Non-United States Holder" is a holder of shares other than a United States Holder.

THE SUMMARY DISCUSSION SET FORTH HEREIN IS INCLUDED FOR GENERAL INFORMATION ONLY. THE TAX CONSEQUENCES OF AN EXCHANGE OF SHARES FOR CASH, SENIOR NOTES OR CASH AND SENIOR NOTES PURSUANT TO THE OFFER MAY VARY DEPENDING UPON, AMONG OTHER THINGS, THE PARTICULAR SITUATION AND CIRCUMSTANCES OF THE TENDERING SHAREHOLDER. ALL SHAREHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE SPECIFIC FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES OF EXCHANGES MADE BY THEM PURSUANT TO THE OFFER, INCLUDING THE EFFECT OF THE STOCK OWNERSHIP ATTRIBUTION RULES DESCRIBED HEREIN.

Certain Federal Income Tax Consequences to Tendering Shareholders; Characterization of the Exchange

An exchange of shares of Preferred Stock for cash, Senior Notes or cash and Senior Notes by a shareholder pursuant to the Offer will be a taxable transaction for United States federal income tax purposes. The United States federal income tax consequences of such exchange to a shareholder may vary depending upon the shareholder's particular facts and circumstances. Depending on such facts and circumstances, the exchange for cash, Senior Notes or cash and Senior Notes will be treated as either a sale or a distribution for United States federal income tax purposes.

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Under Section 302 of the Code, an exchange of shares of Preferred Stock for cash, Senior Notes or cash and Senior Notes pursuant to the Offer will be treated as a "sale or exchange" of such shares of Preferred Stock for United States federal income tax purposes (rather than as a deemed distribution by the Company with respect to shares continued to be held (or deemed to be held) by the tendering shareholder) if the receipt of Senior Notes upon such exchange (i) is "substantially disproportionate" with respect to the shareholder, (ii) results in a "complete termination" of the shareholder's interest in the Company, or (iii) is "not essentially equivalent to a dividend" with respect to the shareholder. These tests (the "Section 302 Tests") are explained more fully below. See "Section 302 Tests" below.

If any of the Section 302 Tests is satisfied and the exchange of the tendered shares of Preferred Stock for cash, Senior Notes or cash and Senior Notes is, therefore, treated as a "sale or exchange" of such shares for United States federal income tax purposes, the tendering shareholder will recognize capital gain or loss equal to the difference between (a) the amount of any cash and the fair market value of the Senior Notes received by the shareholder and (b) the shareholder's adjusted tax basis in the shares of Preferred Stock exchanged pursuant to the Offer. Such capital gain or loss will generally be long-term capital gain or loss if the tendering shareholder held the tendered

shares for more than 12 months. Under current law, any such gain or loss recognized by individuals, trusts or estates will be subject to a maximum 20 percent federal tax rate if the shares have been held for more than 12 months. If none of the Section 302 Tests is satisfied, then, to the extent of the Company's current and accumulated earnings and profits (as determined for United States federal income tax purposes), the Company believes the tendering shareholder will generally be treated as having received a dividend taxable as ordinary income in an amount equal to the amount of any cash and the fair market value of the Senior Notes (determined as of the date of the exchange) received by the shareholder pursuant to the Offer (without reduction for the adjusted tax basis of the shares tendered pursuant to the Offer). Under current Treasury Regulations, no loss would be recognized by the tendering shareholder, and (subject to reduction as described below for corporate shareholders eligible for the dividends-received deduction), the tendering shareholder's adjusted tax basis in the shares exchanged pursuant to the Offer will be added to such shareholder's adjusted tax basis in the shareholder's remaining shares, if any; however, if a tendering shareholder does not retain any shares, such shareholder may lose tax basis entirely. Under Regulations recently proposed by the IRS which are not binding upon you or the IRS, the basis, after required adjustments, of the tendering shareholder's redeemed shares would be treated as a loss recognized on a disposition of the redeemed shares on the closing date of the Offer. Such loss would not be recognized by the shareholder until one of the 302 Tests is satisfied, although the character and source of such loss will be determined as of the closing date of the Offer. As these Regulations are only proposed Regulations, you are encouraged to consult your tax advisor regarding their status and applicability. If the exchange of shares by a shareholder is not treated as a sale or exchange for federal income tax purposes, the amount (if any) by which any cash and the fair market value of the Senior Notes exceeds the current or accumulated earnings and profits of the Company (as determined for federal income tax purposes) will be treated, first, as a nontaxable return of capital to the extent of the shareholder's basis in the shares, and thereafter, as taxable capital gain.

Dynex does not expect to report any accumulated or current "earnings and profits" for 2003.

TO THE EXTENT THAT A TENDERING SHAREHOLDER DOES NOT RECEIVE ANY CASH PURSUANT TO THE OFFER OR DOES NOT RECEIVE A SUFFICIENT AMOUNT OF CASH PURSUANT TO THE OFFER TO SATISFY ANY TAX LIABILITY IN CONNECTION WITH THE EXCHANGE OF SHARES PREFERRED STOCK FOR SENIOR NOTES, A SHAREHOLDER WILL NEED TO USE OTHER CASH RESOURCES OF THE SHAREHOLDER (INCLUDING POSSIBLE DISPOSITIONS OF THE SENIOR NOTES) TO SATISFY ANY TAX LIABILITIES ARISING FROM AN EXCHANGE OF SHARES FOR SENIOR NOTES.

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Constructive Ownership of Stock

In determining whether any of the Section 302 Tests is satisfied, a shareholder must take into account not only the shares which are actually owned by the shareholder, but also shares which are constructively owned by the shareholder by reason of the attribution rules contained in Section 318 of the Code. Under Section 318 of the Code, a shareholder may be treated as owning (i) shares that are actually owned, and in some cases constructively owned, by certain related individuals or entities in which the shareholder owns an interest, or, in the case of shareholders that are entities, by certain individuals or entities that own an interest in the shareholder and (ii) shares which the shareholder has the right to acquire by exercise of an option or a conversion right contained in another instrument held by the shareholder.

Section 302 Tests

One of the following tests must be satisfied in order for the exchange of shares for Senior Notes pursuant to the Offer to be treated as a sale or exchange for United States federal income tax purposes.

a. Substantially Disproportionate Test. The exchange of shares for cash, Senior Notes or cash and Senior Notes by a shareholder will be "substantially disproportionate" if the percentage of the outstanding shares actually and constructively owned by the shareholder immediately following the exchange of shares pursuant to the Offer (treating as not being outstanding all shares exchanged pursuant to the Offer) is less than 80% of the percentage of the outstanding shares actually and constructively owned by such shareholder immediately before the exchange of shares pursuant to the Offer (treating as outstanding all shares exchanged pursuant to the Offer). Shareholders should consult their own tax advisors with respect to the application of the "substantially disproportionate" test to their particular situation and circumstances.

b. Complete Termination Test. The exchange of shares for cash, Senior Notes or cash and Senior Notes will be a "complete termination" of a shareholder's interest in the Company if either (i) all of the

shares actually and constructively owned by the shareholder are exchanged pursuant to the Offer or (ii) all of the shares actually owned by the shareholder are exchanged pursuant to the Offer and, with respect to the shares constructively owned by the shareholder which are not exchanged pursuant to the Offer, the shareholder is eligible to waive (and effectively waives) constructive ownership of all such shares under procedures described in Section 302(c) of the Code. Shareholders considering making such a waiver should do so in consultation with their own tax advisors.

c. Not Essentially Equivalent to a Dividend Test. A shareholder may satisfy the "not essentially equivalent to a dividend" test if the shareholder's exchange of shares pursuant to the Offer results in a "meaningful reduction" in the shareholder's proportionate interest in the Company. Whether the receipt of cash, Senior Notes or cash and Senior Notes by a shareholder who exchanges shares pursuant to the Offer will be "not essentially equivalent to a dividend" will depend upon the shareholder's particular facts and circumstances. The Internal Revenue Service has indicated in published revenue rulings that even a small reduction in the proportionate interest of a small minority shareholder in a publicly held corporation who exercises no control over corporate affairs may constitute such a "meaningful reduction." The Internal Revenue Service held, for example, in Rev. Rul. 76-385, 1976-2 C.B. 92, that a reduction in the percentage ownership interest of a shareholder in a publicly held corporation from .0001118% to .0001081% (a reduction of only 3.3% in the shareholder's prior percentage ownership interest) would constitute a "meaningful reduction." Shareholders expecting to rely on the "not essentially equivalent to a dividend" test should consult their own tax advisors as to its application to their particular situation and circumstances.

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The Company cannot predict whether or to what extent the Offer will be oversubscribed. If the Offer is oversubscribed, proration of the tenders pursuant to the Offer will cause the Company to accept fewer shares than are tendered. Therefore, a shareholder can be given no assurance that a sufficient number of such shareholder's shares will be exchanged pursuant to the Offer to ensure that such exchange will satisfy one or more of the Section 302 Tests and be treated as a sale or exchange rather than as a dividend, for United States federal income tax purposes pursuant to the rules discussed above.

Contemporaneous dispositions or acquisitions of shares by a shareholder or related individuals or entities may be deemed to be part of a single integrated transaction which will be taken into account in determining whether any of the Section 302 Tests has been satisfied in connection with shares exchanged for cash, Senior Notes or cash and Senior Notes pursuant to the Offer. Thus, for example, if a shareholder sells shares to persons other than the Company at or about the time such shareholder also exchanges shares for cash, Senior Notes or cash and Senior Notes pursuant to the Offer, and the various sales effected by the shareholder are part of an overall plan to reduce or terminate such shareholder's proportionate interest in the Company, then the sales to persons other than the Company may, for United States federal income tax purposes, be integrated with the shareholder's exchange of shares pursuant to the Offer and, if integrated, should be taken into account in determining whether the holder satisfies any of the Section 302 Tests described above.

SHAREHOLDERS CONTEMPLATING AN EXCHANGE OF SHARES FOR CASH, SENIOR NOTES OR CASH AND SENIOR NOTES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE SECTION 302 TESTS, INCLUDING THE EFFECT OF THE ATTRIBUTION RULES AND THE POSSIBILITY THAT A SUBSTANTIALLY CONTEMPORANEOUS SALE OF SHARES TO PERSONS OTHER THAN THE COMPANY MAY ASSIST IN SATISFYING ONE OR MORE OF THE SECTION 302 TESTS, AS WELL AS THE SPECIFIC FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES OF EXCHANGES MADE BY THEM PURSUANT TO THE OFFER.

Corporate Shareholder Dividend Treatment

If an exchange of shares of Preferred Stock for cash, Senior Notes or cash and Senior Notes pursuant to the Offer by a corporate shareholder is treated as a dividend, the corporate shareholder (other than an S corporation) may be entitled to claim the dividends-received deduction under Section 243 of the Code (generally 70%, but 80% under certain circumstances) with respect to the gross dividend, subject to applicable limitations. With respect to specific limitations on claiming the dividends-received deduction, corporate shareholders should consider the effect of Section 246(c) of the Code, which disallows the dividends-received deduction with respect to any dividend on any share of stock that is held for 45 days or less during the 90-day period beginning on the date which is 45 days before the date on which such share becomes ex-dividend with respect to such dividend. For this purpose, the length of time a taxpayer is deemed to have held stock may be reduced by periods during which the taxpayer's risk of loss with respect to the stock is diminished by reason of the existence of certain options or other hedging transactions. Additionally, corporate shareholders that have incurred indebtedness directly attributable to an

investment in shares should consider the effect of Section 246A of the Code which reduces the dividends-received deduction by a percentage generally computed based on the amount of such indebtedness and the shareholder's total adjusted tax basis in the shares.

In addition, any amount received by a corporate shareholder pursuant to the Offer that is treated as a dividend may constitute an "extraordinary dividend" under Section 1059 of the Code. Accordingly, a corporate shareholder may be required under Section 1059(a) of the Code to reduce its adjusted tax basis (but not below zero) in its shares by the non-taxed portion of the extraordinary dividend (i.e., the portion of the dividend for which a deduction is allowed), and, if such portion exceeds the shareholder's adjusted tax basis in its shares, to treat the excess as gain from the sale of such shares in the year in which the dividend is received. These basis reductions and gain recognition rules would be applied by taking into account only the shareholder's adjusted tax basis in the shares that were exchanged, without regard to other shares that the shareholder may continue to own.

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CORPORATE SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE APPLICATION OF SECTIONS 243, 246(c) AND 1059 OF THE CODE TO THE OFFER AND ANY DIVIDENDS WHICH MAY BE TREATED AS PAID WITH RESPECT TO SHARES EXCHANGED PURSUANT TO THE OFFER.

Certain Federal Income Tax Consequences to Prospective United States Holders of Senior Notes; Interest on the Senior Notes--General

With respect to shareholders who exchange shares of Preferred Stock for Senior Notes or cash and Senior Notes in the Offer, stated interest on the Senior Notes will be taxable as ordinary interest income at the time such amounts are accrued or received in accordance with the holder's method of accounting for United States federal income tax purposes.

Depending upon a shareholder's particular circumstances, the tax consequences of holding Senior Notes may be less advantageous than the consequences of holding shares of Preferred Stock because, for example, interest payments on the Senior Notes will not be eligible for any dividends-received deduction that might otherwise be available to corporate shareholders, if dividends were issued with respect to the shares.

Redemption or Sale of Senior Notes

Generally, any redemption (including the payment of the principal on the Senior Notes) or sale of the Senior Notes by a holder will result in taxable gain or loss equal to the difference between the sum of the amount of cash and the fair market value of the other property received (except to the extent attributable to accrued but previously untaxed interest) and the holder's adjusted tax basis in the Senior Notes. Except to the extent attributable to accrued but previously untaxed interest, such gain or loss (if any) will generally be long-term capital gain or loss if the holder's holding period for the Senior Notes exceeds twelve months and if the Senior Note is held as a capital asset by the holder.

Backup Withholding

United States Federal Income Tax Backup Withholding. Under the United States federal income tax backup withholding rules, 31% of the gross proceeds payable to a shareholder or other payee pursuant to the Offer must be withheld and remitted to the United States Internal Revenue Service ("IRS"), unless the shareholder or other payee provides his or her taxpayer identification number (employer identification number or social security number) to the Exchange Agent (as payor) and certifies under penalties of perjury that the number is correct or unless another exemption applies. Therefore, each tendering shareholder should complete and sign the Substitute Form W-9 included as part of the Letter of Transmittal so as to provide the information and certification necessary to avoid backup withholding unless the shareholder otherwise establishes to the satisfaction of the Exchange Agent that the shareholder is not subject to backup withholding. If the Exchange Agent is not provided with the correct taxpayer identification number, a United States Holder may be subject to penalties imposed by the IRS. If withholding results in an overpayment of taxes, a refund may be obtained. Certain "exempt recipients" (including, among others, all corporations and certain Non-United States Holders) are not subject to these backup withholding and information reporting requirements. In order for a Non-United States Holder to qualify as an exempt recipient, that shareholder must submit the appropriate and applicable version of an IRS Form W-8, signed under penalties of perjury, attesting to that shareholder's exempt status. These statements can be obtained from the Exchange Agent.

TO PREVENT UNITED STATES FEDERAL INCOME TAX BACKUP WITHHOLDING EQUAL TO 31% OF THE GROSS PAYMENTS MADE TO SHAREHOLDERS FOR SHARES EXCHANGED PURSUANT TO THE OFFER, EACH SHAREHOLDER WHO DOES NOT OTHERWISE ESTABLISH AN EXEMPTION FROM THE BACKUP WITHHOLDING MUST PROVIDE THE EXCHANGE AGENT WITH THE SHAREHOLDER'S CORRECT TAXPAYER IDENTIFICATION NUMBER AND PROVIDE OTHER INFORMATION BY

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TRANSMITTAL. NON-UNITED STATES HOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF UNITED STATES FEDERAL INCOME TAX WITHHOLDING, INCLUDING ELIGIBILITY FOR A WITHHOLDING TAX REDUCTION OR EXEMPTION, AND THE REFUND PROCEDURE.

Certain Federal Income Tax Consequences to Prospective Non-United States Holders of Senior Notes

If the exchange of shares for Senior Notes or cash and Senior Notes by a Non-United States Holder in the Offer is characterized as a sale (as opposed to a dividend), the holder generally will not be subject to United States federal income tax and, therefore, may be entitled to a refund of the tax withheld by the Exchange Agent on any gain with respect to the exchange unless:

- o the gain is effectively connected with a trade or business of the Non-United States Holder in the United States and, if certain tax treaties apply, is attributable to a permanent establishment in the United States maintained by such holder; or
- o in the case of a non-resident alien individual who holds the shares as a capital asset, the individual is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

Payment of Interest

The 30% United States federal withholding tax will not apply to any payment to a Non-United States Holder of interest (including OID) on a Senior Note provided that:

- o such holder does not actually or constructively own 10% or more of the total combined voting power of all classes of the Company's stock that are entitled to vote within the meaning of section 871(h)(3) of the Code;
- o such holder is not a controlled foreign corporation that is related to the Company through stock ownership;
- o such holder is not a bank whose receipt of interest on a Senior Note is described in section 881(c)(3)(A) of the Code; and
- o (a) such holder provides its name and address, and certifies, under penalties of perjury, that such holder is not a United States person (which certification may be made on an Internal Revenue Service Form W-8BEN) or (b) a securities clearing organization, bank, or other financial institution that holds customers' securities in the ordinary course of its business holds the Senior Note on such holder's behalf and certifies, under penalties of perjury, that it has received IRS Form W-8BEN from the holder or from another qualifying financial institution intermediary, and provides a copy of the IRS Form W-8BEN. If the Senior Notes are held by or through certain foreign intermediaries or certain foreign partnerships, such foreign intermediaries or partnerships must also satisfy the certification requirements of applicable Treasury Regulations.

If a Non-United States Holder cannot satisfy the requirements described above, payments of interest (including OID) will be subject to the 30% United States federal withholding tax, unless such holder provides the Company with a properly executed (1) IRS Form W-8BEN claiming an exemption from or reduction in withholding under the benefit of an applicable tax treaty or (2) IRS Form W-8ECI

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stating that interest paid on the Senior Note is not subject to withholding tax because it is effectively connected with such holder's conduct of a trade or business in the United States.

If a Non-United States Holder is engaged in a trade or business in the United States and interest on a Senior Note is effectively connected with the conduct of that trade or business, such holder will be required to pay United States federal income tax on that interest (including OID) on a net income basis (although exempt from the 30% withholding tax provided the certification requirement described above is met) in the same manner as if such holder were a United States person as defined under the Internal Revenue Code, except as otherwise provided by an applicable tax treaty. In addition, if such holder is a foreign corporation, such holder may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of the holder's earnings and profits for the taxable year, subject to adjustments, that are effectively connected with

such holder's conduct of a trade or business in the United States. For this purpose, interest will be included in the earnings and profits of such foreign corporation.

Sale, Exchange or Other Taxable Disposition of Senior Notes

Any gain realized upon the sale, exchange or other taxable disposition of a Senior Note (except with respect to accrued and unpaid interest (including OID), which would be taxable) generally will not be subject to United States federal income tax unless:

- o that gain is effectively connected with a Non-United States Holder's conduct of a trade or business in the United States;
- o the Non-United States Holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or
- o the Non-United States Holder is subject to Code provisions applicable to certain United States expatriates.

A holder described in the first bullet point above will be required to pay United States federal income tax on the net gain derived from the sale, except as otherwise required by an applicable tax treaty, and if such holder is a foreign corporation, it may also be required to pay a branch profits tax. A holder described in the second bullet point above will be subject to United States federal income tax on the gain derived from the sale, which may be offset by United States source capital losses, even though the holder is not considered a resident of the United States.

Information Reporting and Backup Withholding

The amount of interest paid to a Non-United States Holder on the Senior Note and the amount of tax withheld, if any, will generally be reported to such holder and the IRS. A Non-United States Holder will generally not be subject to backup withholding with respect to payments that the Company makes to such holder provided that such holder has made appropriate certifications as to the holder's foreign status, or such holder otherwise establish an exemption.

Non-United States Holders will generally not be subject to backup withholding or information reporting with respect to any payment of the proceeds of the sale of a Senior Note effected outside the United States by a foreign office of a foreign "broker" (as defined in applicable Treasury Regulation), provided that such broker:

- o derives less than 50% of its gross income for certain periods from the conduct of a trade or business in the United States,
- o is not a controlled foreign corporation for United States federal income tax purposes, and

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- o is not a foreign partnership that, at any time during its taxable year, has 50% or more of its income or capital interests owned by United States persons or is engaged in the conduct of a United States trade or business.

Non-United States Holders will be subject to information reporting, but not backup withholding, with respect to any payment of the proceeds of a sale of a note effected outside the United States by a foreign office of any other broker unless such broker has documentary evidence in its records that such holder is not a United States person and certain other conditions are met, or such holder otherwise establishes an exemption. Non-United States Holders will be subject to backup withholding and information reporting with respect to any payment of the proceeds of a sale of a Senior Note effected by the United States office of a broker unless such holder properly certifies under penalties of perjury as to such holder's foreign status and certain other conditions are met or such holder otherwise establishes an exemption.

Currently applicable Treasury Regulations establish reliance standards with regard to the certification requirements described above.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a Non-United States Holder's United States federal income tax liability provided the required information is properly furnished to the IRS on a timely basis.

THE TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY. YOU ARE URGED TO CONSULT WITH YOUR TAX ADVISOR TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO YOU OF THE EXCHANGE OFFER, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL AND FOREIGN LAWS.

Tax Consequences to Company

The Company will recognize no gain or loss in connection with the acquisition of shares in exchange for Senior Notes.

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The Exchange Agent for the Offer is:

WACHOVIA BANK, N.A.

By overnight delivery or express
mail to:
Wachovia Bank, N.A.
c/o Alpine Fiduciary Services
Corporate Actions Department
P.O. Box 2065
South Hackensack, NJ 07606-9974

By mail to:
Wachovia Bank, N.A.
c/o Alpine Fiduciary Services
Corporate Actions Department
P.O. Box 2065
South Hackensack, NJ 07606-9974

Telephone Number: (888) 422-8979
Facsimile Number: (704) 590-7628

Any questions, requests for assistance, or requests for additional copies of this Exchange Offer, the Letter of Transmittal or the Notice of Guaranteed Delivery should be directed to the Information Agent at the following address and telephone numbers:

The Information Agent for the Offer is:

MACKENZIE PARTNERS INC.

105 Madison Avenue
New York, New York 10016
(212) 929-5500 (Call Collect)
or
Call Toll-Free (800) 322-2885

Email: proxy@mackenziepartners.com

You may also contact your broker, dealer, commercial bank or trust company or any other nominee for assistance concerning this Offer.

FORM OF LETTER OF ELECTION AND TRANSMITTAL

Exhibit (a) (1) (B) (i)
LETTER OF ELECTION AND TRANSMITTAL

TO TENDER SHARES OF SERIES A PREFERRED STOCK,
Par Value \$0.01 Per Share

DYNEX CAPITAL, INC.

PURSUANT TO THE OFFERING CIRCULAR DATED JANUARY 8, 2003

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS EXPIRE
AT 5:00 P.M., NEW YORK CITY TIME, ON TUESDAY, FEBRUARY 11, 2003,
UNLESS THE OFFER IS EXTENDED.

Deliver to:
Wachovia Bank, the Exchange Agent for the Offer

By Mail:
Wachovia Bank
c/o Alpine Fiduciary Services, Inc.
Corporate Actions Department
P.O. Box 2065
South Hackensack, NJ 07606-9974

By Overnight Delivery or Express Mail:
Wachovia Bank
c/o Alpine Fiduciary Services, Inc.
Corporate Actions Department
P.O. Box 2065
South Hackensack, NJ 07606-9974

Delivery of this Letter of Election and Transmittal ("Letter of Transmittal") to an address other than one of those shown above does not constitute a valid delivery. The instructions accompanying this Letter of Transmittal should be read carefully before this Letter of Transmittal is completed.

This Letter of Transmittal is to be used only (a) if you desire to effect the tender transaction yourself, (b) if you intend to request your broker, dealer, commercial bank, trust company or other nominee to effect the transaction for you and the shares of Series A Preferred Stock of Dynex Capital, Inc., par value \$0.01 per share (the "shares"), are not registered in the name of such broker, dealer, commercial bank, trust company or other nominee, or (c) by a broker, dealer, commercial bank, trust company or other nominee effecting the transaction as a registered owner or on behalf of a registered owner. A properly completed and duly executed Letter of Transmittal (or photocopy thereof bearing original signature(s) and any required signature guarantees), any certificates representing shares tendered and any other documents required by this Letter of Transmittal should be mailed or delivered to the Exchange Agent at the appropriate address set forth herein and must be received by the Exchange Agent prior to 5:00 P.M., New York City time, on February 11, 2003, or such later time and date to which the Offer is extended. Shareholders whose stock certificates are not immediately available (or who cannot follow the procedure for book-entry transfer on a timely basis) or who cannot transmit this Letter of Transmittal and all other required documents to the Exchange Agent before the Expiration Time (as defined in "The Offer - Expiration Time, Extensions, Termination and Amendments" section of the Offering Circular) may nevertheless tender their shares according to the guaranteed delivery procedure set forth in "The Offer - How to Tender" section of the Offering Circular. See Instruction 2.

The Senior Notes offered pursuant to this tender transaction will be issued in book-entry form only (See the "Description of Senior Notes - Global Note; Book Entry Form" section of the Offering Circular for a description of the book-entry nature of the Senior Notes). No physical certificates for Senior Notes will be issued to shareholders of record. Consequently, shareholders who wish to tender any shares for Senior Notes, or who elect to receive Senior Notes in the instance of an oversubscription for cash consideration, must tender those shares through an institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of The Depository Trust Corporation ("DTC"), such as a bank, broker-dealer or trust company. Such tendering shareholders should not submit this Letter of Transmittal directly to the Exchange Agent. Instead, such tendering shareholders should contact a DTC participant with whom they have an account. The DTC participant will then tender the shares on behalf of the shareholder using the procedures set forth in the "The Offer - How to Tender - Tender Procedures for Nominees" section of the Offering Circular. If a shareholder of record holds Preferred Stock in certificate form and does not maintain an account with a DTC participant, he, she, or it, must establish an account with such an institution prior to tendering their shares in the Offer in order to receive Senior Notes pursuant to the Offer.

DELIVERY OF THE LETTER OF TRANSMITTAL AND THE OTHER REQUIRED DOCUMENTS TO DYNEX CAPITAL, INC., MACKENZIE PARTNERS, INC., THE INFORMATION AGENT FOR THE OFFER, OR THE BOOK-ENTRY TRANSFER FACILITY WILL NOT BE FORWARDED TO THE EXCHANGE AGENT AND THEREFORE WILL NOT CONSTITUTE VALID DELIVERY TO THE EXCHANGE AGENT.

DESCRIPTION OF SHARES TENDERED
(SEE INSTRUCTIONS 3 AND 4)

<TABLE>

<S>	<C>
SHARE CERTIFICATE(S) AND SHARES TENDERED (ATTACH ADDITIONAL SIGNED LIST IF NECESSARY) (1)	NAME(S) AND ADDRESS(ES) OF REGISTERED HOLDER(S) (PLEASE FILL IN, IF BLANK, EXACTLY AS NAME(S) APPEAR(S) ON CERTIFICATE(S))

</TABLE>

<TABLE>

<S>	<C>	<C>
SHARE CERTIFICATE NUMBER(S) (1)	TOTAL NUMBER OF SHARES REPRESENTED BY CERTIFICATE(S)	NUMBER OF SHARES TENDERED (2)

TOTAL NUMBER OF CERTIFICATED SHARES TENDERED

TOTAL NUMBER OF SHARES TENDERED BY BOOK ENTRY

TOTAL NUMBER OF SHARES TENDERED

</TABLE>

- (1) Need not be completed if shares are delivered by book-entry transfer.
- (2) If you desire to tender fewer than all shares evidenced by any certificates listed above, please indicate in this column the number of shares you wish to tender. Otherwise, all shares evidenced by such certificates will be deemed to have been tendered. See Instruction 4.

ELECTION (See instructions 2, 14 and 15)

As set forth in "The Offer" section of the Offering Circular, you may tender your shares of Series A Preferred Stock for cash, Dynex's 9.50% senior notes, due February 28, 2005 (the "Senior Notes") or a combination of those two forms of payment. You MUST make an election as to the form of payment you wish to receive for all shares you tender. If you fail to make properly such an election with respect to any shares of Preferred Stock you tender, you will be deemed to have tendered such shares for cash. In addition, if the consideration you select is oversubscribed, whether that is the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Series A Preferred Stock that are not exchanged for the oversubscribed consideration returned to you.

IMPORTANT: If you elect to tender your shares in exchange for either Senior Notes or for a combination of cash and Senior Notes, or if you elect to receive Senior Notes in the event of an oversubscription of the cash consideration, do not return your certificates or this letter of transmittal to the Exchange Agent. Instead, you must tender your shares through a broker, dealer, bank or other financial institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of DTC because the Senior Notes will be issued only in book-entry form.

I wish to allocate the shares of Series A Preferred Stock that I have tendered in the following manner:

[] CASH OPTION: I hereby tender the number of shares of Series A Preferred Stock set forth above for cash in the amount of \$24.00 per tendered share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

or

[] NOTE OPTION: I hereby tender the number of shares of Series A Preferred Stock set forth above for \$25.20 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003. The Senior Notes will be issued in \$25.00 denominations and any integral multiple thereof. In cases where the consideration for shares tendered is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 denomination not to exceed \$24.99;

or

[] COMBINATION OF CASH AND SENIOR NOTE CONSIDERATION: I hereby tender the number of shares set forth above in the following manner:

Cash: _____ shares of Series A Preferred Stock for cash, in the amount of \$24.00 per share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

AND

Senior Notes: _____ shares of Series A Preferred Stock for \$25.20 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003.

OVERSUBSCRIPTION ALLOCATION:

After Dynex has determined which shares to accept pursuant to the terms of the Offering Circular, if the particular consideration which you select is oversubscribed, whether the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Series A Preferred Stock that are not exchanged for the oversubscribed consideration returned to you. Please place an "X" in the box provided below if you wish any shares which were not exchanged due to an oversubscription, to be allocated to the undersubscribed option, if available.

[] Oversubscription Allocation: Please allocate any shares that I tendered and which were not exchanged because the consideration I chose has been oversubscribed, to the undersubscribed consideration, if available, regardless of whether that is the cash consideration or the Senior Notes consideration.

PRORATION/ALLOCATION ELECTION:

Proration Election: Indicate in this box the order (by certificate number) in which shares are to be purchased in event of proration as a result of more shares of Series A Preferred Stock being tendered than we are offering to purchase and/or in the event of allocation as a result of an oversubscription of either the cash or the Senior Notes consideration. (Attach additional signed list if necessary) (1). See Instruction 7.

1st: 2nd: 3rd: 4th: 5th: 6th:

(1) If you do not designate an order, in the event fewer than all shares tendered are purchased due to proration, shares will be selected for purchase by the Exchange Agent. See Instruction 7.

[] Check here if any certificates representing shares tendered hereby have been lost, stolen, destroyed or mutilated. You must complete an affidavit of loss and return it with your Letter of Transmittal. A bond may be required to be posted by the shareholder to secure against the risk that the certificates may be subsequently recirculated. Please call (888) 422-8979 to obtain an affidavit of loss and for further instructions and as to the determination of the requirement for posting of a bond. See Instruction 13.

This Letter of Transmittal is to be used only if (1) certificates for shares are to be forwarded with it, or such certificates will be delivered under

a notice of guaranteed delivery previously sent to the Exchange Agent, or (2) a tender of shares is to be made by book-entry transfer to the account maintained by the Exchange Agent at The Depository Trust Company, referred to as the "Book-Entry Transfer Facility," under "The Offer - How to Tender" section of the Offering Circular.

Shareholders who desire to tender shares under the Offer and who cannot deliver the certificates for their shares, or who are unable to comply with the procedures for book-entry transfer before the "Expiration Time" (as defined in the "Expiration Time, Extensions, Termination and Amendments" section of the Offering Circular), and who cannot deliver all other documents required by this Letter of Transmittal to the Exchange Agent before the Expiration Time may tender their shares according to the guaranteed delivery procedures set forth in "The Offer - How to Tender" section of the Offering Circular. See Instruction 2. Delivery of documents to the Book-Entry Transfer Facility does not constitute delivery to the Exchange Agent.

[] CHECK HERE IF TENDERED SHARES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER TO AN ACCOUNT MAINTAINED BY THE EXCHANGE AGENT AT THE BOOK-ENTRY TRANSFER FACILITY AND COMPLETE THE FOLLOWING:

Name of tendering institution:

Account number:

Transaction code number:

[] CHECK HERE IF CERTIFICATES FOR TENDERED SHARES ARE BEING DELIVERED UNDER A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE EXCHANGE AGENT AND COMPLETE THE FOLLOWING:

Name(s) of registered holder(s):

Date of execution of Notice of Guaranteed Delivery:

Name of institution which guaranteed delivery:

Account number:

NOTE: SIGNATURES MUST BE PROVIDED BELOW.
PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY.

To Dynex Capital, Inc.:

The undersigned hereby tenders to Dynex Capital, Inc., a Virginia corporation ("Dynex"), the above-described shares of Dynex's Series A Preferred Stock, par value \$0.01 per share, at the price per share of (a) \$24.00, net to the seller in cash, without interest, (b) \$25.20 in principal amount of Dynex's 9.50% Senior Notes, due February 28, 2005, or (c) a combination of cash and Senior Notes, upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003, receipt of which is hereby acknowledged, and in this Letter of Transmittal which, as amended and supplemented from time to time, together constitute the "Offer."

The undersigned elects to have his, her or its shares of Series A Preferred Stock exchanged pursuant to one of the following options:

CASH OPTION: For cash in the amount of \$24.00 per tendered share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

or

NOTE OPTION: For \$25.20 in principal amount per tendered share of Dynex's 9.50% Senior Notes, due February 28, 2005, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

or

COMBINATION OF CASH OPTION AND SENIOR NOTE CONSIDERATION: For a combination of Cash and Senior Notes as designated by the undersigned in this Letter to

Transmittal.

OVERSUBSCRIPTION ALLOCATION: Tendering shareholders may affirmatively elect to have any shares that are tendered for an oversubscribed type of consideration, whether that is the cash or Senior Notes consideration, applied to the undersubscribed consideration by placing an "X" in the box provided in the "OVERSUBSCRIPTION ALLOCATION" section of this Letter of Transmittal.

The undersigned acknowledges that Dynex is offering to purchase up to 492,425 shares of Series A Preferred Stock; consequently, the undersigned's tender could be subject to proration in the event that more shares of Series A Preferred Stock are tendered than we are offering to purchase. In that case, proration for each shareholder tendering shares shall be based on the ratio of (A) the number of shares of the series that we are offering to purchase to (B) the total number of shares of the series properly tendered and not properly withdrawn by all shareholders of Series A Preferred Stock.

In addition, after Dynex has made any necessary proration as a result of more shares of Series A Preferred Stock being tendered than Dynex is offering to purchase, the aggregate cash and/or Senior Notes consideration that the undersigned may receive in the Offer is subject to possible additional pro rata reduction because Dynex is offering only a limited amount of cash and a limited principal amount of Senior Notes in the Offer with the result that not more than 202,763 shares of Series A Preferred Stock in the aggregate can be exchanged for cash and not more than 289,662 shares in the aggregate can be exchanged for Senior Notes. If either the cash consideration or the Senior Notes consideration is oversubscribed with respect to the series, proration of the oversubscribed consideration for each shareholder tendering shares for the oversubscribed consideration shall be based on the ratio of (A) the number of shares of the series that Dynex is offering to purchase for the oversubscribed consideration to (B) the total number of shares of the series properly tendered and not properly withdrawn by all shareholders of the series for the oversubscribed consideration.

Dynex will return all other shares, including shares not purchased because of proration, promptly following the Expiration Time.

The undersigned acknowledges that the Senior Notes offered in the Offer have not been registered under the Securities Act of 1933, as amended (the "Securities Act"). Dynex is relying on the exemption from the registration requirements of the Securities Act contained in Section 3(a)(9) of that Act for the Senior Notes. Under that exemption, if the shares of Preferred Stock the undersigned tenders are freely tradable, the Senior Notes the undersigned will receive in the Offer will be freely tradable. If the shares of Preferred Stock tendered in the Offer are restricted, the Senior Notes the undersigned will receive will be restricted to the same degree.

Subject to and effective upon acceptance for payment of the shares tendered hereby in accordance with the terms and subject to the conditions of the Offer, including, if the Offer is extended or amended, the terms or conditions of any such extension or amendment, the undersigned hereby sells, assigns and transfers to or upon the order of Dynex all right, title and interest in and to all shares tendered hereby or orders the registration of such shares tendered by book-entry transfer that are purchased under the Offer to or upon the order of Dynex and hereby irrevocably constitutes and appoints the Exchange Agent as attorney-in-fact of the undersigned with respect to such shares, with the full knowledge that the Exchange Agent also acts as the agent of Dynex, with full power of substitution, such power of attorney being an irrevocable power coupled with an interest, to:

(a) deliver certificates for shares, or transfer ownership of such shares on the account books maintained by the Book-Entry Transfer Facility, together in either such case with all accompanying evidences of transfer and authenticity, to or upon the order of Dynex, upon receipt by the Exchange Agent, as the undersigned's agent, of the purchase price with respect to such shares;

(b) present certificates for such shares for cancellation and transfer on Dynex's books; and

(c) receive all benefits and otherwise exercise all rights of beneficial ownership of such shares, subject to the next paragraph, all in accordance with the terms of the Offer.

The undersigned hereby covenants, represents and warrants to Dynex that:

(a) the undersigned understands that tendering of shares under any one of the procedures described in the "How to Tender" section of the Offering Circular and in the instructions hereto will constitute the undersigned's acceptance of the terms and conditions of the Offer, including the undersigned's representation and warranty that (i) the undersigned has a "net long position" in shares or equivalent securities at least equal to the shares tendered within the meaning of Rule 14e-4 under the Securities Exchange Act of 1934, as amended, and (ii) such tender of shares complies with Rule 14e-4 under the Exchange Act;

(b) the undersigned "owns" the shares tendered hereby within the meaning of

Rule 14e-4 under the Exchange Act and has full power and authority to tender, sell, assign and transfer the shares tendered hereby and when and to the extent Dynex accepts the shares for purchase, Dynex will acquire good, marketable and unencumbered title to them, free and clear of all security interests, liens, charges, encumbrances, conditional sales agreements or other obligations relating to their sale or transfer, and not subject to any adverse claim;

(c) on request, the undersigned will execute and deliver any additional documents the Exchange Agent or Dynex deems necessary or desirable to complete the assignment, transfer and purchase of the shares tendered hereby; and

(d) the undersigned has read and agrees to all of the terms of the Offer.

The names and addresses of the registered holders should be printed, if they are not already printed above, exactly as they appear on the certificates representing shares tendered hereby. The certificate numbers, the number of shares represented by such certificates, and the number of shares that the undersigned wishes to tender, should be set forth in the appropriate boxes above.

The undersigned recognizes that under certain circumstances set forth in the Offering Circular, Dynex may terminate or amend the Offer or may postpone the acceptance for payment of, or the payment for, shares tendered or may accept for payment fewer than all of the shares tendered hereby. In either event, the undersigned understands that certificate(s) for any shares not tendered or not purchased will be promptly returned to the undersigned at the address indicated above, unless otherwise indicated under the "Special Payment Instructions" or "Special Delivery Instructions" below. The undersigned recognizes that Dynex has no obligation, under the Special Payment Instructions, to transfer any certificate for shares from the name of its registered holder, or to order the registration or transfer of shares tendered by book-entry transfer, if Dynex purchases none of the shares represented by such certificate or tendered by such book-entry transfer.

The undersigned understands that acceptance of shares by Dynex for payment will constitute a binding agreement between the undersigned and Dynex upon the terms and subject to the conditions of the Offer.

The check and/or Senior Notes for the aggregate net purchase price for such of the tendered shares as are purchased by Dynex will be issued to the order of the undersigned and mailed to the address indicated above unless otherwise indicated under either of the "Special Payment Instructions" or the "Special Delivery Instructions" boxes below. The undersigned acknowledges that Dynex has no obligation, under the "Special Payment Instructions," to transfer any shares tendered by book-entry transfer if Dynex does not purchase any of such shares.

All authority conferred or agreed to be conferred in this Letter of Transmittal shall survive the death or incapacity of the undersigned and any obligations or duties of the undersigned under this Letter of Transmittal shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned. Except as stated in the Offering Circular, this tender is irrevocable.

PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY

SPECIAL PAYMENT INSTRUCTIONS
(See Instructions 1, 4, 5, 6 and 8)

To be completed ONLY if certificates for shares of Preferred Stock not tendered or not purchased and/or any check or Senior Notes are to be issued in the name of someone other than the undersigned or if shares tendered hereby and delivered by book-entry transfer which are not purchased are to be returned by credit to an account at the Book-Entry Transfer Facility other than that designated above.

Issue: [] Check [] Certificate(s) [] Senior Notes to:

Name:

(Please Print or Type)

Address:

(Including Zip Code)

(Tax Identification or Social Security Number)
(See Substitute Form W-9 Included Herewith)

[] Credit shares delivered by book-entry transfer and not purchased to the account set forth below:

(Account No.)

SPECIAL DELIVERY INSTRUCTIONS
(See Instructions 1, 4, 5 and 8)

To be completed ONLY if certificates for shares not tendered or not purchased and/or any check or Senior Notes exchanged for shares should be registered in the name of someone other than the undersigned or to the undersigned at an address other than that shown above.

[] Preferred Stock Certificates [] Senior Notes:

Name:

(Please Print or Type)

Address:

(Including Zip Code)
SHAREHOLDER(S) SIGN HERE
(See Instructions 1 and 5)

(PLEASE COMPLETE SUBSTITUTE FORM W-9 ON REVERSE SIDE)

Must be signed by the registered holder(s) exactly as name(s) appear(s) on certificate(s) or on a security position listing or by person(s) authorized to become registered holder(s) by certificate(s) and documents transmitted with the Letter of Transmittal. If signature is by attorney-in-fact, executor, administrator, trustee, guardian, officer of a corporation or another acting in a fiduciary or representative capacity, please set forth the full title. See Instruction 5.

(SIGNATURE(S))

Name(s) :

(PLEASE PRINT)

Capacity (full title):

Address:

(INCLUDING ZIP CODE)

Area code and telephone number:

Dated: _____, 2003

Tax Identification or Social Security Number:

GUARANTEE OF SIGNATURE(S)
(SEE INSTRUCTIONS 1 AND 5)

Authorized signature:

Name(s) :

(PLEASE PRINT)

Title:

Name of Eligible Institution Guaranteeing Signature:

Address:

(INCLUDING ZIP CODE)

Area code and telephone number:

Dated: _____, 2003

Tax Identification or Social Security Number:

INSTRUCTIONS TO LETTER OF TRANSMITTAL
FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER

1. Guarantee of Signatures. No signature guarantee is required if either:

(a) this Letter of Transmittal is signed by the registered holder of the shares exactly as the name of the registered holder appears on the certificate, which term, for purposes of this document, shall include any participant in a book-entry transfer facility whose name appears on a security position listing as the owner of shares, tendered with this Letter of Transmittal, and payment and delivery are to be made directly to such registered holder unless such registered holder has completed either the box entitled "Special Payment Instructions" or "Special Delivery Instructions" above; or

(b) such shares are tendered for the account of a bank, broker, dealer, credit union, savings association or other entity which is a member in good standing of the Securities Transfer Agents Medallion Program or a bank, broker, dealer, credit union, savings association or other entity which is an "Eligible Guarantor Institution," as such term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, each such entity, referred to as an "eligible guarantor institution."

In all other cases, signatures must be guaranteed by an eligible guarantor institution. See Instruction 5.

2. Delivery of Letter of Transmittal and Certificates; Guaranteed Delivery Procedures. This Letter of Transmittal is to be used only if certificates are delivered with it to the Exchange Agent, or such certificates will be delivered under a Notice of Guaranteed Delivery previously sent to the Exchange Agent, or if tenders are to be made under the procedure for tender by book-entry transfer set forth in the "How to Tender" section of the Offering Circular. Certificates for all physically tendered shares, or confirmation of a book-entry transfer into the Exchange Agent's account at the Book-Entry Transfer Facility of shares tendered electronically, together in each case with a properly completed and duly executed Letter of Transmittal or manually signed facsimile of it, or an agent's message, and any other documents required by this Letter of Transmittal, should be mailed or delivered to the Exchange Agent at the appropriate address set forth herein and must be delivered to the Exchange Agent before the Expiration Time.

The term "agent's message" means a message transmitted by the Book-Entry Transfer Facility to, and received by, the Exchange Agent, which states that the Book-Entry Transfer Facility has received an express acknowledgment from the participant in the Book-Entry Transfer Facility tendering the shares that such participant has received and agrees to be bound by the terms of the Letter of Transmittal, and that Dynex may enforce such agreement against such participant.

Shareholders whose certificates are not immediately available or who cannot deliver certificates for their shares and all other required documents to the Exchange Agent before the Expiration Time, or whose shares cannot be delivered before the Expiration Time under the procedures for book-entry transfer, may tender their shares by or through any eligible guarantor institution by properly completing and duly executing and delivering a Notice of Guaranteed Delivery, or facsimile of it, and by otherwise complying with the guaranteed delivery procedure set forth in the "How to Tender" section of the Offering Circular. Under such procedure, the certificates for all physically tendered shares or book-entry confirmation, as the case may be, as well as a properly completed and duly executed Letter of Transmittal, or manually signed facsimile of it, or an agent's message, and all other documents required by this Letter of Transmittal, must be received by the Exchange Agent within three (3) NASDAQ trading days after receipt by the Exchange Agent of such Notice of Guaranteed Delivery, all as provided in the "How to Tender" section of the Offering Circular.

The Notice of Guaranteed Delivery may be delivered by hand or transmittal by telegram, facsimile transmission or mail to the Exchange Agent and must include, if necessary, a guarantee by an eligible guarantor institution in the form set forth in such notice. For shares to be tendered validly under the guaranteed delivery procedure, the Exchange Agent must receive the Notice of

Guaranteed Delivery before the Expiration Time.

THE METHOD OF DELIVERY OF ALL DOCUMENTS, INCLUDING CERTIFICATES FOR SHARES, IS AT THE OPTION AND RISK OF THE TENDERING SHAREHOLDER. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE DELIVERY.

Dynex will not accept any alternative, conditional or contingent tenders, nor will it purchase any fractional shares, except as expressly provided in the Offering Circular. All tendering shareholders, by execution of this Letter of Transmittal, or a facsimile of it, waive any right to receive any notice of the acceptance of their tender.

3. Inadequate Space. If the space provided in the box captioned "Description of Shares Tendered" is inadequate, the certificate numbers and/or the number of shares should be listed on a separate signed schedule and attached to this letter of transmittal.

4. Partial Tenders and Unpurchased Shares (not applicable to shareholders who tender by book-entry transfer). If fewer than all of the shares evidenced by any certificate are to be tendered, fill in the number of shares that are to be tendered in the column entitled "Number of Shares Tendered" in the box captioned "Description of Shares Tendered." In such case, if any tendered shares are purchased, a new certificate for the remainder of the shares evidenced by the old certificates will be issued and sent to the registered holder(s), unless otherwise specified in either the "Special Payment Instructions" box or "Special Delivery Instructions" box in this Letter of Transmittal, promptly after the Expiration Time. Unless otherwise indicated, all shares represented by the certificates listed and delivered to the Exchange Agent will be deemed to have been tendered.

5. Signatures on Letter of Transmittal, Stock Powers and Endorsements.

(a) If this Letter of Transmittal is signed by the registered holder(s) of the shares tendered hereby, the signature(s) must correspond exactly with the name(s) as written on the face of the certificate(s) without any change whatsoever.

(b) If the shares are registered in the names of two or more joint holders, each such holder must sign this Letter of Transmittal.

(c) If any tendered shares are registered in different names on several certificates, it will be necessary to complete, sign and submit as many separate copies of this Letter of Transmittal, or photocopies of it, as there are different registrations of certificates.

(d) When this Letter of Transmittal is signed by the registered holder(s) of the shares listed and transmitted hereby, no endorsements of certificate(s) representing such shares or separate stock powers are required unless payment is to be made, Senior Notes are to be delivered, or the certificates for shares not tendered or not purchased are to be issued to a person other than the registered holder(s). If this Letter of Transmittal is signed by a person other than the registered holder(s) of the certificate(s) listed, or if payment is to be made, Senior Notes are to be delivered, or certificate(s) for shares not tendered or not purchased are to be issued to a person other than the registered holder(s), the certificate(s) must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name(s) of the registered holder(s) appear(s) on the certificate(s). SIGNATURE(S) ON ANY SUCH CERTIFICATE(S) OR STOCK POWERS MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION. See Instruction 1.

(e) If this Letter of Transmittal or any certificates or stock powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing and must submit proper evidence to the Exchange Agent that is satisfactory to Dynex of their authority so to act.

6. Stock Transfer Taxes. Except as provided in this Instruction 6, no stock transfer tax stamps or funds to cover such stamps need to accompany this Letter of Transmittal. When payment is to be made to the registered holder(s), Dynex will pay or cause to be paid any stock transfer taxes payable on the transfer to it of shares purchased under the Offer. If, however:

(a) payment of the purchase price is to be made to any person other than the registered holder(s);

(b) shares not tendered or not accepted for purchase are to be registered in the name(s) of any person(s) other than the registered holder(s); or

(c) tendered certificates are registered in the name of any person(s) other than the person(s) signing this Letter of Transmittal;

then the Exchange Agent will deduct from the purchase price the amount of any stock transfer taxes, whether imposed on the registered holder(s), such other

person(s) or otherwise, payable on account thereof, unless satisfactory evidence of the payment of such taxes or an exemption from them is submitted.

7. Order of Purchase in Event of Proration. As described in "Proration if Shares of Series of Preferred Stock Tendered Exceed Maximum; Limitations on Cash consideration and Senior Notes consideration" section of the Offering Circular, shareholders may designate the order in which their shares are to be purchased in the event of proration. The order of purchase may have an effect on the Federal income tax classification of any gain or loss on the shares purchased. See section "Certain United States Federal Income Tax Consequences" of the Offering Circular.

8. Special Payment and Delivery Instructions. If certificate(s) for shares not tendered or not purchased and/or check(s) are to be issued in the name of a person other than the signer of the Letter of Transmittal or if Senior Notes are to be delivered to someone other than the person signing the Letter of Transmittal or to the signer at a different address, the boxes captioned "Special Payment Instructions" and/or "Special Delivery Instructions" on this Letter of Transmittal should be completed as applicable and signatures must be guaranteed as described in Instructions 1 and 5.

9. Irregularities. All questions as to the number of shares to be accepted and the validity, form, eligibility, including time of receipt, and acceptance for payment of any tender of shares will be determined by Dynex in its sole discretion, which determinations shall be final and binding on all parties. Dynex reserves the absolute right to reject any or all tenders of shares it determines not be in proper form or the acceptance of which or payment for which may, in the opinion of Dynex's counsel, be unlawful. Dynex also reserves the absolute right to waive any of the conditions of the Offer and any defect or irregularity in the tender of any particular shares, and Dynex's interpretation of the terms of the Offer, including these instructions, will be final and binding on all parties. No tender of shares will be deemed to be properly made until all defects and irregularities have been cured or waived. Unless waived, any defects or irregularities in connection with tenders must be cured within such time as Dynex shall determine. None of Dynex, the Exchange Agent, the Information Agent (as defined in the Offering Circular) or any other person is or will be obligated to give notice of any defects or irregularities in tenders and none of them will incur any liability for failure to give any such notice.

10. Questions and Requests for Assistance and Additional Copies. Any questions or requests for assistance or for additional copies of the Offering Circular, the Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the Information Agent at the telephone number and address set forth on the back cover of this Letter of Transmittal. You may also contact your broker, dealer, commercial bank or trust company for assistance concerning the Offer. To confirm delivery of your shares, you are directed to contact the Exchange Agent.

11. Tax Identification Number and Backup Withholding. Federal income tax law generally requires that a shareholder whose tendered shares are accepted for purchase, or such shareholder's assignee, in either case, referred to as the "payee," provide the Exchange Agent with such payee's correct taxpayer identification number, which, in the case of a payee who is an individual, is such payee's social security number. If the Exchange Agent is not provided with the correct taxpayer identification number or an adequate basis for an exemption, such payee may be subject to penalties imposed by the Internal Revenue Service and backup withholding in an amount equal to 31% of the gross proceeds received under the Offer. If withholding results in an overpayment of taxes, a refund may be obtained. To prevent backup withholding, each payee must provide such payee's correct taxpayer identification number by completing the Substitute Form W-9 included herewith, certifying that the taxpayer identification number provided is correct, or that such payee is awaiting a taxpayer identification number, and that (i) the payee is exempt from backup withholding, (ii) the payee has not been notified by the IRS that such payee is subject to backup withholding as a result of a failure to report all interest or dividends, or (iii) the IRS has notified the payee that such payee is no longer subject to backup withholding. If the payee does not have a taxpayer identification number, such payee should (i) consult the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for instructions on applying for a taxpayer identification number, (ii) write "Applied For" in the space provided in Part 1(A) of the Substitute Form W-9 and check the appropriate box in Part 1(B), and (iii) sign and date the Substitute Form W-9 and the Certificate of Awaiting Taxpayer Identification Number included herewith. If the payee does not provide such payee's taxpayer identification number to the Exchange Agent prior to the payment of the purchase for shares pursuant to the Offer, backup withholding will apply and will reduce the net amount paid to the selling shareholder. Note that writing "Applied For" on the Substitute Form W-9 means that the payee has already applied for a taxpayer identification number or that such payee intends to apply for one in the near future. If shares are held in more than one name or are not in the name of the actual owner, consult the W-9 Guidelines for information on which taxpayer identification number to report. Exempt payees, including, among others, all corporations and certain foreign individuals, are not subject to backup withholding and reporting requirements. To prevent possible erroneous backup withholding, an exempt payee should write "Exempt" in Part 2 of Substitute Form W-9, and should sign and date the form. See the enclosed Guidelines for

Certification of Taxpayer Identification Number on Substitute Form W-9 for additional instructions. In order for a nonresident alien or foreign entity to qualify as an exempt payee, such person must submit a completed IRS Form W-8 BEN or a Substitute Form W-8 (or similar form), signed under penalties of perjury attesting to such exempt status. Such form may be obtained from the Exchange Agent.

12. Withholding on Foreign Holder. The following discussion applies to any "foreign shareholder," that is a shareholder that, for United States federal income tax purposes, is a non-resident alien individual, a foreign corporation, a foreign partnership, a foreign estate or a foreign trust. A foreign shareholder who has provided the necessary certification to the Exchange Agent as described in Instruction 12 above will not be subject to backup withholding. However, foreign shareholders generally are subject to withholding under Internal Revenue Code sections 1441 or 1442 at a rate of 30% of the gross payments. The general 30% withholding rate may be reduced under a tax treaty, if appropriate certification is furnished to the Exchange Agent. A foreign shareholder may also obtain exemption from withholding by delivering to the Exchange Agent appropriate certification that the gross proceeds are effectively connected with the conduct of a trade or business within the United States, or establishing to the satisfaction of the Exchange Agent that such shareholder meets those tests described in the "Certain United States Federal Income Tax Consequences" section of the Offering Circular that would characterize the exchange as a sale (as opposed to a dividend). A foreign shareholder may be eligible to obtain a refund of all or a portion of any tax withheld if such holder is able to establish to the IRS that no tax, or a reduced amount of tax, is due. FOREIGN SHAREHOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF UNITED STATES FEDERAL INCOME TAX WITHHOLDING, INCLUDING ELIGIBILITY FOR A WITHHOLDING TAX REDUCTION OR EXEMPTION, AND THE REFUND PROCEDURE.

13. Lost, Stolen, Destroyed or Mutilated Certificates. If any certificate representing shares has been lost, stolen, destroyed or mutilated, the shareholder should promptly notify the Exchange Agent by checking the box set forth above in the box captioned "Description of Shares Tendered" and indicating the number of shares so lost, stolen, destroyed or mutilated. Such shareholder will then be instructed by the Exchange Agent as to the steps that must be taken in order to replace the certificate. A bond may be required to be posted by the shareholder to secure against the risk that the certificate may be subsequently recirculated. This Letter of Transmittal and related documents cannot be processed until the procedures for replacing lost, stolen, destroyed or mutilated certificates have been followed. Shareholders may contact the Exchange Agent at (888) 422-8979 to expedite such process and to determine the requirements for posting of a bond.

14. Election Procedure. To properly complete the "Election" section, you must indicate the number of Series A Preferred Stock shares being tendered hereby and whether, with respect to such shares, you are electing to receive cash or Senior Notes. If you fail to properly make an election, you will be deemed to have elected to receive cash in exchange for all properly tendered shares.

15. Revocation or Change of Election. An election is irrevocable, except that shares tendered pursuant to the Offer, may be withdrawn at any time prior to the Expiration Time. After an effective withdrawal, you may change your election by submitting to the Exchange Agent a completed replacement of this document (an any other documents required by the Offer for properly tendering such shares) prior to the Expiration Time of the Offer.

IMPORTANT: THIS LETTER OF TRANSMITTAL OR A MANUALLY SIGNED PHOTOCOPY OF IT (TOGETHER WITH CERTIFICATE(S) FOR SHARES OR CONFIRMATION OF BOOK- ENTRY TRANSFER AND ALL OTHER REQUIRED DOCUMENTS) OR, IF APPLICABLE, THE NOTICE OF GUARANTEED DELIVERY MUST BE RECEIVED BY THE EXCHANGE AGENT BEFORE THE EXPIRATION TIME.

<TABLE>

<CAPTION>

- -----
PAYER'S NAME: Wachovia Bank
- -----

<S> SUBSTITUTE FORM W-9	<C> PART 1 -- PLEASE PROVIDE YOUR TIN IN THE BOX AT RIGHT AND CERTIFY BY SIGNING AND DATING BELOW.	<C> ----- Social Security Number OR ----- Employer Identification Number -----
-------------------------------	--	--

DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE PAYER'S REQUEST FOR TAXPAYER	PART 2 Certification -- Under penalties of perjury, I certify that: (1) The number shown on this form is my correct Taxpayer Identification Number (or I am waiting for a number to be issued to me), and (2) I am not subject to backup withholding because (a) I am exempt from backup withholding, or (b) I have not been	PART 3 -- [] Awaiting TIN
---	--	-------------------------------

IDENTIFICATION
NUMBER (TIN)

notified by the Internal Revenue Service (the IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding.

CERTIFICATE INSTRUCTIONS -- You must cross out item (2) above if you have been notified by the IRS that you are currently subject to backup withholding because of under-reporting interest or dividends on your tax return. However, if after being notified by the IRS that you were subject to backup withholding you received another notification from the IRS that you are no longer subject to backup withholding, do not cross out such item (2).

Sign Here

SIGNATURE

DATE

</TABLE>

The Information Agent for the Offer is:

MACKENZIE PARTNERS, INC.,
105 Madison Avenue
New York, New York 10016

Please call: (800) 322-2885 (toll free) or (212) 929-5500

Email: proxy@mackenziepartners.com

Any questions or requests for assistance may be directed to the Information Agent at the address and telephone number set forth above. You may also contact your broker, dealer, commercial bank or trust company or any other nominee for assistance concerning this Offer.

FORM OF LETTER OF ELECTION AND TRANSMITTAL

Exhibit (a) (1) (B) (ii)
LETTER OF ELECTION AND TRANSMITTAL

TO TENDER SHARES OF SERIES B PREFERRED STOCK,
Par Value \$0.01 Per Share

DYNEX CAPITAL, INC.

PURSUANT TO THE OFFERING CIRCULAR DATED JANUARY 8, 2003

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS EXPIRE
AT 5:00 P.M., NEW YORK CITY TIME, ON TUESDAY, FEBRUARY 11, 2003,
UNLESS THE OFFER IS EXTENDED.

Deliver to:
Wachovia Bank, the Exchange Agent for the Offer

By Mail:
Wachovia Bank
c/o Alpine Fiduciary Services, Inc.
Corporate Actions Department
P.O. Box 2065
South Hackensack, NJ 07606-9974

By Overnight Delivery or Express Mail:
Wachovia Bank
c/o Alpine Fiduciary Services, Inc.
Corporate Actions Department
P.O. Box 2065
South Hackensack, NJ 07606-9974

Delivery of this Letter of Election and Transmittal ("Letter of Transmittal") to an address other than one of those shown above does not constitute a valid delivery. The instructions accompanying this Letter of Transmittal should be read carefully before this Letter of Transmittal is completed.

This Letter of Transmittal is to be used only (a) if you desire to effect the tender transaction yourself, (b) if you intend to request your broker, dealer, commercial bank, trust company or other nominee to effect the transaction for you and the shares of Series B Preferred Stock of Dynex Capital, Inc., par value \$0.01 per share (the "shares"), are not registered in the name of such broker, dealer, commercial bank, trust company or other nominee, or (c) by a broker, dealer, commercial bank, trust company or other nominee effecting the transaction as a registered owner or on behalf of a registered owner. A properly completed and duly executed Letter of Transmittal (or photocopy thereof bearing original signature(s) and any required signature guarantees), any certificates representing shares tendered and any other documents required by this Letter of Transmittal should be mailed or delivered to the Exchange Agent at the appropriate address set forth herein and must be received by the Exchange Agent prior to 5:00 P.M., New York City time, on February 11, 2003, or such later time and date to which the Offer is extended. Shareholders whose stock certificates are not immediately available (or who cannot follow the procedure for book-entry transfer on a timely basis) or who cannot transmit this Letter of Transmittal and all other required documents to the Exchange Agent before the Expiration Time (as defined in "The Offer - Expiration Time, Extensions, Termination and Amendments" section of the Offering Circular) may nevertheless tender their shares according to the guaranteed delivery procedure set forth in "The Offer - How to Tender" section of the Offering Circular. See Instruction 2.

The Senior Notes offered pursuant to this tender transaction will be issued in book-entry form only (See the "Description of Senior Notes - Global Note; Book Entry Form" section of the Offering Circular for a description of the book-entry nature of the Senior Notes). No physical certificates for Senior Notes will be issued to shareholders of record. Consequently, shareholders who wish to tender any shares for Senior Notes, or who elect to receive Senior Notes in the instance of an oversubscription for cash consideration, must tender those shares through an institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of The Depository Trust Corporation ("DTC"), such as a bank, broker-dealer or trust company. Such tendering shareholders should not submit this Letter of Transmittal directly to the Exchange Agent. Instead, such tendering shareholders should contact a DTC participant with whom they have an account. The DTC participant will then tender the shares on behalf of the shareholder using the procedures set forth in the "The Offer - How to Tender - Tender Procedures for Nominees" section of the Offering Circular. If a shareholder of record holds Preferred Stock in certificate form and does not maintain an account with a DTC participant, he, she, or it, must establish an account with such an institution prior to tendering their shares in the Offer in order to receive Senior Notes pursuant to the Offer.

DELIVERY OF THE LETTER OF TRANSMITTAL AND THE OTHER REQUIRED DOCUMENTS TO DYNEX CAPITAL, INC., MACKENZIE PARTNERS, INC., THE INFORMATION AGENT FOR THE OFFER, OR THE BOOK-ENTRY TRANSFER FACILITY WILL NOT BE FORWARDED TO THE EXCHANGE AGENT AND THEREFORE WILL NOT CONSTITUTE VALID DELIVERY TO THE EXCHANGE AGENT.

DESCRIPTION OF SHARES TENDERED
(SEE INSTRUCTIONS 3 AND 4)

<TABLE>

<S>	<C>
SHARE CERTIFICATE(S) AND SHARES TENDERED (ATTACH ADDITIONAL SIGNED LIST IF NECESSARY) (1)	NAME(S) AND ADDRESS(ES) OF REGISTERED HOLDER(S) (PLEASE FILL IN, IF BLANK, EXACTLY AS NAME(S) APPEAR(S) ON CERTIFICATE(S))

</TABLE>

<TABLE>

<S>	<C>	<C>
SHARE CERTIFICATE NUMBER(S) (1)	TOTAL NUMBER OF SHARES REPRESENTED BY CERTIFICATE(S)	NUMBER OF SHARES TENDERED (2)

TOTAL NUMBER OF CERTIFICATED SHARES TENDERED

TOTAL NUMBER OF SHARES TENDERED BY BOOK ENTRY

TOTAL NUMBER OF SHARES TENDERED

</TABLE>

- (1) Need not be completed if shares are delivered by book-entry transfer.
- (2) If you desire to tender fewer than all shares evidenced by any certificates listed above, please indicate in this column the number of shares you wish to tender. Otherwise, all shares evidenced by such certificates will be deemed to have been tendered. See Instruction 4.

ELECTION (See instructions 2, 14 and 15)

As set forth in "The Offer" section of the Offering Circular, you may tender your shares of Series B Preferred Stock for cash, Dynex's 9.50% senior notes, due February 28, 2005 (the "Senior Notes") or a combination of those two forms of payment. You MUST make an election as to the form of payment you wish to receive for all shares you tender. If you fail to make properly such an election with respect to any shares of Preferred Stock you tender, you will be deemed to have tendered such shares for cash. In addition, if the consideration you select is oversubscribed, whether that is the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Series B Preferred Stock that are not exchanged for the oversubscribed consideration returned to you.

IMPORTANT: If you elect to tender your shares in exchange for either Senior Notes or for a combination of cash and Senior Notes, or if you elect to receive Senior Notes in the event of an oversubscription of the cash consideration, do not return your certificates or this letter of transmittal to the Exchange Agent. Instead, you must tender your shares through a broker, dealer, bank or other financial institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of DTC because the Senior Notes will be issued only in book-entry form.

I wish to allocate the shares of Series B Preferred Stock that I have tendered in the following manner:

[] CASH OPTION: I hereby tender the number of shares of Series B Preferred Stock set forth above for cash in the amount of \$24.50 per tendered share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

or

[] NOTE OPTION: I hereby tender the number of shares of Series B Preferred Stock set forth above for \$25.725 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003. The Senior Notes will be issued in \$25.00 denominations and any integral multiple thereof. In cases where the consideration for shares tendered is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 denomination not to exceed \$24.99;

or

[] COMBINATION OF CASH AND SENIOR NOTE CONSIDERATION: I hereby tender the number of shares set forth above in the following manner:

<TABLE>

	<S>	<C>	<C>
Cash:	_____	shares of Series B Preferred Stock for cash, in the amount of \$24.50 per share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003; AND	
Senior Notes:	_____	shares of Series B Preferred Stock for \$25.725 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003.	

</TABLE>

OVERSUBSCRIPTION ALLOCATION:

After Dynex has determined which shares to accept pursuant to the terms of the Offering Circular, if the particular consideration which you select is oversubscribed, whether the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Series B Preferred Stock that are not exchanged for the oversubscribed consideration returned to you. Please place an "X" in the box provided below if you wish any shares which were not exchanged due to an oversubscription, to be allocated to the undersubscribed option, if available.

[] Oversubscription Allocation: Please allocate any shares that I tendered and which were not exchanged because the consideration I chose has been oversubscribed, to the undersubscribed consideration, if available, regardless of whether that is the cash consideration or the Senior Notes consideration.

PRORATION/ALLOCATION ELECTION:

Proration Election: Indicate in this box the order (by certificate number) in which shares are to be purchased in event of proration as a result of more shares of Series B Preferred Stock being tendered than we are offering to purchase and/or in the event of allocation as a result of an oversubscription of either the cash or the Senior Notes consideration. (Attach additional signed list if necessary) (1). See Instruction 7.

1st: 2nd: 3rd: 4th: 5th: 6th:

(1) If you do not designate an order, in the event fewer than all shares tendered are purchased due to proration, shares will be selected for purchase by the Exchange Agent. See Instruction 7.

[] Check here if any certificates representing shares tendered hereby have been lost, stolen, destroyed or mutilated. You must complete an affidavit of loss and return it with your Letter of Transmittal. A bond may be required to be posted by the shareholder to secure against the risk that the certificates may be subsequently recirculated. Please call (888) 422-8979 to obtain an affidavit of loss and for further instructions and as to the determination of the requirement for posting of a bond. See Instruction 13.

This Letter of Transmittal is to be used only if (1) certificates for shares are to be forwarded with it, or such certificates will be delivered under a notice of guaranteed delivery previously sent to the Exchange Agent, or (2) a

tender of shares is to be made by book-entry transfer to the account maintained by the Exchange Agent at The Depository Trust Company, referred to as the "Book-Entry Transfer Facility," under "The Offer - How to Tender" section of the Offering Circular.

Shareholders who desire to tender shares under the Offer and who cannot deliver the certificates for their shares, or who are unable to comply with the procedures for book-entry transfer before the "Expiration Time" (as defined in the "Expiration Time, Extensions, Termination and Amendments" section of the Offering Circular), and who cannot deliver all other documents required by this Letter of Transmittal to the Exchange Agent before the Expiration Time may tender their shares according to the guaranteed delivery procedures set forth in "The Offer - How to Tender" section of the Offering Circular. See Instruction 2. Delivery of documents to the Book-Entry Transfer Facility does not constitute delivery to the Exchange Agent.

[] CHECK HERE IF TENDERED SHARES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER TO AN ACCOUNT MAINTAINED BY THE EXCHANGE AGENT AT THE BOOK-ENTRY TRANSFER FACILITY AND COMPLETE THE FOLLOWING:

Name of tendering institution:

Account number:

Transaction code number:

[] CHECK HERE IF CERTIFICATES FOR TENDERED SHARES ARE BEING DELIVERED UNDER A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE EXCHANGE AGENT AND COMPLETE THE FOLLOWING:

Name(s) of registered holder(s):

Date of execution of Notice of Guaranteed Delivery:

Name of institution which guaranteed delivery:

Account number:

NOTE: SIGNATURES MUST BE PROVIDED BELOW.
PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY.

To Dynex Capital, Inc.:

The undersigned hereby tenders to Dynex Capital, Inc., a Virginia corporation ("Dynex"), the above-described shares of Dynex's Series B Preferred Stock, par value \$0.01 per share, at the price per share of (a) \$24.50, net to the seller in cash, without interest, (b) \$25.725 in principal amount of Dynex's 9.50% Senior Notes, due February 28, 2005, or (c) a combination of cash and Senior Notes, upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003, receipt of which is hereby acknowledged, and in this Letter of Transmittal which, as amended and supplemented from time to time, together constitute the "Offer."

The undersigned elects to have his, her or its shares of Series B Preferred Stock exchanged pursuant to one of the following options:

CASH OPTION: For cash in the amount of \$24.50 per tendered share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

or

NOTE OPTION: For \$25.725 in principal amount per tendered share of Dynex's 9.50% Senior Notes, due February 28, 2005, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

or

COMBINATION OF CASH OPTION AND SENIOR NOTE CONSIDERATION: For a combination of Cash and Senior Notes as designated by the undersigned in this Letter to Transmittal.

OVERSUBSCRIPTION ALLOCATION: Tendering shareholders may affirmatively elect to have any shares that are tendered for an oversubscribed type of consideration, whether that is the cash or Senior Notes consideration, applied to the undersubscribed consideration by placing an "X" in the box provided in the "OVERSUBSCRIPTION ALLOCATION" section of this Letter of Transmittal.

The undersigned acknowledges that Dynex is offering to purchase up to 662,944 shares of Series B Preferred Stock; consequently, the undersigned's tender could be subject to proration in the event that more shares of Series B Preferred Stock are tendered than we are offering to purchase. In that case, proration for each shareholder tendering shares shall be based on the ratio of (A) the number of shares of the series that we are offering to purchase to (B) the total number of shares of the series properly tendered and not properly withdrawn by all shareholders of Series B Preferred Stock.

In addition, after Dynex has made any necessary proration as a result of more shares of Series B Preferred Stock being tendered than Dynex is offering to purchase, the aggregate cash and/or Senior Notes consideration that the undersigned may receive in the Offer is subject to possible additional pro rata reduction because Dynex is offering only a limited amount of cash and a limited principal amount of Senior Notes in the Offer with the result that not more than 272,977 shares of Series B Preferred Stock in the aggregate can be exchanged for cash and not more than 389,967 shares in the aggregate can be exchanged for Senior Notes. If either the cash consideration or the Senior Notes consideration is oversubscribed with respect to the series, proration of the oversubscribed consideration for each shareholder tendering shares for the oversubscribed consideration shall be based on the ratio of (A) the number of shares of the series that Dynex is offering to purchase for the oversubscribed consideration to (B) the total number of shares of the series properly tendered and not properly withdrawn by all shareholders of the series for the oversubscribed consideration.

Dynex will return all other shares, including shares not purchased because of proration, promptly following the Expiration Time.

The undersigned acknowledges that the Senior Notes offered in the Offer have not been registered under the Securities Act of 1933, as amended (the "Securities Act"). Dynex is relying on the exemption from the registration requirements of the Securities Act contained in Section 3(a)(9) of that Act for the Senior Notes. Under that exemption, if the shares of Preferred Stock the undersigned tenders are freely tradable, the Senior Notes the undersigned will receive in the Offer will be freely tradable. If the shares of Preferred Stock tendered in the Offer are restricted, the Senior Notes the undersigned will receive will be restricted to the same degree.

Subject to and effective upon acceptance for payment of the shares tendered hereby in accordance with the terms and subject to the conditions of the Offer, including, if the Offer is extended or amended, the terms or conditions of any such extension or amendment, the undersigned hereby sells, assigns and transfers to or upon the order of Dynex all right, title and interest in and to all shares tendered hereby or orders the registration of such shares tendered by book-entry transfer that are purchased under the Offer to or upon the order of Dynex and hereby irrevocably constitutes and appoints the Exchange Agent as attorney-in-fact of the undersigned with respect to such shares, with the full knowledge that the Exchange Agent also acts as the agent of Dynex, with full power of substitution, such power of attorney being an irrevocable power coupled with an interest, to:

(a) deliver certificates for shares, or transfer ownership of such shares on the account books maintained by the Book-Entry Transfer Facility, together in either such case with all accompanying evidences of transfer and authenticity, to or upon the order of Dynex, upon receipt by the Exchange Agent, as the undersigned's agent, of the purchase price with respect to such shares;

(b) present certificates for such shares for cancellation and transfer on Dynex's books; and

(c) receive all benefits and otherwise exercise all rights of beneficial ownership of such shares, subject to the next paragraph, all in accordance with the terms of the Offer.

The undersigned hereby covenants, represents and warrants to Dynex that:

(a) the undersigned understands that tendering of shares under any one of the procedures described in the "How to Tender" section of the Offering Circular and in the instructions hereto will constitute the undersigned's acceptance of the terms and conditions of the Offer, including the undersigned's representation and warranty that (i) the undersigned has a "net long position" in shares or equivalent securities at least equal to the shares tendered within the meaning of Rule 14e-4 under the Securities Exchange Act of 1934, as amended, and (ii) such tender of shares complies with Rule 14e-4 under the Exchange Act;

(b) the undersigned "owns" the shares tendered hereby within the meaning of Rule 14e-4 under the Exchange Act and has full power and authority to tender,

sell, assign and transfer the shares tendered hereby and when and to the extent Dynex accepts the shares for purchase, Dynex will acquire good, marketable and unencumbered title to them, free and clear of all security interests, liens, charges, encumbrances, conditional sales agreements or other obligations relating to their sale or transfer, and not subject to any adverse claim;

(c) on request, the undersigned will execute and deliver any additional documents the Exchange Agent or Dynex deems necessary or desirable to complete the assignment, transfer and purchase of the shares tendered hereby; and

(d) the undersigned has read and agrees to all of the terms of the Offer.

The names and addresses of the registered holders should be printed, if they are not already printed above, exactly as they appear on the certificates representing shares tendered hereby. The certificate numbers, the number of shares represented by such certificates, and the number of shares that the undersigned wishes to tender, should be set forth in the appropriate boxes above.

The undersigned recognizes that under certain circumstances set forth in the Offering Circular, Dynex may terminate or amend the Offer or may postpone the acceptance for payment of, or the payment for, shares tendered or may accept for payment fewer than all of the shares tendered hereby. In either event, the undersigned understands that certificate(s) for any shares not tendered or not purchased will be promptly returned to the undersigned at the address indicated above, unless otherwise indicated under the "Special Payment Instructions" or "Special Delivery Instructions" below. The undersigned recognizes that Dynex has no obligation, under the Special Payment Instructions, to transfer any certificate for shares from the name of its registered holder, or to order the registration or transfer of shares tendered by book-entry transfer, if Dynex purchases none of the shares represented by such certificate or tendered by such book-entry transfer.

The undersigned understands that acceptance of shares by Dynex for payment will constitute a binding agreement between the undersigned and Dynex upon the terms and subject to the conditions of the Offer.

The check and/or Senior Notes for the aggregate net purchase price for such of the tendered shares as are purchased by Dynex will be issued to the order of the undersigned and mailed to the address indicated above unless otherwise indicated under either of the "Special Payment Instructions" or the "Special Delivery Instructions" boxes below. The undersigned acknowledges that Dynex has no obligation, under the "Special Payment Instructions," to transfer any shares tendered by book-entry transfer if Dynex does not purchase any of such shares.

All authority conferred or agreed to be conferred in this Letter of Transmittal shall survive the death or incapacity of the undersigned and any obligations or duties of the undersigned under this Letter of Transmittal shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned. Except as stated in the Offering Circular, this tender is irrevocable.

PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY

SPECIAL PAYMENT INSTRUCTIONS
(See Instructions 1, 4, 5, 6 and 8)

To be completed ONLY if certificates for shares of Preferred Stock not tendered or not purchased and/or any check or Senior Notes are to be issued in the name of someone other than the undersigned or if shares tendered hereby and delivered by book-entry transfer which are not purchased are to be returned by credit to an account at the Book-Entry Transfer Facility other than that designated above.

Issue: [] Check [] Certificate(s) [] Senior Notes to:

Name:

(Please Print or Type)

Address:

(Including Zip Code)

(Tax Identification or Social Security Number)
(See Substitute Form W-9 Included Herewith)

[] Credit shares delivered by book-entry transfer and not purchased to the account set forth below:

(Account No.)

SPECIAL DELIVERY INSTRUCTIONS
(See Instructions 1, 4, 5 and 8)

To be completed ONLY if certificates for shares not tendered or not purchased and/or any check or Senior Notes exchanged for shares should be registered in the name of someone other than the undersigned or to the undersigned at an address other than that shown above.

[] Preferred Stock Certificates [] Senior Notes:

Name:

(Please Print or Type)

Address:

(Including Zip Code)
SHAREHOLDER(S) SIGN HERE
(See Instructions 1 and 5)

(PLEASE COMPLETE SUBSTITUTE FORM W-9 ON REVERSE SIDE)

Must be signed by the registered holder(s) exactly as name(s) appear(s) on certificate(s) or on a security position listing or by person(s) authorized to become registered holder(s) by certificate(s) and documents transmitted with the Letter of Transmittal. If signature is by attorney-in-fact, executor, administrator, trustee, guardian, officer of a corporation or another acting in a fiduciary or representative capacity, please set forth the full title. See Instruction 5.

(SIGNATURE(S))

Name(s) :

(PLEASE PRINT)

Capacity (full title):

Address:

(INCLUDING ZIP CODE)

Area code and telephone number:

Dated: _____, 2003

Tax Identification or Social Security Number:

GUARANTEE OF SIGNATURE(S)
(SEE INSTRUCTIONS 1 AND 5)

Authorized signature:

Name(s) :

(PLEASE PRINT)

Title:

Name of Eligible Institution Guaranteeing Signature:

Address:

(INCLUDING ZIP CODE)

Area code and telephone number:

Dated: _____, 2003

Tax Identification or Social Security Number:

INSTRUCTIONS TO LETTER OF TRANSMITTAL
FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER

1. Guarantee of Signatures. No signature guarantee is required if either:

(a) this Letter of Transmittal is signed by the registered holder of the shares exactly as the name of the registered holder appears on the certificate, which term, for purposes of this document, shall include any participant in a book-entry transfer facility whose name appears on a security position listing as the owner of shares, tendered with this Letter of Transmittal, and payment and delivery are to be made directly to such registered holder unless such registered holder has completed either the box entitled "Special Payment Instructions" or "Special Delivery Instructions" above; or

(b) such shares are tendered for the account of a bank, broker, dealer, credit union, savings association or other entity which is a member in good standing of the Securities Transfer Agents Medallion Program or a bank, broker, dealer, credit union, savings association or other entity which is an "Eligible Guarantor Institution," as such term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, each such entity, referred to as an "eligible guarantor institution."

In all other cases, signatures must be guaranteed by an eligible guarantor institution. See Instruction 5.

2. Delivery of Letter of Transmittal and Certificates; Guaranteed Delivery Procedures. This Letter of Transmittal is to be used only if certificates are delivered with it to the Exchange Agent, or such certificates will be delivered under a Notice of Guaranteed Delivery previously sent to the Exchange Agent, or if tenders are to be made under the procedure for tender by book-entry transfer set forth in the "How to Tender" section of the Offering Circular. Certificates for all physically tendered shares, or confirmation of a book-entry transfer into the Exchange Agent's account at the Book-Entry Transfer Facility of shares tendered electronically, together in each case with a properly completed and duly executed Letter of Transmittal or manually signed facsimile of it, or an agent's message, and any other documents required by this Letter of Transmittal, should be mailed or delivered to the Exchange Agent at the appropriate address set forth herein and must be delivered to the Exchange Agent before the Expiration Time.

The term "agent's message" means a message transmitted by the Book-Entry Transfer Facility to, and received by, the Exchange Agent, which states that the Book-Entry Transfer Facility has received an express acknowledgment from the participant in the Book-Entry Transfer Facility tendering the shares that such participant has received and agrees to be bound by the terms of the Letter of Transmittal, and that Dynex may enforce such agreement against such participant.

Shareholders whose certificates are not immediately available or who cannot deliver certificates for their shares and all other required documents to the Exchange Agent before the Expiration Time, or whose shares cannot be delivered before the Expiration Time under the procedures for book-entry transfer, may tender their shares by or through any eligible guarantor institution by properly completing and duly executing and delivering a Notice of Guaranteed Delivery, or facsimile of it, and by otherwise complying with the guaranteed delivery procedure set forth in the "How to Tender" section of the Offering Circular. Under such procedure, the certificates for all physically tendered shares or book-entry confirmation, as the case may be, as well as a properly completed and duly executed Letter of Transmittal, or manually signed facsimile of it, or an agent's message, and all other documents required by this Letter of Transmittal, must be received by the Exchange Agent within three (3) NASDAQ trading days after receipt by the Exchange Agent of such Notice of Guaranteed Delivery, all as provided in the "How to Tender" section of the Offering Circular.

The Notice of Guaranteed Delivery may be delivered by hand or transmittal by telegram, facsimile transmission or mail to the Exchange Agent and must include, if necessary, a guarantee by an eligible guarantor institution in the form set forth in such notice. For shares to be tendered validly under the guaranteed delivery procedure, the Exchange Agent must receive the Notice of

Guaranteed Delivery before the Expiration Time.

THE METHOD OF DELIVERY OF ALL DOCUMENTS, INCLUDING CERTIFICATES FOR SHARES, IS AT THE OPTION AND RISK OF THE TENDERING SHAREHOLDER. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE DELIVERY.

Dynex will not accept any alternative, conditional or contingent tenders, nor will it purchase any fractional shares, except as expressly provided in the Offering Circular. All tendering shareholders, by execution of this Letter of Transmittal, or a facsimile of it, waive any right to receive any notice of the acceptance of their tender.

3. Inadequate Space. If the space provided in the box captioned "Description of Shares Tendered" is inadequate, the certificate numbers and/or the number of shares should be listed on a separate signed schedule and attached to this letter of transmittal.

4. Partial Tenders and Unpurchased Shares (not applicable to shareholders who tender by book-entry transfer). If fewer than all of the shares evidenced by any certificate are to be tendered, fill in the number of shares that are to be tendered in the column entitled "Number of Shares Tendered" in the box captioned "Description of Shares Tendered." In such case, if any tendered shares are purchased, a new certificate for the remainder of the shares evidenced by the old certificates will be issued and sent to the registered holder(s), unless otherwise specified in either the "Special Payment Instructions" box or "Special Delivery Instructions" box in this Letter of Transmittal, promptly after the Expiration Time. Unless otherwise indicated, all shares represented by the certificates listed and delivered to the Exchange Agent will be deemed to have been tendered.

5. Signatures on Letter of Transmittal, Stock Powers and Endorsements.

(a) If this Letter of Transmittal is signed by the registered holder(s) of the shares tendered hereby, the signature(s) must correspond exactly with the name(s) as written on the face of the certificate(s) without any change whatsoever.

(b) If the shares are registered in the names of two or more joint holders, each such holder must sign this Letter of Transmittal.

(c) If any tendered shares are registered in different names on several certificates, it will be necessary to complete, sign and submit as many separate copies of this Letter of Transmittal, or photocopies of it, as there are different registrations of certificates.

(d) When this Letter of Transmittal is signed by the registered holder(s) of the shares listed and transmitted hereby, no endorsements of certificate(s) representing such shares or separate stock powers are required unless payment is to be made, Senior Notes are to be delivered, or the certificates for shares not tendered or not purchased are to be issued to a person other than the registered holder(s). If this Letter of Transmittal is signed by a person other than the registered holder(s) of the certificate(s) listed, or if payment is to be made, Senior Notes are to be delivered, or certificate(s) for shares not tendered or not purchased are to be issued to a person other than the registered holder(s), the certificate(s) must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name(s) of the registered holder(s) appear(s) on the certificate(s). SIGNATURE(S) ON ANY SUCH CERTIFICATE(S) OR STOCK POWERS MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION. See Instruction 1.

(e) If this Letter of Transmittal or any certificates or stock powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing and must submit proper evidence to the Exchange Agent that is satisfactory to Dynex of their authority so to act.

6. Stock Transfer Taxes. Except as provided in this Instruction 6, no stock transfer tax stamps or funds to cover such stamps need to accompany this Letter of Transmittal. When payment is to be made to the registered holder(s), Dynex will pay or cause to be paid any stock transfer taxes payable on the transfer to it of shares purchased under the Offer. If, however:

(a) payment of the purchase price is to be made to any person other than the registered holder(s);

(b) shares not tendered or not accepted for purchase are to be registered in the name(s) of any person(s) other than the registered holder(s); or

(c) tendered certificates are registered in the name of any person(s) other than the person(s) signing this Letter of Transmittal;

then the Exchange Agent will deduct from the purchase price the amount of any stock transfer taxes, whether imposed on the registered holder(s), such other

person(s) or otherwise, payable on account thereof, unless satisfactory evidence of the payment of such taxes or an exemption from them is submitted.

7. Order of Purchase in Event of Proration. As described in "Proration if Shares of Series of Preferred Stock Tendered Exceed Maximum; Limitations on Cash consideration and Senior Notes consideration" section of the Offering Circular, shareholders may designate the order in which their shares are to be purchased in the event of proration. The order of purchase may have an effect on the Federal income tax classification of any gain or loss on the shares purchased. See section "Certain United States Federal Income Tax Consequences" of the Offering Circular.

8. Special Payment and Delivery Instructions. If certificate(s) for shares not tendered or not purchased and/or check(s) are to be issued in the name of a person other than the signer of the Letter of Transmittal or if Senior Notes are to be delivered to someone other than the person signing the Letter of Transmittal or to the signer at a different address, the boxes captioned "Special Payment Instructions" and/or "Special Delivery Instructions" on this Letter of Transmittal should be completed as applicable and signatures must be guaranteed as described in Instructions 1 and 5.

9. Irregularities. All questions as to the number of shares to be accepted and the validity, form, eligibility, including time of receipt, and acceptance for payment of any tender of shares will be determined by Dynex in its sole discretion, which determinations shall be final and binding on all parties. Dynex reserves the absolute right to reject any or all tenders of shares it determines not be in proper form or the acceptance of which or payment for which may, in the opinion of Dynex's counsel, be unlawful. Dynex also reserves the absolute right to waive any of the conditions of the Offer and any defect or irregularity in the tender of any particular shares, and Dynex's interpretation of the terms of the Offer, including these instructions, will be final and binding on all parties. No tender of shares will be deemed to be properly made until all defects and irregularities have been cured or waived. Unless waived, any defects or irregularities in connection with tenders must be cured within such time as Dynex shall determine. None of Dynex, the Exchange Agent, the Information Agent (as defined in the Offering Circular) or any other person is or will be obligated to give notice of any defects or irregularities in tenders and none of them will incur any liability for failure to give any such notice.

10. Questions and Requests for Assistance and Additional Copies. Any questions or requests for assistance or for additional copies of the Offering Circular, the Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the Information Agent at the telephone number and address set forth on the back cover of this Letter of Transmittal. You may also contact your broker, dealer, commercial bank or trust company for assistance concerning the Offer. To confirm delivery of your shares, you are directed to contact the Exchange Agent.

11. Tax Identification Number and Backup Withholding. Federal income tax law generally requires that a shareholder whose tendered shares are accepted for purchase, or such shareholder's assignee, in either case, referred to as the "payee," provide the Exchange Agent with such payee's correct taxpayer identification number, which, in the case of a payee who is an individual, is such payee's social security number. If the Exchange Agent is not provided with the correct taxpayer identification number or an adequate basis for an exemption, such payee may be subject to penalties imposed by the Internal Revenue Service and backup withholding in an amount equal to 31% of the gross proceeds received under the Offer. If withholding results in an overpayment of taxes, a refund may be obtained. To prevent backup withholding, each payee must provide such payee's correct taxpayer identification number by completing the Substitute Form W-9 included herewith, certifying that the taxpayer identification number provided is correct, or that such payee is awaiting a taxpayer identification number, and that (i) the payee is exempt from backup withholding, (ii) the payee has not been notified by the IRS that such payee is subject to backup withholding as a result of a failure to report all interest or dividends, or (iii) the IRS has notified the payee that such payee is no longer subject to backup withholding. If the payee does not have a taxpayer identification number, such payee should (i) consult the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for instructions on applying for a taxpayer identification number, (ii) write "Applied For" in the space provided in Part 1(A) of the Substitute Form W-9 and check the appropriate box in Part 1(B), and (iii) sign and date the Substitute Form W-9 and the Certificate of Awaiting Taxpayer Identification Number included herewith. If the payee does not provide such payee's taxpayer identification number to the Exchange Agent prior to the payment of the purchase for shares pursuant to the Offer, backup withholding will apply and will reduce the net amount paid to the selling shareholder. Note that writing "Applied For" on the Substitute Form W-9 means that the payee has already applied for a taxpayer identification number or that such payee intends to apply for one in the near future. If shares are held in more than one name or are not in the name of the actual owner, consult the W-9 Guidelines for information on which taxpayer identification number to report. Exempt payees, including, among others, all corporations and certain foreign individuals, are not subject to backup withholding and reporting requirements. To prevent possible erroneous backup withholding, an exempt payee should write "Exempt" in Part 2 of Substitute Form W-9, and should sign and date the form. See the enclosed Guidelines for

Certification of Taxpayer Identification Number on Substitute Form W-9 for additional instructions. In order for a nonresident alien or foreign entity to qualify as an exempt payee, such person must submit a completed IRS Form W-8 BEN or a Substitute Form W-8 (or similar form), signed under penalties of perjury attesting to such exempt status. Such form may be obtained from the Exchange Agent.

12. Withholding on Foreign Holder. The following discussion applies to any "foreign shareholder," that is a shareholder that, for United States federal income tax purposes, is a non-resident alien individual, a foreign corporation, a foreign partnership, a foreign estate or a foreign trust. A foreign shareholder who has provided the necessary certification to the Exchange Agent as described in Instruction 12 above will not be subject to backup withholding. However, foreign shareholders generally are subject to withholding under Internal Revenue Code sections 1441 or 1442 at a rate of 30% of the gross payments. The general 30% withholding rate may be reduced under a tax treaty, if appropriate certification is furnished to the Exchange Agent. A foreign shareholder may also obtain exemption from withholding by delivering to the Exchange Agent appropriate certification that the gross proceeds are effectively connected with the conduct of a trade or business within the United States, or establishing to the satisfaction of the Exchange Agent that such shareholder meets those tests described in the "Certain United States Federal Income Tax Consequences" section of the Offering Circular that would characterize the exchange as a sale (as opposed to a dividend). A foreign shareholder may be eligible to obtain a refund of all or a portion of any tax withheld if such holder is able to establish to the IRS that no tax, or a reduced amount of tax, is due. FOREIGN SHAREHOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF UNITED STATES FEDERAL INCOME TAX WITHHOLDING, INCLUDING ELIGIBILITY FOR A WITHHOLDING TAX REDUCTION OR EXEMPTION, AND THE REFUND PROCEDURE.

13. Lost, Stolen, Destroyed or Mutilated Certificates. If any certificate representing shares has been lost, stolen, destroyed or mutilated, the shareholder should promptly notify the Exchange Agent by checking the box set forth above in the box captioned "Description of Shares Tendered" and indicating the number of shares so lost, stolen, destroyed or mutilated. Such shareholder will then be instructed by the Exchange Agent as to the steps that must be taken in order to replace the certificate. A bond may be required to be posted by the shareholder to secure against the risk that the certificate may be subsequently recirculated. This Letter of Transmittal and related documents cannot be processed until the procedures for replacing lost, stolen, destroyed or mutilated certificates have been followed. Shareholders may contact the Exchange Agent at (888) 422-8979 to expedite such process and to determine the requirements for posting of a bond.

14. Election Procedure. To properly complete the "Election" section, you must indicate the number of Series B Preferred Stock shares being tendered hereby and whether, with respect to such shares, you are electing to receive cash or Senior Notes. If you fail to properly make an election, you will be deemed to have elected to receive cash in exchange for all properly tendered shares.

15. Revocation or Change of Election. An election is irrevocable, except that shares tendered pursuant to the Offer, may be withdrawn at any time prior to the Expiration Time. After an effective withdrawal, you may change your election by submitting to the Exchange Agent a completed replacement of this document (an any other documents required by the Offer for properly tendering such shares) prior to the Expiration Time of the Offer.

IMPORTANT: THIS LETTER OF TRANSMITTAL OR A MANUALLY SIGNED PHOTOCOPY OF IT (TOGETHER WITH CERTIFICATE(S) FOR SHARES OR CONFIRMATION OF BOOK- ENTRY TRANSFER AND ALL OTHER REQUIRED DOCUMENTS) OR, IF APPLICABLE, THE NOTICE OF GUARANTEED DELIVERY MUST BE RECEIVED BY THE EXCHANGE AGENT BEFORE THE EXPIRATION TIME.

<TABLE>

<CAPTION>

- -----
PAYER'S NAME: Wachovia Bank
- -----

<S> SUBSTITUTE FORM W-9	<C> PART 1 -- PLEASE PROVIDE YOUR TIN IN THE BOX AT RIGHT AND CERTIFY BY SIGNING AND DATING BELOW.	<C> ----- Social Security Number OR ----- Employer Identification Number -----
-------------------------------	--	--

DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE PAYER'S REQUEST FOR TAXPAYER	PART 2 Certification -- Under penalties of perjury, I certify that: (1) The number shown on this form is my correct Taxpayer Identification Number (or I am waiting for a number to be issued to me), and (2) I am not subject to backup withholding because (a) I am exempt from backup withholding, or (b) I have not been	PART 3 -- [] Awaiting TIN
---	--	-------------------------------

IDENTIFICATION
NUMBER (TIN)

notified by the Internal Revenue Service (the IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding.

CERTIFICATE INSTRUCTIONS -- You must cross out item (2) above if you have been notified by the IRS that you are currently subject to backup withholding because of under-reporting interest or dividends on your tax return. However, if after being notified by the IRS that you were subject to backup withholding you received another notification from the IRS that you are no longer subject to backup withholding, do not cross out such item (2).

Sign Here

SIGNATURE

DATE

</TABLE>

The Information Agent for the Offer is:

MACKENZIE PARTNERS, INC.,
105 Madison Avenue
New York, New York 10016
Please call: (800) 322-2885 (toll free) or (212) 929-5500

Email: proxy@mackenziepartners.com

Any questions or requests for assistance may be directed to the Information Agent at the address and telephone number set forth above. You may also contact your broker, dealer, commercial bank or trust company or any other nominee for assistance concerning this Offer.

FORM OF LETTER OF ELECTION AND TRANSMITTAL

Exhibit (a) (1) (B) (iii)
LETTER OF ELECTION AND TRANSMITTAL

TO TENDER SHARES OF SERIES C PREFERRED STOCK,
Par Value \$0.01 Per Share

DYNEX CAPITAL, INC.

PURSUANT TO THE OFFERING CIRCULAR DATED JANUARY 8, 2003

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS EXPIRE
AT 5:00 P.M., NEW YORK CITY TIME, ON TUESDAY, FEBRUARY 11, 2003,
UNLESS THE OFFER IS EXTENDED.

Deliver to:
Wachovia Bank, the Exchange Agent for the Offer

By Mail:
Wachovia Bank
c/o Alpine Fiduciary Services, Inc.
Corporate Actions Department
P.O. Box 2065
South Hackensack, NJ 07606-9974

By Overnight Delivery or Express Mail:
Wachovia Bank
c/o Alpine Fiduciary Services, Inc.
Corporate Actions Department
P.O. Box 2065
South Hackensack, NJ 07606-9974

Delivery of this Letter of Election and Transmittal ("Letter of Transmittal") to an address other than one of those shown above does not constitute a valid delivery. The instructions accompanying this Letter of Transmittal should be read carefully before this Letter of Transmittal is completed.

This Letter of Transmittal is to be used only (a) if you desire to effect the tender transaction yourself, (b) if you intend to request your broker, dealer, commercial bank, trust company or other nominee to effect the transaction for you and the shares of Series C Preferred Stock of Dynex Capital, Inc., par value \$0.01 per share (the "shares"), are not registered in the name of such broker, dealer, commercial bank, trust company or other nominee, or (c) by a broker, dealer, commercial bank, trust company or other nominee effecting the transaction as a registered owner or on behalf of a registered owner. A properly completed and duly executed Letter of Transmittal (or photocopy thereof bearing original signature(s) and any required signature guarantees), any certificates representing shares tendered and any other documents required by this Letter of Transmittal should be mailed or delivered to the Exchange Agent at the appropriate address set forth herein and must be received by the Exchange Agent prior to 5:00 P.M., New York City time, on February 11, 2003, or such later time and date to which the Offer is extended. Shareholders whose stock certificates are not immediately available (or who cannot follow the procedure for book-entry transfer on a timely basis) or who cannot transmit this Letter of Transmittal and all other required documents to the Exchange Agent before the Expiration Time (as defined in "The Offer - Expiration Time, Extensions, Termination and Amendments" section of the Offering Circular) may nevertheless tender their shares according to the guaranteed delivery procedure set forth in "The Offer - How to Tender" section of the Offering Circular. See Instruction 2.

The Senior Notes offered pursuant to this tender transaction will be issued in book-entry form only (See the "Description of Senior Notes - Global Note; Book Entry Form" section of the Offering Circular for a description of the book-entry nature of the Senior Notes). No physical certificates for Senior Notes will be issued to shareholders of record. Consequently, shareholders who wish to tender any shares for Senior Notes, or who elect to receive Senior Notes in the instance of an oversubscription for cash consideration, must tender those shares through an institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of The Depository Trust Corporation ("DTC"), such as a bank, broker-dealer or trust company. Such tendering shareholders should not submit this Letter of Transmittal directly to the Exchange Agent. Instead, such tendering shareholders should contact a DTC participant with whom they have an account. The DTC participant will then tender the shares on behalf of the shareholder using the procedures set forth in the "The Offer - How to Tender - Tender Procedures for Nominees" section of the Offering Circular. If a shareholder of record holds Preferred Stock in certificate form and does not maintain an account with a DTC participant, he, she, or it, must establish an account with such an institution prior to tendering their shares in the Offer in order to receive Senior Notes pursuant to the Offer.

DELIVERY OF THE LETTER OF TRANSMITTAL AND THE OTHER REQUIRED DOCUMENTS TO DYNEX CAPITAL, INC., MACKENZIE PARTNERS, INC., THE INFORMATION AGENT FOR THE OFFER, OR THE BOOK-ENTRY TRANSFER FACILITY WILL NOT BE FORWARDED TO THE EXCHANGE AGENT AND THEREFORE WILL NOT CONSTITUTE VALID DELIVERY TO THE EXCHANGE AGENT.

DESCRIPTION OF SHARES TENDERED
(SEE INSTRUCTIONS 3 AND 4)

<TABLE>

<S>	<C>
SHARE CERTIFICATE(S) AND SHARES TENDERED (ATTACH ADDITIONAL SIGNED LIST IF NECESSARY) (1)	NAME(S) AND ADDRESS(ES) OF REGISTERED HOLDER(S) (PLEASE FILL IN, IF BLANK, EXACTLY AS NAME(S) APPEAR(S) ON CERTIFICATE(S))

</TABLE>

<TABLE>

<S>	<C>	<C>
SHARE CERTIFICATE NUMBER(S) (1)	TOTAL NUMBER OF SHARES REPRESENTED BY CERTIFICATE(S)	NUMBER OF SHARES TENDERED (2)

TOTAL NUMBER OF CERTIFICATED SHARES TENDERED

TOTAL NUMBER OF SHARES TENDERED BY BOOK ENTRY

TOTAL NUMBER OF SHARES TENDERED

</TABLE>

- (1) Need not be completed if shares are delivered by book-entry transfer.
- (2) If you desire to tender fewer than all shares evidenced by any certificates listed above, please indicate in this column the number of shares you wish to tender. Otherwise, all shares evidenced by such certificates will be deemed to have been tendered. See Instruction 4.

ELECTION (See instructions 2, 14 and 15)

As set forth in "The Offer" section of the Offering Circular, you may tender your shares of Series C Preferred Stock for cash, Dynex's 9.50% senior notes, due February 28, 2005 (the "Senior Notes") or a combination of those two forms of payment. You MUST make an election as to the form of payment you wish to receive for all shares you tender. If you fail to make properly such an election with respect to any shares of Preferred Stock you tender, you will be deemed to have tendered such shares for cash. In addition, if the consideration you select is oversubscribed, whether that is the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Series C Preferred Stock that are not exchanged for the oversubscribed consideration returned to you.

IMPORTANT: If you elect to tender your shares in exchange for either Senior Notes or for a combination of cash and Senior Notes, or if you elect to receive Senior Notes in the event of an oversubscription of the cash consideration, do not return your certificates or this letter of transmittal to the Exchange Agent. Instead, you must tender your shares through a broker, dealer, bank or other financial institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of DTC because the Senior Notes will be issued only in book-entry form.

I wish to allocate the shares of Series C Preferred Stock that I have tendered in the following manner:

[_____] CASH OPTION: I hereby tender the number of shares of Series C Preferred Stock set forth above for cash in the amount of \$30.00 per tendered share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

or

[_____] NOTE OPTION: I hereby tender the number of shares of Series C Preferred Stock set forth above for \$31.50 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003. The Senior Notes will be issued in \$25.00 denominations and any integral multiple thereof. In cases where the consideration for shares tendered is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 denomination not to exceed \$24.99;

or

[_____] COMBINATION OF CASH AND SENIOR NOTE CONSIDERATION: I hereby tender the number of shares set forth above in the following manner:

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Cash: _____ shares of Series C Preferred Stock for cash, in the amount of \$30.00 per share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003; AND

Senior Notes: _____ shares of Series C Preferred Stock for \$31.50 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003.

</TABLE>

OVERSUBSCRIPTION ALLOCATION:

After Dynex has determined which shares to accept pursuant to the terms of the Offering Circular, if the particular consideration which you select is oversubscribed, whether the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Series C Preferred Stock that are not exchanged for the oversubscribed consideration returned to you. Please place an "X" in the box provided below if you wish any shares which were not exchanged due to an oversubscription, to be allocated to the undersubscribed option, if available.

[_____] Oversubscription Allocation: Please allocate any shares that I tendered and which were not exchanged because the consideration I chose has been oversubscribed, to the undersubscribed consideration, if available, regardless of whether that is the cash consideration or the Senior Notes consideration.

PRORATION/ALLOCATION ELECTION:

Proration Election: Indicate in this box the order (by certificate number) in which shares are to be purchased in event of proration as a result of more shares of Series C Preferred Stock being tendered than we are offering to purchase and/or in the event of allocation as a result of an oversubscription of either the cash or the Senior Notes consideration. (Attach additional signed list if necessary) (1). See Instruction 7.

1st: 2nd: 3rd: 4th: 5th: 6th:

(1) If you do not designate an order, in the event fewer than all shares tendered are purchased due to proration, shares will be selected for purchase by the Exchange Agent. See Instruction 7.

[] Check here if any certificates representing shares tendered hereby have been lost, stolen, destroyed or mutilated. You must complete an affidavit of loss and return it with your Letter of Transmittal. A bond may be required to be posted by the shareholder to secure against the risk that the certificates may be subsequently recirculated. Please call (888) 422-8979 to obtain an affidavit of loss and for further instructions and as to the determination of the requirement for posting of a bond. See Instruction 13.

This Letter of Transmittal is to be used only if (1) certificates for shares are to be forwarded with it, or such certificates will be delivered under a notice of guaranteed delivery previously sent to the Exchange Agent, or (2) a

tender of shares is to be made by book-entry transfer to the account maintained by the Exchange Agent at The Depository Trust Company, referred to as the "Book-Entry Transfer Facility," under "The Offer - How to Tender" section of the Offering Circular.

Shareholders who desire to tender shares under the Offer and who cannot deliver the certificates for their shares, or who are unable to comply with the procedures for book-entry transfer before the "Expiration Time" (as defined in the "Expiration Time, Extensions, Termination and Amendments" section of the Offering Circular), and who cannot deliver all other documents required by this Letter of Transmittal to the Exchange Agent before the Expiration Time may tender their shares according to the guaranteed delivery procedures set forth in "The Offer - How to Tender" section of the Offering Circular. See Instruction 2. Delivery of documents to the Book-Entry Transfer Facility does not constitute delivery to the Exchange Agent.

[] CHECK HERE IF TENDERED SHARES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER TO AN ACCOUNT MAINTAINED BY THE EXCHANGE AGENT AT THE BOOK-ENTRY TRANSFER FACILITY AND COMPLETE THE FOLLOWING:

Name of tendering institution:

Account number:

Transaction code number:

[] CHECK HERE IF CERTIFICATES FOR TENDERED SHARES ARE BEING DELIVERED UNDER A NOTICE OF GUARANTEED DELIVERY PREVIOUSLY SENT TO THE EXCHANGE AGENT AND COMPLETE THE FOLLOWING:

Name(s) of registered holder(s):

Date of execution of Notice of Guaranteed Delivery:

Name of institution which guaranteed delivery:

Account number:

NOTE: SIGNATURES MUST BE PROVIDED BELOW.
PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY.

To Dynex Capital, Inc.:

The undersigned hereby tenders to Dynex Capital, Inc., a Virginia corporation ("Dynex"), the above-described shares of Dynex's Series C Preferred Stock, par value \$0.01 per share, at the price per share of (a) \$30.00, net to the seller in cash, without interest, (b) \$31.50 in principal amount of Dynex's 9.50% Senior Notes, due February 28, 2005, or (c) a combination of cash and Senior Notes, upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003, receipt of which is hereby acknowledged, and in this Letter of Transmittal which, as amended and supplemented from time to time, together constitute the "Offer."

The undersigned elects to have his, her or its shares of Series C Preferred Stock exchanged pursuant to one of the following options:

CASH OPTION: For cash in the amount of \$30.00 per tendered share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

or

NOTE OPTION: For \$31.50 in principal amount per tendered share of Dynex's 9.50% Senior Notes, due February 28, 2005, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

or

COMBINATION OF CASH OPTION AND SENIOR NOTE CONSIDERATION: For a combination of Cash and Senior Notes as designated by the undersigned in this Letter to Transmittal.

OVERSUBSCRIPTION ALLOCATION: Tendering shareholders may affirmatively elect to have any shares that are tendered for an oversubscribed type of consideration, whether that is the cash or Senior Notes consideration, applied to the undersubscribed consideration by placing an "X" in the box provided in the "OVERSUBSCRIPTION ALLOCATION" section of this Letter of Transmittal.

The undersigned acknowledges that Dynex is offering to purchase up to 683,703 shares of Series C Preferred Stock; consequently, the undersigned's tender could be subject to proration in the event that more shares of Series C Preferred Stock are tendered than we are offering to purchase. In that case, proration for each shareholder tendering shares shall be based on the ratio of (A) the number of shares of the series that we are offering to purchase to (B) the total number of shares of the series properly tendered and not properly withdrawn by all shareholders of Series C Preferred Stock.

In addition, after Dynex has made any necessary proration as a result of more shares of Series C Preferred Stock being tendered than Dynex is offering to purchase, the aggregate cash and/or Senior Notes consideration that the undersigned may receive in the Offer is subject to possible additional pro rata reduction because Dynex is offering only a limited amount of cash and a limited principal amount of Senior Notes in the Offer with the result that not more than 281,525 shares of Series C Preferred Stock in the aggregate can be exchanged for cash and not more than 402,178 shares in the aggregate can be exchanged for Senior Notes. If either the cash consideration or the Senior Notes consideration is oversubscribed with respect to the series, proration of the oversubscribed consideration for each shareholder tendering shares for the oversubscribed consideration shall be based on the ratio of (A) the number of shares of the series that Dynex is offering to purchase for the oversubscribed consideration to (B) the total number of shares of the series properly tendered and not properly withdrawn by all shareholders of the series for the oversubscribed consideration.

Dynex will return all other shares, including shares not purchased because of proration, promptly following the Expiration Time.

The undersigned acknowledges that the Senior Notes offered in the Offer have not been registered under the Securities Act of 1933, as amended (the "Securities Act"). Dynex is relying on the exemption from the registration requirements of the Securities Act contained in Section 3(a)(9) of that Act for the Senior Notes. Under that exemption, if the shares of Preferred Stock the undersigned tenders are freely tradable, the Senior Notes the undersigned will receive in the Offer will be freely tradable. If the shares of Preferred Stock tendered in the Offer are restricted, the Senior Notes the undersigned will receive will be restricted to the same degree.

Subject to and effective upon acceptance for payment of the shares tendered hereby in accordance with the terms and subject to the conditions of the Offer, including, if the Offer is extended or amended, the terms or conditions of any such extension or amendment, the undersigned hereby sells, assigns and transfers to or upon the order of Dynex all right, title and interest in and to all shares tendered hereby or orders the registration of such shares tendered by book-entry transfer that are purchased under the Offer to or upon the order of Dynex and hereby irrevocably constitutes and appoints the Exchange Agent as attorney-in-fact of the undersigned with respect to such shares, with the full knowledge that the Exchange Agent also acts as the agent of Dynex, with full power of substitution, such power of attorney being an irrevocable power coupled with an interest, to:

(a) deliver certificates for shares, or transfer ownership of such shares on the account books maintained by the Book-Entry Transfer Facility, together in either such case with all accompanying evidences of transfer and authenticity, to or upon the order of Dynex, upon receipt by the Exchange Agent, as the undersigned's agent, of the purchase price with respect to such shares;

(b) present certificates for such shares for cancellation and transfer on Dynex's books; and

(c) receive all benefits and otherwise exercise all rights of beneficial ownership of such shares, subject to the next paragraph, all in accordance with the terms of the Offer.

The undersigned hereby covenants, represents and warrants to Dynex that:

(a) the undersigned understands that tendering of shares under any one of the procedures described in the "How to Tender" section of the Offering Circular and in the instructions hereto will constitute the undersigned's acceptance of the terms and conditions of the Offer, including the undersigned's representation and warranty that (i) the undersigned has a "net long position" in shares or equivalent securities at least equal to the shares tendered within the meaning of Rule 14e-4 under the Securities Exchange Act of 1934, as amended, and (ii) such tender of shares complies with Rule 14e-4 under the Exchange Act;

(b) the undersigned "owns" the shares tendered hereby within the meaning of Rule 14e-4 under the Exchange Act and has full power and authority to tender,

sell, assign and transfer the shares tendered hereby and when and to the extent Dynex accepts the shares for purchase, Dynex will acquire good, marketable and unencumbered title to them, free and clear of all security interests, liens, charges, encumbrances, conditional sales agreements or other obligations relating to their sale or transfer, and not subject to any adverse claim;

(c) on request, the undersigned will execute and deliver any additional documents the Exchange Agent or Dynex deems necessary or desirable to complete the assignment, transfer and purchase of the shares tendered hereby; and

(d) the undersigned has read and agrees to all of the terms of the Offer.

The names and addresses of the registered holders should be printed, if they are not already printed above, exactly as they appear on the certificates representing shares tendered hereby. The certificate numbers, the number of shares represented by such certificates, and the number of shares that the undersigned wishes to tender, should be set forth in the appropriate boxes above.

The undersigned recognizes that under certain circumstances set forth in the Offering Circular, Dynex may terminate or amend the Offer or may postpone the acceptance for payment of, or the payment for, shares tendered or may accept for payment fewer than all of the shares tendered hereby. In either event, the undersigned understands that certificate(s) for any shares not tendered or not purchased will be promptly returned to the undersigned at the address indicated above, unless otherwise indicated under the "Special Payment Instructions" or "Special Delivery Instructions" below. The undersigned recognizes that Dynex has no obligation, under the Special Payment Instructions, to transfer any certificate for shares from the name of its registered holder, or to order the registration or transfer of shares tendered by book-entry transfer, if Dynex purchases none of the shares represented by such certificate or tendered by such book-entry transfer.

The undersigned understands that acceptance of shares by Dynex for payment will constitute a binding agreement between the undersigned and Dynex upon the terms and subject to the conditions of the Offer.

The check and/or Senior Notes for the aggregate net purchase price for such of the tendered shares as are purchased by Dynex will be issued to the order of the undersigned and mailed to the address indicated above unless otherwise indicated under either of the "Special Payment Instructions" or the "Special Delivery Instructions" boxes below. The undersigned acknowledges that Dynex has no obligation, under the "Special Payment Instructions," to transfer any shares tendered by book-entry transfer if Dynex does not purchase any of such shares.

All authority conferred or agreed to be conferred in this Letter of Transmittal shall survive the death or incapacity of the undersigned and any obligations or duties of the undersigned under this Letter of Transmittal shall be binding upon the heirs, personal representatives, successors and assigns of the undersigned. Except as stated in the Offering Circular, this tender is irrevocable.

PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY
SPECIAL PAYMENT INSTRUCTIONS
(See Instructions 1, 4, 5, 6 and 8)

To be completed ONLY if certificates for shares of Preferred Stock not tendered or not purchased and/or any check or Senior Notes are to be issued in the name of someone other than the undersigned or if shares tendered hereby and delivered by book-entry transfer which are not purchased are to be returned by credit to an account at the Book-Entry Transfer Facility other than that designated above.

Issue: [] Check [] Certificate(s) [] Senior Notes to:

Name:

- -----
(Please Print or Type)

Address:

- -----
- -----
(Including Zip Code)

- -----
(Tax Identification or Social Security Number)
(See Substitute Form W-9 Included Herewith)

[] Credit shares delivered by book-entry transfer and not purchased to the account set forth below:

- -----
(Account No.)

SPECIAL DELIVERY INSTRUCTIONS
(See Instructions 1, 4, 5 and 8)

To be completed ONLY if certificates for shares not tendered or not purchased and/or any check or Senior Notes exchanged for shares should be registered in the name of someone other than the undersigned or to the undersigned at an address other than that shown above.

[] Preferred Stock Certificates [] Senior Notes:

Name:

(Please Print or Type)

Address:

(Including Zip Code)
SHAREHOLDER(S) SIGN HERE
(See Instructions 1 and 5)

(PLEASE COMPLETE SUBSTITUTE FORM W-9 ON REVERSE SIDE)

Must be signed by the registered holder(s) exactly as name(s) appear(s) on certificate(s) or on a security position listing or by person(s) authorized to become registered holder(s) by certificate(s) and documents transmitted with the Letter of Transmittal. If signature is by attorney-in-fact, executor, administrator, trustee, guardian, officer of a corporation or another acting in a fiduciary or representative capacity, please set forth the full title. See Instruction 5.

(SIGNATURE(S))

Name(s):

(PLEASE PRINT)

Capacity (full title):

Address:

(INCLUDING ZIP CODE)

Area code and telephone number:

Dated: _____, 2003

Tax Identification or Social Security Number:

GUARANTEE OF SIGNATURE(S)
(SEE INSTRUCTIONS 1 AND 5)

Authorized signature:

Name(s):

(PLEASE PRINT)

Title:

Name of Eligible Institution Guaranteeing Signature:

Address:

(INCLUDING ZIP CODE)

Area code and telephone number:

Dated: _____, 2003

Tax Identification or Social Security Number:

INSTRUCTIONS TO LETTER OF TRANSMITTAL
FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER

1. Guarantee of Signatures. No signature guarantee is required if either:

(a) this Letter of Transmittal is signed by the registered holder of the shares exactly as the name of the registered holder appears on the certificate, which term, for purposes of this document, shall include any participant in a book-entry transfer facility whose name appears on a security position listing as the owner of shares, tendered with this Letter of Transmittal, and payment and delivery are to be made directly to such registered holder unless such registered holder has completed either the box entitled "Special Payment Instructions" or "Special Delivery Instructions" above; or

(b) such shares are tendered for the account of a bank, broker, dealer, credit union, savings association or other entity which is a member in good standing of the Securities Transfer Agents Medallion Program or a bank, broker, dealer, credit union, savings association or other entity which is an "Eligible Guarantor Institution," as such term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, each such entity, referred to as an "eligible guarantor institution."

In all other cases, signatures must be guaranteed by an eligible guarantor institution. See Instruction 5.

2. Delivery of Letter of Transmittal and Certificates; Guaranteed Delivery Procedures. This Letter of Transmittal is to be used only if certificates are delivered with it to the Exchange Agent, or such certificates will be delivered under a Notice of Guaranteed Delivery previously sent to the Exchange Agent, or if tenders are to be made under the procedure for tender by book-entry transfer set forth in the "How to Tender" section of the Offering Circular. Certificates for all physically tendered shares, or confirmation of a book-entry transfer into the Exchange Agent's account at the Book-Entry Transfer Facility of shares tendered electronically, together in each case with a properly completed and duly executed Letter of Transmittal or manually signed facsimile of it, or an agent's message, and any other documents required by this Letter of Transmittal, should be mailed or delivered to the Exchange Agent at the appropriate address set forth herein and must be delivered to the Exchange Agent before the Expiration Time.

The term "agent's message" means a message transmitted by the Book-Entry Transfer Facility to, and received by, the Exchange Agent, which states that the Book-Entry Transfer Facility has received an express acknowledgment from the participant in the Book-Entry Transfer Facility tendering the shares that such participant has received and agrees to be bound by the terms of the Letter of Transmittal, and that Dynex may enforce such agreement against such participant.

Shareholders whose certificates are not immediately available or who cannot deliver certificates for their shares and all other required documents to the Exchange Agent before the Expiration Time, or whose shares cannot be delivered before the Expiration Time under the procedures for book-entry transfer, may tender their shares by or through any eligible guarantor institution by properly completing and duly executing and delivering a Notice of Guaranteed Delivery, or facsimile of it, and by otherwise complying with the guaranteed delivery procedure set forth in the "How to Tender" section of the Offering Circular. Under such procedure, the certificates for all physically tendered shares or book-entry confirmation, as the case may be, as well as a properly completed and duly executed Letter of Transmittal, or manually signed facsimile of it, or an agent's message, and all other documents required by this Letter of Transmittal, must be received by the Exchange Agent within three (3) NASDAQ trading days after receipt by the Exchange Agent of such Notice of Guaranteed Delivery, all as provided in the "How to Tender" section of the Offering Circular.

The Notice of Guaranteed Delivery may be delivered by hand or transmittal by telegram, facsimile transmission or mail to the Exchange Agent and must include, if necessary, a guarantee by an eligible guarantor institution in the form set forth in such notice. For shares to be tendered validly under the guaranteed delivery procedure, the Exchange Agent must receive the Notice of Guaranteed Delivery before the Expiration Time.

THE METHOD OF DELIVERY OF ALL DOCUMENTS, INCLUDING CERTIFICATES FOR SHARES, IS AT THE OPTION AND RISK OF THE TENDERING SHAREHOLDER. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE DELIVERY.

Dynex will not accept any alternative, conditional or contingent tenders, nor will it purchase any fractional shares, except as expressly provided in the Offering Circular. All tendering shareholders, by execution of this Letter of Transmittal, or a facsimile of it, waive any right to receive any notice of the acceptance of their tender.

3. Inadequate Space. If the space provided in the box captioned "Description of Shares Tendered" is inadequate, the certificate numbers and/or the number of shares should be listed on a separate signed schedule and attached to this letter of transmittal.

4. Partial Tenders and Unpurchased Shares (not applicable to shareholders who tender by book-entry transfer). If fewer than all of the shares evidenced by any certificate are to be tendered, fill in the number of shares that are to be tendered in the column entitled "Number of Shares Tendered" in the box captioned "Description of Shares Tendered." In such case, if any tendered shares are purchased, a new certificate for the remainder of the shares evidenced by the old certificates will be issued and sent to the registered holder(s), unless otherwise specified in either the "Special Payment Instructions" box or "Special Delivery Instructions" box in this Letter of Transmittal, promptly after the Expiration Time. Unless otherwise indicated, all shares represented by the certificates listed and delivered to the Exchange Agent will be deemed to have been tendered.

5. Signatures on Letter of Transmittal, Stock Powers and Endorsements.

(a) If this Letter of Transmittal is signed by the registered holder(s) of the shares tendered hereby, the signature(s) must correspond exactly with the name(s) as written on the face of the certificate(s) without any change whatsoever.

(b) If the shares are registered in the names of two or more joint holders, each such holder must sign this Letter of Transmittal.

(c) If any tendered shares are registered in different names on several certificates, it will be necessary to complete, sign and submit as many separate copies of this Letter of Transmittal, or photocopies of it, as there are different registrations of certificates.

(d) When this Letter of Transmittal is signed by the registered holder(s) of the shares listed and transmitted hereby, no endorsements of certificate(s) representing such shares or separate stock powers are required unless payment is to be made, Senior Notes are to be delivered, or the certificates for shares not tendered or not purchased are to be issued to a person other than the registered holder(s). If this Letter of Transmittal is signed by a person other than the registered holder(s) of the certificate(s) listed, or if payment is to be made, Senior Notes are to be delivered, or certificate(s) for shares not tendered or not purchased are to be issued to a person other than the registered holder(s), the certificate(s) must be endorsed or accompanied by appropriate stock powers, in either case signed exactly as the name(s) of the registered holder(s) appear(s) on the certificate(s). SIGNATURE(S) ON ANY SUCH CERTIFICATE(S) OR STOCK POWERS MUST BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION. See Instruction 1.

(e) If this Letter of Transmittal or any certificates or stock powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, such persons should so indicate when signing and must submit proper evidence to the Exchange Agent that is satisfactory to Dynex of their authority so to act.

6. Stock Transfer Taxes. Except as provided in this Instruction 6, no stock transfer tax stamps or funds to cover such stamps need to accompany this Letter of Transmittal. When payment is to be made to the registered holder(s), Dynex will pay or cause to be paid any stock transfer taxes payable on the transfer to it of shares purchased under the Offer. If, however:

(a) payment of the purchase price is to be made to any person other than the registered holder(s);

(b) shares not tendered or not accepted for purchase are to be registered in the name(s) of any person(s) other than the registered holder(s); or

(c) tendered certificates are registered in the name of any person(s) other than the person(s) signing this Letter of Transmittal;

then the Exchange Agent will deduct from the purchase price the amount of any stock transfer taxes, whether imposed on the registered holder(s), such other person(s) or otherwise, payable on account thereof, unless satisfactory evidence of the payment of such taxes or an exemption from them is submitted.

7. Order of Purchase in Event of Proration. As described in "Proration if Shares of Series of Preferred Stock Tendered Exceed Maximum; Limitations on Cash consideration and Senior Notes consideration" section of the Offering Circular, shareholders may designate the order in which their shares are to be purchased in the event of proration. The order of purchase may have an effect on the Federal income tax classification of any gain or loss on the shares purchased. See section "Certain United States Federal Income Tax Consequences" of the Offering Circular.

8. Special Payment and Delivery Instructions. If certificate(s) for shares not tendered or not purchased and/or check(s) are to be issued in the name of a person other than the signer of the Letter of Transmittal or if Senior Notes are to be delivered to someone other than the person signing the Letter of Transmittal or to the signer at a different address, the boxes captioned "Special Payment Instructions" and/or "Special Delivery Instructions" on this Letter of Transmittal should be completed as applicable and signatures must be guaranteed as described in Instructions 1 and 5.

9. Irregularities. All questions as to the number of shares to be accepted and the validity, form, eligibility, including time of receipt, and acceptance for payment of any tender of shares will be determined by Dynex in its sole discretion, which determinations shall be final and binding on all parties. Dynex reserves the absolute right to reject any or all tenders of shares it determines not be in proper form or the acceptance of which or payment for which may, in the opinion of Dynex's counsel, be unlawful. Dynex also reserves the absolute right to waive any of the conditions of the Offer and any defect or irregularity in the tender of any particular shares, and Dynex's interpretation of the terms of the Offer, including these instructions, will be final and binding on all parties. No tender of shares will be deemed to be properly made until all defects and irregularities have been cured or waived. Unless waived, any defects or irregularities in connection with tenders must be cured within such time as Dynex shall determine. None of Dynex, the Exchange Agent, the Information Agent (as defined in the Offering Circular) or any other person is or will be obligated to give notice of any defects or irregularities in tenders and none of them will incur any liability for failure to give any such notice.

10. Questions and Requests for Assistance and Additional Copies. Any questions or requests for assistance or for additional copies of the Offering Circular, the Letter of Transmittal or the Notice of Guaranteed Delivery may be directed to the Information Agent at the telephone number and address set forth on the back cover of this Letter of Transmittal. You may also contact your broker, dealer, commercial bank or trust company for assistance concerning the Offer. To confirm delivery of your shares, you are directed to contact the Exchange Agent.

11. Tax Identification Number and Backup Withholding. Federal income tax law generally requires that a shareholder whose tendered shares are accepted for purchase, or such shareholder's assignee, in either case, referred to as the "payee," provide the Exchange Agent with such payee's correct taxpayer identification number, which, in the case of a payee who is an individual, is such payee's social security number. If the Exchange Agent is not provided with the correct taxpayer identification number or an adequate basis for an exemption, such payee may be subject to penalties imposed by the Internal Revenue Service and backup withholding in an amount equal to 31% of the gross proceeds received under the Offer. If withholding results in an overpayment of taxes, a refund may be obtained. To prevent backup withholding, each payee must provide such payee's correct taxpayer identification number by completing the Substitute Form W-9 included herewith, certifying that the taxpayer identification number provided is correct, or that such payee is awaiting a taxpayer identification number, and that (i) the payee is exempt from backup withholding, (ii) the payee has not been notified by the IRS that such payee is subject to backup withholding as a result of a failure to report all interest or dividends, or (iii) the IRS has notified the payee that such payee is no longer subject to backup withholding. If the payee does not have a taxpayer identification number, such payee should (i) consult the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for instructions on applying for a taxpayer identification number, (ii) write "Applied For" in the space provided in Part 1(A) of the Substitute Form W-9 and check the appropriate box in Part 1(B), and (iii) sign and date the Substitute Form W-9 and the Certificate of Awaiting Taxpayer Identification Number included herewith. If the payee does not provide such payee's taxpayer identification number to the Exchange Agent prior to the payment of the purchase for shares pursuant to the Offer, backup withholding will apply and will reduce the net amount paid to the selling shareholder. Note that writing "Applied For" on the Substitute Form W-9 means that the payee has already applied for a taxpayer identification number or that such payee intends to apply for one in the near future. If shares are held in more than one name or are not in the name of the actual owner, consult the W-9 Guidelines for information on which taxpayer identification number to report. Exempt payees, including, among others, all corporations and certain foreign individuals, are not subject to backup withholding and reporting requirements. To prevent possible erroneous backup withholding, an exempt payee should write "Exempt" in Part 2 of Substitute Form W-9, and should sign and date the form. See the enclosed Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9 for additional instructions. In order for a nonresident alien or foreign entity to

qualify as an exempt payee, such person must submit a completed IRS Form W-8 BEN or a Substitute Form W-8 (or similar form), signed under penalties of perjury attesting to such exempt status. Such form may be obtained from the Exchange Agent.

12. Withholding on Foreign Holder. The following discussion applies to any "foreign shareholder," that is a shareholder that, for United States federal income tax purposes, is a non-resident alien individual, a foreign corporation, a foreign partnership, a foreign estate or a foreign trust. A foreign shareholder who has provided the necessary certification to the Exchange Agent as described in Instruction 12 above will not be subject to backup withholding. However, foreign shareholders generally are subject to withholding under Internal Revenue Code sections 1441 or 1442 at a rate of 30% of the gross payments. The general 30% withholding rate may be reduced under a tax treaty, if appropriate certification is furnished to the Exchange Agent. A foreign shareholder may also obtain exemption from withholding by delivering to the Exchange Agent appropriate certification that the gross proceeds are effectively connected with the conduct of a trade or business within the United States, or establishing to the satisfaction of the Exchange Agent that such shareholder meets those tests described in the "Certain United States Federal Income Tax Consequences" section of the Offering Circular that would characterize the exchange as a sale (as opposed to a dividend). A foreign shareholder may be eligible to obtain a refund of all or a portion of any tax withheld if such holder is able to establish to the IRS that no tax, or a reduced amount of tax, is due. FOREIGN SHAREHOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF UNITED STATES FEDERAL INCOME TAX WITHHOLDING, INCLUDING ELIGIBILITY FOR A WITHHOLDING TAX REDUCTION OR EXEMPTION, AND THE REFUND PROCEDURE.

13. Lost, Stolen, Destroyed or Mutilated Certificates. If any certificate representing shares has been lost, stolen, destroyed or mutilated, the shareholder should promptly notify the Exchange Agent by checking the box set forth above in the box captioned "Description of Shares Tendered" and indicating the number of shares so lost, stolen, destroyed or mutilated. Such shareholder will then be instructed by the Exchange Agent as to the steps that must be taken in order to replace the certificate. A bond may be required to be posted by the shareholder to secure against the risk that the certificate may be subsequently recirculated. This Letter of Transmittal and related documents cannot be processed until the procedures for replacing lost, stolen, destroyed or mutilated certificates have been followed. Shareholders may contact the Exchange Agent at (888) 422-8979 to expedite such process and to determine the requirements for posting of a bond.

14. Election Procedure. To properly complete the "Election" section, you must indicate the number of Series C Preferred Stock shares being tendered hereby and whether, with respect to such shares, you are electing to receive cash or Senior Notes. If you fail to properly make an election, you will be deemed to have elected to receive cash in exchange for all properly tendered shares.

15. Revocation or Change of Election. An election is irrevocable, except that shares tendered pursuant to the Offer, may be withdrawn at any time prior to the Expiration Time. After an effective withdrawal, you may change your election by submitting to the Exchange Agent a completed replacement of this document (an any other documents required by the Offer for properly tendering such shares) prior to the Expiration Time of the Offer.

IMPORTANT: THIS LETTER OF TRANSMITTAL OR A MANUALLY SIGNED PHOTOCOPY OF IT (TOGETHER WITH CERTIFICATE(S) FOR SHARES OR CONFIRMATION OF BOOK- ENTRY TRANSFER AND ALL OTHER REQUIRED DOCUMENTS) OR, IF APPLICABLE, THE NOTICE OF GUARANTEED DELIVERY MUST BE RECEIVED BY THE EXCHANGE AGENT BEFORE THE EXPIRATION TIME.

<TABLE>

<CAPTION>

- -----
PAYER'S NAME: Wachovia Bank
- -----

<S> SUBSTITUTE FORM W-9	<C> PART 1 -- PLEASE PROVIDE YOUR TIN IN THE BOX AT RIGHT AND CERTIFY BY SIGNING AND DATING BELOW.	<C> ----- Social Security Number OR ----- Employer Identification Number -----
-------------------------------	--	--

DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE PAYER'S REQUEST FOR TAXPAYER IDENTIFICATION NUMBER (TIN)	PART 2 Certification -- Under penalties of perjury, I certify that: (1) The number shown on this form is my correct Taxpayer Identification Number (or I am waiting for a number to be issued to me), and (2) I am not subject to backup withholding because (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (the IRS) that I am subject to backup withholding as a result of a	PART 3 -- [] Awaiting TIN
---	--	-------------------------------

failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding.

CERTIFICATE INSTRUCTIONS -- You must cross out item (2) above if you have been notified by the IRS that you are currently subject to backup withholding because of under-reporting interest or dividends on your tax return. However, if after being notified by the IRS that you were subject to backup withholding you received another notification from the IRS that you are no longer subject to backup withholding, do not cross out such item (2).

Sign Here

SIGNATURE

DATE

</TABLE>

The Information Agent for the Offer is:

MACKENZIE PARTNERS, INC.,
105 Madison Avenue
New York, New York 10016
Please call: (800) 322-2885 (toll free) or (212) 929-5500

Email: proxy@mackenziepartners.com

Any questions or requests for assistance may be directed to the Information Agent at the address and telephone number set forth above. You may also contact your broker, dealer, commercial bank or trust company or any other nominee for assistance concerning this Offer.

FORM OF NOTICE OF GUARANTEED DELIVERY

Exhibit (a) (1) (C)

NOTICE OF GUARANTEED DELIVERY
FOR
DYNEX CAPITAL, INC.

OFFER TO PURCHASE UP TO

492,425 SHARES OF ITS SERIES A PREFERRED STOCK, PAR VALUE \$0.01 PER SHARE
662,944 SHARES OF ITS SERIES B PREFERRED STOCK, PAR VALUE \$0.01 PER SHARE
683,703 SHARES OF ITS SERIES C PREFERRED STOCK, PAR VALUE \$0.01 PER SHARE

As set forth in the "The Offer - How to Tender" section of the Offering Circular, dated January 8, 2003 (the "Offering Circular"), this Notice of Guaranteed Delivery, or one substantially in the form hereof, must be used to accept the offer by Dynex to purchase the shares (the "Offer") if:

- (i) certificates representing shares of Dynex Preferred Stock, par value \$0.01 per share, of Dynex, a Virginia corporation, are not immediately available or cannot be delivered to Wachovia Bank (the "Exchange Agent");
- (ii) the procedure for book-entry transfer cannot be completed on a timely basis; or
- (iii) time will not permit all of the required documents to reach the Exchange Agent before 5:00 P.M., New York City time, on Tuesday, February 11, 2003.

This form, or a facsimile of it, signed and properly completed, may be delivered by hand or transmitted by facsimile transmission or mailed to the Exchange Agent so that it is received by the Exchange Agent before the Expiration Time, as defined in the "The Offer - Expiration Time, Extensions, Termination and Amendments" section of the Offering Circular.

THE METHOD OF DELIVERY OF THIS NOTICE OF GUARANTEED DELIVERY AND ANY OTHER REQUIRED DOCUMENTS IS AT THE ELECTION AND RISK OF THE TENDERING STOCKHOLDER. IF DELIVERY IS BY MAIL, THEN REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE DELIVERY.

Deliver to:

Wachovia Bank, the Exchange Agent for the Offer

By Mail:	By Facsimile Transmission
Wachovia Bank	(eligible guarantor institutions only):
c/o Alpine Fiduciary Services, Inc.	(704) 590-7628
Corporate Actions Department	Confirm by Telephone: (888) 422-8979
P.O. Box 2065	
South Hackensack, NJ 07606-9974	

By Overnight Delivery or Express Mail:
Wachovia Bank
c/o Alpine Fiduciary Services, Inc.
Corporate Actions Department
P.O. Box 2065
South Hackensack, NJ 07606-9974

DELIVERY OF THIS NOTICE OF GUARANTEED DELIVERY TO AN ADDRESS OTHER THAN THOSE SHOWN ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA A FACSIMILE NUMBER OTHER THAN THE ONE LISTED ABOVE DOES NOT CONSTITUTE A VALID DELIVERY. DELIVERIES TO DYNEX OR THE INFORMATION AGENT (AS DEFINED IN THE OFFERING CIRCULAR) WILL NOT BE FORWARDED TO THE EXCHANGE AGENT AND THEREFORE WILL NOT CONSTITUTE VALID DELIVERY. DELIVERIES TO THE BOOK-ENTRY TRANSFER FACILITY (AS DEFINED IN THE OFFERING CIRCULAR) WILL NOT CONSTITUTE VALID DELIVERY TO THE EXCHANGE AGENT.

This Notice of Guaranteed Delivery is not to be used to guarantee signatures. If a signature on the Letter of Transmittal is required to be guaranteed by an "eligible institution" (as defined in "The Offer - How to Tender" section of the Offering Circular) under the instructions thereto, such signature must appear in the applicable space provided in the signature box on the Letter of Transmittal.
Ladies and Gentlemen:

The undersigned hereby tenders the below described shares to Dynex for (a) cash, without interest, (b) Dynex's 9.50% senior notes, due February 28, 2005 (the "Senior Notes"), or (c) a combination of cash and Senior Notes, in each case, upon the terms and subject to the conditions set forth in the Offering Circular, dated January 8, 2003, receipt of which is hereby acknowledged, and in this Letter of Transmittal which, as amended and

supplemented from time to time, together constitute the "Offer." The election of cash and/or Senior Notes to be received in exchange for the shares tendered is set forth below in the "Election of Consideration" section of this Letter of Transmittal.

DESCRIPTION OF SHARES TENDERED (SEE INSTURCTIONS 3 AND 4 OF THE LETTER OF TRANSMITTAL)	
<S>	<C>
SHARE CERTIFICATE(S) AND SHARES TENDERED (ATTACH ADDITIONAL SIGNED LIST IF NECESSARY) (1)	NAME(S) AND ADDRESS(ES) OF REGISTERED HOLDER(S) (PLEASE FILL IN, IF BLANK, EXACTLY AS NAME(S) APPEAR(S) ON CERTIFICATE(S))

<S>	<C>	<C>
SHARE CERTIFICATE NUMBER(S) (1)	TOTAL NUMBER OF SHARES REPRESENTED BY CERTIFICATE(S)	NUMBER OF SHARES TENDERED(2)

TOTAL NUMBER OF CERTIFICATED SHARES TENDERED

Series A Preferred Stock: _____
Series B Preferred Stock: _____
Series C Preferred Stock: _____

TOTAL NUMBER OF SHARES TENDERED BY BOOK ENTRY

Series A Preferred Stock: _____
Series B Preferred Stock: _____
Series C Preferred Stock: _____

TOTAL NUMBER OF SHARES TENDERED

Series A Preferred Stock: _____
Series B Preferred Stock: _____
Series C Preferred Stock: _____

ELECTION (See instructions 2, 14 and 15 of the Letter of Transmittal)

As set forth in "The Offer" section of the Offering Circular, you may tender your shares of Preferred Stock for cash, Dynex's 9.50% senior notes, due February 28, 2005 (the "Senior Notes") or a combination of those two forms of payment. You MUST make an election as to the form of payment you wish to receive for all shares you tender. If you fail to make properly such an election with respect to any shares of Preferred Stock you tender, you will be deemed to have tendered such shares for cash. In addition, if the consideration you select is oversubscribed, whether that is the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Preferred Stock that are not exchanged for the oversubscribed consideration returned to you.

IMPORTANT: If you elect to tender your shares in exchange for either Senior Notes or for a combination of cash and Senior Notes, or if you elect to receive

Senior Notes in the event of an oversubscription of the cash consideration, do not return your certificates or this letter of transmittal to the Exchange Agent. Instead, you must tender your shares through a broker, dealer, bank or other financial institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of DTC because the Senior Notes will be issued only in book-entry form.

Series A Preferred Stock

I wish to allocate the shares of Series A Preferred Stock that I have tendered in the following manner:

☐ CASH OPTION: I hereby tender the number of shares of Series A Preferred Stock set forth above for cash in the amount of \$24.00 per tendered share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

OR

☐ NOTE OPTION: I hereby tender the number of shares of Series A Preferred Stock set forth above for \$25.20 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003. The Senior Notes will be issued in \$25.00 denominations and any integral multiple thereof. In cases where the consideration for shares tendered is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 denomination, not to exceed \$24.99;

OR

☐ COMBINATION OF CASH AND SENIOR NOTES CONSIDERATION: I hereby tender the number of shares set forth above in the following manner:

<TABLE>

<S>	<C>
Cash: _____	shares of Series A Preferred Stock for cash, in the amount of \$24.00 per share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

AND

Senior Notes: _____	shares of Series A Preferred Stock for \$25.20 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003.
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</TABLE>

OVERSUBSCRIPTION ALLOCATION:

After Dynex has determined which shares to accept pursuant to the terms of the Offering Circular, if the particular consideration which you select is oversubscribed, whether the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Series A Preferred Stock that are not exchanged for the oversubscribed consideration returned to you. Please place an "X" in the box provided below if you wish any shares which were not exchanged due to an oversubscription, to be allocated to the undersubscribed option, if available.

☐ Oversubscription Allocation: Please allocate any shares that I tendered and which were not exchanged because the consideration I chose has been oversubscribed, to the undersubscribed consideration, if available, regardless of whether that is the cash consideration or the Senior Notes consideration.

Series B Preferred Stock

I wish to allocate the shares of Series B Preferred Stock that I have tendered in the following manner:

☐ CASH OPTION: I hereby tender the number of shares of Series B Preferred Stock set forth above for cash in the amount of \$24.50 per tendered share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

OR

☐ NOTE OPTION: I hereby tender the number of shares of Series B Preferred

Stock set forth above for \$25.725 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003. The Senior Notes will be issued in \$25.00 denominations and any integral multiple thereof. In cases where the consideration for shares tendered is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 denomination, not to exceed \$24.99;

OR

☐ COMBINATION OF CASH AND SENIOR NOTES CONSIDERATION: I hereby tender the number of shares set forth above in the following manner:

<TABLE>

<S>	<C>
Cash: _____	shares of Series B Preferred Stock for cash, in the amount of \$24.50 per share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

AND

Senior Notes: _____	shares of Series B Preferred Stock for \$25.725 in principal amount per tendered share of the Senior notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003.
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</TABLE>

OVERSUBSCRIPTION ALLOCATION:

After Dynex has determined which shares to accept pursuant to the terms of the Offering Circular, if the particular consideration which you select is oversubscribed, whether the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Series B Preferred Stock that are not exchanged for the oversubscribed consideration returned to you. Please place an "X" in the box provided below if you wish any shares which were not exchanged due to an oversubscription, to be allocated to the undersubscribed option, if available.

☐ Oversubscription Allocation: Please allocate any shares that I tendered and which were not exchanged because the consideration I chose has been oversubscribed, to the undersubscribed consideration, if available, regardless of whether that is the cash consideration or the Senior Notes consideration.

Series C Preferred Stock

I wish to allocate the shares of Series C Preferred Stock that I have tendered in the following manner:

☐ CASH OPTION: I hereby tender the number of shares of Series C Preferred Stock set forth above for cash in the amount of \$30.00 per tendered share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

OR

☐ NOTE OPTION: I hereby tender the number of shares of Series C Preferred Stock set forth above for \$31.50 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003. The Senior Notes will be issued in \$25.00 denominations and any integral multiple thereof. In cases where the consideration for shares tendered is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 denomination, not to exceed \$24.99;

OR

☐ COMBINATION OF CASH AND SENIOR NOTES CONSIDERATION: I hereby tender the number of shares set forth above in the following manner:

<TABLE>

<S>	<C>
Cash: _____	shares of Series C Preferred Stock for cash, in the amount of \$30.00 per share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth

in Dynex's Offering Circular, dated January 8, 2003;

AND

Senior Notes: _____ shares of Series C Preferred Stock for \$31.50 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003.

</TABLE>

OVERSUBSCRIPTION ALLOCATION:

After Dynex has determined which shares to accept pursuant to the terms of the Offering Circular, if the particular consideration which you select is oversubscribed, whether the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Series C Preferred Stock that are not exchanged for the oversubscribed consideration returned to you. Please place an "X" in the box provided below if you wish any shares which were not exchanged due to an oversubscription, to be allocated to the undersubscribed option, if available.

[____] Oversubscription Allocation: Please allocate any shares that I tendered and which were not exchanged because the consideration I chose has been oversubscribed, to the undersubscribed consideration, if available, regardless of whether that is the cash consideration or the Senior Notes consideration.

Indicate in this box the order (by certificate number) in which shares are to be purchased in event of proration. (Attach additional signed list if necessary) (3). See Instruction 7 of the Letter of Transmittal.

1st: 2nd: 3rd: 4th: 5th: 6th:

- - - - -

- (1) Need not be completed if shares are delivered by book-entry transfer.
- (2) If you desire to tender fewer than all shares evidenced by any certificates listed above, please indicate in this column the number of shares you wish to tender. Otherwise, all shares evidenced by such certificates will be deemed to have been tendered. See Instruction 4 of the Letter of Transmittal.
- (3) If you do not designate an order, in the event less than all shares tendered are purchased due to proration, shares will be selected for purchase by the Exchange Agent. See Instruction 7 of the Letter of Transmittal.

GUARANTEE
(NOT TO BE USED FOR SIGNATURE GUARANTEE)

THE UNDERSIGNED, A BANK, BROKER, DEALER, CREDIT UNION, SAVINGS ASSOCIATION OR OTHER ENTITY WHICH IS A MEMBER IN GOOD STANDING OF THE SECURITIES TRANSFER AGENTS MEDALLION PROGRAM OR A BANK, BROKER, DEALER, CREDIT UNION, SAVINGS ASSOCIATION OR OTHER ENTITY WHICH IS AN "ELIGIBLE GUARANTOR INSTITUTION," AS SUCH TERM IS DEFINED IN RULE 17Ad-15 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, EACH OF THE FOREGOING CONSTITUTING AN "ELIGIBLE GUARANTOR INSTITUTION," GUARANTEES THE DELIVERY TO THE EXCHANGE AGENT OF THE SHARES TENDERED HEREBY, IN PROPER FORM FOR TRANSFER, OR A CONFIRMATION THAT THE SHARES TENDERED HEREBY HAVE BEEN DELIVERED UNDER THE PROCEDURE FOR BOOK-ENTRY TRANSFER SET FORTH IN THE OFFERING CIRCULAR INTO THE EXCHANGE AGENT'S ACCOUNT AT THE BOOK-ENTRY TRANSFER FACILITY, TOGETHER WITH A PROPERLY COMPLETED AND DULY EXECUTED LETTER OF TRANSMITTAL, OR A MANUALLY SIGNED FACSIMILE THEREOF AND ANY OTHER REQUIRED DOCUMENTS, ALL WITHIN THREE (3) NASDAQ TRADING DAYS OF THE DATE HEREOF.

Name of Firm: _____

Address: _____

City _____ State _____ Zip Code _____

Telephone No. (Including area code): _____

Authorized Signature: _____

Name: _____

Please Print

Title: _____

Date: _____, 2003

NOTE: DO NOT SEND SHARES CERTIFICATES WITH THIS FORM. CERTIFICATES FOR
SHARES OF PREFERRED STOCK SHOULD BE SENT WITH THE LETTER OF TRANSMITTAL.

THIS FORM IS NOT TO BE USED TO GUARANTEE SIGNATURES. IF A SIGNATURE ON A LETTER
OF TRANSMITTAL IS REQUIRED TO BE GUARANTEED BY AN ELIGIBLE INSTITUTION UNDER THE
INSTRUCTIONS THERETO, SUCH SIGNATURE GUARANTEE MUST APPEAR IN THE APPLICABLE
SPACE PROVIDED IN THE SIGNATURE BOX ON THE LETTER OF TRANSMITTAL.

EXHIBIT (a) (1) (D)

DYNEX CAPITAL, INC.

OFFER TO PURCHASE FOR CASH AND/OR SENIOR NOTES UP TO:

492,425 SHARES OF SERIES A PREFERRED STOCK, \$0.01 PAR VALUE PER SHARE
662,944 SHARES OF SERIES B PREFERRED STOCK, \$0.01 PAR VALUE PER SHARE
683,703 SHARES OF SERIES C PREFERRED STOCK, \$0.01 PAR VALUE PER SHARE

THE OFFER AND WITHDRAWAL RIGHTS EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON
TUESDAY, FEBRUARY 11, 2003 UNLESS THE OFFER IS EXTENDED.

January 8, 2003

To Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees:

Dynex Capital, Inc., a Virginia corporation ("Dynex"), is offering to purchase up to 492,425 shares of its Series A Preferred Stock, 662,944 shares of its Series B Preferred Stock, and 683,703 shares of its Series C Preferred Stock, upon the terms and subject to the conditions set forth in its Offering Circular, dated January 8, 2003 ("Offering Circular"), and in the related Letter of Transmittal which, as amended and supplemented from time to time, together constitute the "Offer." We are asking you to contact your clients for whom you hold shares of Dynex Preferred Stock registered in your name (or in the name of your nominee) or who hold such shares registered in their own name. Please bring the Offer to their attention as promptly as possible.

All shares properly tendered at or before the "Expiration Time" (as defined in the "The Offer - Expiration Time, Extensions, Termination and Amendments" section of the Offering Circular), and not properly withdrawn, will be purchased by Dynex, under any of the following options upon the terms and subject to the conditions of the Offer, including the proration provisions thereof:

Option 1 (for Cash consideration).

- o \$24.00 in cash per share of Series A Preferred Stock you tender, up to an aggregate maximum of 202,763 shares of Series A Preferred Stock;
- o \$24.50 in cash per share of Series B Preferred Stock you tender, up to an aggregate maximum of 272,977 such shares of Series B Preferred Stock; and
- o \$30.00 in cash per share of Series C Preferred Stock you tender, up to an aggregate maximum of 281,525 shares of Series C Preferred Stock;

Under this Option 1 (Cash), the per share cash amount to be received for each share of Preferred Stock tendered in the Offer is equal to 100% of the original issue price of such share of Preferred Stock;

or

Option 2 (for Senior Notes consideration).

- o 25.20 in principal amount of our 9.50% Senior Notes due February 28, 2005, the principal of which will be paid back in eight equal quarterly installments commencing May 31, 2003 (collectively, the "Senior Notes" and each, a "Senior Note"), per share of Series A Preferred Stock tendered, up to an aggregate maximum of 289,662 shares of Series A Preferred Stock;
- o \$25.725 in principal amount of the Senior Notes per share of Series B Preferred Stock tendered, up to an aggregate maximum of 389,967 shares of Series B Preferred Stock; and
- o \$31.50 in principal amount of the Senior Notes per share of Series C Preferred Stock tendered, up to an aggregate maximum of 402,178 shares of Series C Preferred Stock;

Under this Option 2 (Senior Notes), the per share principal amount of Senior Notes to be received for each share of Preferred Stock tendered in the Offer is equal to 105% of the original issue price of such share of Preferred Stock. The Senior Notes will be issued in denominations of \$25 or in integral multiples of \$25. In cases where the consideration for shares of each series you tender is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 not to exceed \$24.99. For a more detailed description of the terms of the Senior Notes being offered, please see "Description of Senior Notes" in the Offering Circular;

or

Option 3 (for a combination of Cash and Senior Notes consideration).

A combination of Option 1 (Cash) and Option 2 (Senior Notes) in amounts

which the tendering shareholder designates. The shareholder will receive consideration for shares tendered based on the Option that is selected at the amounts set forth for that respective Option.

If proration of tendered shares of a series is required as a result of more shares being tendered than Dynex is willing to purchase, Dynex will determine the proration factor as soon as practicable following the Expiration Time. Proration for each shareholder tendering shares of a series shall be based on the ratio of (A) the number of shares of such series that Dynex is offering to purchase to (B) the total number of shares of such series properly tendered and not properly withdrawn by all shareholders of the series.

In addition, if either the cash consideration or Senior Notes consideration is oversubscribed within a series, proration for each shareholder tendering shares for the oversubscribed consideration shall be based on the ratio of (A) the number of shares of such series that Dynex is offering to purchase for the oversubscribed consideration to (B) the total number of shares of such series properly tendered and not properly withdrawn by all shareholders of the series for the oversubscribed consideration.

If the consideration the tendering shareholder selects is oversubscribed, regardless of whether that is the cash consideration or the Senior Notes consideration, the tendering shareholder may elect to allocate any shares not accepted for that consideration, to the other undersubscribed consideration.

Shares not purchased because of proration will be returned at Dynex's expense to the shareholders who tendered such shares promptly after the Expiration Time. Dynex reserves the right, in its sole discretion, to purchase any and all of the excess shares tendered so long as the excess number accepted by Dynex does not exceed two percent (2%) of the issued and outstanding shares of such series of Preferred Stock.

THE OFFER IS NOT CONDITIONED ON ANY MINIMUM NUMBER OF SHARES BEING TENDERED. THE OFFER IS, HOWEVER, SUBJECT TO CERTAIN OTHER CONDITIONS. SEE THE "THE OFFER - CONDITIONS TO THE OFFER" SECTION OF THE OFFERING CIRCULAR.

For your information and for forwarding to those of your clients for whom you hold shares registered in your name or in the name of your nominee, we are enclosing the following documents:

1. The Offering Circular dated January 8, 2003;
2. Letter to Clients to send to your clients for whose accounts you hold shares registered in your name or in the name of your nominee, with space provided for obtaining such clients' instructions with regard to the Offer;
3. Letter of Transmittal for your use and for the information of your clients (together with accompanying instructions and Substitute Form W-9);
4. Notice of Guaranteed Delivery to be used to accept the Offer if the share certificates and all other required documents cannot be delivered to the Exchange Agent before the Expiration Time or if the procedure for book-entry transfer cannot be completed on a timely basis or time will not permit all the required documents to reach the Exchange Agent before 5:00 p.m., New York City time, Tuesday, February 11, 2003; and
5. Guidelines of the Internal Revenue Service for Certification of Taxpayer Identification Number on Substitute Form W-9.

YOUR PROMPT ACTION IS REQUESTED. WE URGE YOU TO CONTACT YOUR CLIENTS AS PROMPTLY AS POSSIBLE. PLEASE NOTE THAT THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON TUESDAY, FEBRUARY 11, 2003, UNLESS THE OFFER IS EXTENDED.

No fees or commissions will be payable to brokers, dealers, commercial banks, trust companies or any person for soliciting tenders of shares under the Offer other than fees paid to the Information Agent, as described in the Offering Circular. Dynex will, however, upon request, reimburse you for customary mailing and handling expenses incurred by you in forwarding any of the enclosed materials to the beneficial owners of shares held by you as a nominee or in a fiduciary capacity. Dynex will pay or cause to be paid any stock transfer taxes applicable to its purchase of shares, except as otherwise provided in the Offering Circular and Letter of Transmittal.

Your communications to shareholders with respect to the Offer will constitute your representation to Dynex that: (i) in connection with such communications you have complied with the applicable requirements of the Securities Exchange Act of 1934, as amended, and the applicable rules and regulations thereunder; (ii) if you are a foreign broker or dealer, you have conformed to the Rules of Fair Practice of the National Association of Securities Dealers, Inc. in making such communications; and (iii) in connection with such communications you have not used any offering materials other than those furnished by Dynex.

In order to take advantage of the Offer, a properly completed and duly executed Letter of Transmittal, or a manually signed facsimile thereof, including any required signature guarantees and any other required documents should be sent to Wachovia Bank, the Exchange Agent for the Offer, with either a certificate or certificates representing the tendered shares or confirmation of their book-entry transfer all in accordance with the instructions set forth in the Letter of Transmittal and the Offering Circular.

Holders of shares whose certificate(s) for such shares are not immediately available or who cannot deliver such certificate(s) and all other required documents to the Exchange Agent or who cannot complete the procedures for book-entry transfer before the Expiration Date must tender their shares according to the procedure for guaranteed delivery set forth in the "How to Tender" section of the Offering Circular.

The Offer is not being made to (nor will tenders be accepted from or on behalf of) holders of shares residing in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the securities, blue sky or other laws of such jurisdiction.

Any inquiries you may have with respect to the Offer should be addressed to MacKenzie Partners, Inc. at the address and telephone number set forth on the back cover page of the Offering Circular. Additional copies of the enclosed material may be obtained from MacKenzie Partners, Inc., telephone number: (800) 322-2885.

Very truly yours,

DYNEX CAPITAL, INC.

NOTHING CONTAINED HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL CONSTITUTE YOU OR ANY OTHER PERSON AS AN AGENT OF DYNEX, THE INFORMATION AGENT OR THE EXCHANGE AGENT OR ANY AFFILIATE OF THE FOREGOING, OR AUTHORIZE YOU OR ANY OTHER PERSON TO USE ANY DOCUMENT OR MAKE ANY STATEMENT ON BEHALF OF ANY OF THEM IN CONNECTION WITH THE OFFER OTHER THAN THE DOCUMENTS ENCLOSED HERewith AND THE STATEMENTS CONTAINED THEREIN.

Exhibit (a) (1) (E)

DYNEX CAPITAL, INC.

OFFER TO PURCHASE FOR CASH AND/OR SENIOR NOTES UP TO:

492,425 SHARES OF SERIES A PREFERRED STOCK
662,944 SHARES OF SERIES B PREFERRED STOCK
683,703 SHARES OF SERIES C PREFERRED STOCK

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON TUESDAY, FEBRUARY 11, 2003, UNLESS THE OFFER IS EXTENDED.

January 8, 2003

To Our Clients:

Enclosed for your consideration are the Offering Circular, dated January 8, 2003 (the "Offering Circular"), and the related Letter of Transmittal, which, as amended and supplemented from time to time, together constitute the "Offer" by Dynex Capital, Inc., a Virginia corporation ("Dynex"), to purchase up to 492,425 shares of its Series A Preferred Stock, 662,944 shares of its Series B Preferred Stock, and 683,703 shares of its Series C Preferred Stock, upon the terms and subject to the conditions set forth in its Offering Circular, and in the related Letter of Transmittal.

All shares properly tendered at or before the "Expiration Time" (as defined in the "The Offer -Expiration Time, Extensions, Termination and Amendments" section of the Offering Circular), and not properly withdrawn, will be purchased by Dynex, under any of the following options upon the terms and subject to the conditions of the Offer, including the proration provisions thereof:

Option 1 (for Cash consideration).

- o \$24.00 in cash per share of Series A Preferred Stock you tender, up to an aggregate maximum of 202,763 shares of Series A Preferred Stock;
- o \$24.50 in cash per share of Series B Preferred Stock you tender, up to an aggregate maximum of 272,977 such shares of Series B Preferred Stock; and
- o \$30.00 in cash per share of Series C Preferred Stock you tender, up to an aggregate maximum of 281,525 shares of Series C Preferred Stock;

Under this Option 1 (Cash), the per share cash amount to be received for each share of Preferred Stock tendered in the Offer is equal to 100% of the original issue price of such share of Preferred Stock;

or

Option 2 (for Senior Notes consideration).

- o \$25.20 in principal amount of our 9.50% Senior Notes due February 28, 2005, the principal of which will be paid back in eight equal quarterly installments commencing May 31, 2003 (collectively, the "Senior Notes" and each, a "Senior Note"), per share of Series A Preferred Stock tendered, up to an aggregate maximum of 289,662 shares of Series A Preferred Stock;
- o \$25.725 in principal amount of the Senior Notes per share of Series B Preferred Stock tendered, up to an aggregate maximum of 389,967 shares of Series B Preferred Stock; and
- o \$31.50 in principal amount of the Senior Notes per share of Series C Preferred Stock tendered, up to an aggregate maximum of 402,178 shares of Series C Preferred Stock;

Under this Option 2 (Senior Notes), the per share principal amount of Senior Notes to be received for each share of Preferred Stock tendered in the Offer is equal to 105% of the original issue price of such share of Preferred Stock. The Senior Notes will be issued in denominations of \$25 or in integral multiples of \$25. In cases where the consideration for shares of each series you tender is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 not to exceed \$24.99. For a more detailed description of the terms of the Senior Notes being offered, please see "Description of Senior Notes" in the Offering Circular;

or

Option 3 (for a combination of Cash and Senior Notes consideration).

A combination of Option 1 (Cash) and Option 2 (Senior Notes) in amounts which you designate. You will receive consideration for shares tendered based on the Option that is selected at the amounts set forth for that respective Option.

If proration of tendered shares of a series is required as a result of more shares being tendered than Dynex is willing to purchase, Dynex will determine the proration factor as soon as practicable following the Expiration Time. Proration for each stockholder tendering shares of a series shall be based on the ratio of (A) the number of shares of such series that Dynex is offering to purchase to (B) the total number of shares of such series properly tendered and not properly withdrawn by all stockholders of a series.

In addition, if either the cash consideration or Senior Notes consideration is oversubscribed within a series, proration for each stockholder tendering shares for the oversubscribed consideration shall be based on the ratio of (A) the number of shares of such series that Dynex is offering to purchase for the oversubscribed consideration to (B) the total number of shares of such series properly tendered and not properly withdrawn by all stockholders of the series for the oversubscribed consideration.

If the consideration you select is oversubscribed, regardless of whether that is the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not accepted for that consideration, to the other undersubscribed consideration.

Shares not purchased because of proration will be returned at Dynex's expense to the stockholders who tendered such shares promptly after the Expiration Time. Dynex reserves the right, in its sole discretion, to purchase any and all of the excess shares tendered so long as the excess number accepted by Dynex does not exceed two percent (2%) of the issued and outstanding shares of such series of Preferred Stock.

A TENDER OF YOUR SHARES CAN BE MADE ONLY BY US AS THE SHAREHOLDER OF RECORD THEREOF AND PURSUANT TO YOUR INSTRUCTIONS. THE LETTER OF TRANSMITTAL IS FURNISHED TO YOU FOR YOUR INFORMATION ONLY AND CANNOT BE USED BY YOU TO TENDER YOUR SHARES HELD BY US FOR YOUR ACCOUNT.

Accordingly, we request instructions as to whether you wish to tender any or all of the shares held by us for your account, upon the terms and subject to the conditions of the Offer.

Please note the following:

1. The Offer is not conditioned upon any minimum number of shares being tendered. The Offer is, however, subject to certain other conditions set forth in the "The Offer - Conditions to the Offer" of the Offer to Purchase.
2. The Offer, proration period and withdrawal rights will expire at 5:00 p.m., New York City time, on February 11, 2003, unless the Offer is extended.
3. The Offer is for (i) 492,425 shares of Series A Preferred Stock, (ii) 662,944 shares of Series B Preferred Stock, and (iii) 683,703 shares of Series C Preferred Stock.
4. Tendering stockholders who are registered stockholders or who tender their shares directly to Wachovia Bank, the exchange agent for the Offer, will not be obligated to pay any brokerage commissions or fees, solicitation fees, or, except as set forth in the Offering Circular and the Letter of Transmittal, stock transfer taxes on Dynex's purchase of shares under the Offer.
5. The board of directors of Dynex has approved the Offer. However, neither Dynex nor its board of directors makes any recommendation to stockholders as to whether to tender or refrain from tendering their shares or as to the price or prices at which stockholders may choose to tender their shares. Stockholders must make their own decision as to whether to tender their shares and, if so, how many shares to tender and the price or prices at which such shares should be tendered. At least one Dynex director has indicated that he will participate in the offer.
6. If you fail to make properly such an election with respect to any shares of Preferred Stock you tender, you will be deemed to have tendered such shares for cash. In addition, if the consideration you select is oversubscribed, whether that is the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Preferred Stock that are not exchanged for the oversubscribed consideration returned to

you.

7. A separate Instruction Form is provided for the tendering of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock. Please select, complete, execute and submit the appropriate Instruction Form for the specific series of Dynex Preferred Stock you are tendering.

If you wish to have us tender any or all of your shares of Preferred Stock, please so instruct us by completing, executing, detaching and returning to us the appropriate Instruction Form for the series of Dynex Preferred Stock you are tendering. An envelope to return your Instruction Form to us is enclosed. If you authorize us to tender your shares, all such shares will be tendered unless otherwise indicated on the attached Instruction Form.

YOUR INSTRUCTION FORM SHOULD BE FORWARDED TO US IN AMPLE TIME TO PERMIT US TO SUBMIT A TENDER ON YOUR BEHALF BEFORE THE EXPIRATION TIME OF THE OFFER. THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON TUESDAY, FEBRUARY 11, 2003, UNLESS THE OFFER IS EXTENDED.

The Offer is being made solely under the Offer to Purchase and the related Letter of Transmittal and is being made to all holders of shares of Dynex Preferred Stock. The Offer is not being made to, nor will tenders be accepted from or on behalf of, holders of shares residing in any jurisdiction in which the making of the Offer or acceptance thereof would not be in compliance with the securities, blue sky or other laws of such jurisdiction.

INSTRUCTION FORM WITH RESPECT TO THE OFFER TO PURCHASE
UP TO 492,425 SHARES OF SERIES A PREFERRED STOCK
OF DYNEX CAPITAL, INC.
FOR CASH AND/OR SENIOR NOTES

The undersigned acknowledge(s) receipt of your letter and the enclosed Offering Circular and the related Letter of Transmittal (which, as amended or supplemented from time to time, together constitute the "Offer"), in connection with the offer by Dynex Capital, Inc., a Virginia corporation ("Dynex"), to purchase up to 492,425 shares of Series A Preferred Stock.

This will instruct you to tender to Dynex the number of shares of Series A Preferred Stock indicated below held by you for the account or benefit of the undersigned (or, if no amount is indicated below, for all of the shares of Series A Preferred Stock held by you for the account of the undersigned) upon the terms and subject to the conditions set forth in the Offer, including proration provisions described in the Offering Circular.

As set forth in "The Offer" section of the Offering Circular, you may tender your shares of Series A Preferred Stock for cash, Senior Notes or a combination of those two forms of payment.

Aggregate number of shares of Series A Preferred Stock to be tendered by you for the account of the undersigned:

_____ *

I wish to allocate the shares of Series A Preferred Stock that I have tendered in the following manner:

[_____] CASH OPTION: I hereby tender the number of shares of Series A Preferred Stock set forth above for cash in the amount of \$24.00 per tendered share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

or

[_____] NOTE OPTION: I hereby tender the number of shares of Series A Preferred Stock set forth above for \$25.20 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003. The Senior Notes will be issued in \$25.00 denominations and any integral multiple thereof. In cases where the consideration for shares tendered is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 denomination not to exceed \$24.99;

or

[_____] COMBINATION OF CASH AND SENIOR NOTES CONSIDERATION: I hereby tender the number of shares set forth above in the following manner:

Cash: _____ shares of Series A Preferred Stock for cash, in the amount of \$24.00 per share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

AND

Senior Notes: _____ shares of Series A Preferred Stock for \$25.20 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003.

OVERSUBSCRIPTION ALLOCATION:

After Dynex has determined which shares to accept pursuant to the terms of the Offering Circular, if the particular consideration which you select is oversubscribed, whether the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Series A Preferred Stock that are not exchanged for the oversubscribed consideration returned to you. Please place an "X" in the box provided below if you wish any shares which were not exchanged due to an oversubscription, to be allocated to the undersubscribed option, if available.

[_____] Oversubscription Allocation: Please allocate any shares that I tendered and which were not exchanged because the consideration I chose has been oversubscribed, to the undersubscribed consideration, if available, regardless of whether that is the cash consideration or the Senior Notes consideration.

THE METHOD OF DELIVERY OF THIS DOCUMENT IS AT THE ELECTION AND RISK OF THE UNDERSIGNED. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE DELIVERY.

SIGN HERE:

Please type or print name(s)

Date: _____, 2003

Area Code and Telephone Number:

Taxpayer Identification or Social Security Number:

* Unless otherwise indicated, it will be assumed that we should tender all of the shares held by us for your account.
INSTRUCTION FORM WITH RESPECT TO THE OFFER TO PURCHASE
UP TO 662,944 SHARES OF SERIES B PREFERRED STOCK
OF DYNEX CAPITAL, INC.
FOR CASH AND/OR SENIOR NOTES

The undersigned acknowledge(s) receipt of your letter and the enclosed Offering Circular and the related Letter of Transmittal (which, as amended or supplemented from time to time, together constitute the "Offer"), in connection with the offer by Dynex Capital, Inc., a Virginia corporation ("Dynex"), to purchase up to 662,944 shares of Series B Preferred Stock.

This will instruct you to tender to Dynex the number of shares of Series B Preferred Stock indicated below held by you for the account or benefit of the undersigned (or, if no amount is indicated below, for all of the shares of Series B Preferred Stock held by you for the account of the undersigned) upon the terms and subject to the conditions set forth in the Offer, including proration provisions described in the Offering Circular.

As set forth in "The Offer" section of the Offering Circular, you may tender your shares of Series B Preferred Stock for cash, Senior Notes or a combination of those two forms of payment.

Aggregate number of shares of Series B Preferred Stock to be tendered by you for the account of the undersigned:

_____*

I wish to allocate the shares of Series B Preferred Stock that I have tendered in the following manner:

[] CASH OPTION: I hereby tender the number of shares of Series B Preferred Stock set forth above for cash in the amount of \$24.50 per tendered share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

or

[] NOTE OPTION: I hereby tender the number of shares of Series B Preferred Stock set forth above for \$25.725 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003. The Senior Notes will be issued in \$25.00 denominations and any integral multiple thereof. In cases where the consideration for shares tendered is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 denomination not to exceed \$24.99;

or

[] COMBINATION OF CASH AND SENIOR NOTES CONSIDERATION: I hereby tender the number of shares set forth above in the following manner:

Cash: _____ shares of Series B Preferred Stock for cash, in the amount of \$24.50 per share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

AND

Senior Notes: _____ shares of Series B Preferred Stock for \$25.725 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003.

OVERSUBSCRIPTION ALLOCATION:

After Dynex has determined which shares to accept pursuant to the terms of the Offering Circular, if the particular consideration which you select is oversubscribed, whether the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Series B Preferred Stock that are not exchanged for the oversubscribed consideration returned to you. Please place an "X" in the box provided below if you wish any shares which were not exchanged due to an oversubscription, to be allocated to the undersubscribed option, if available.

[] Oversubscription Allocation: Please allocate any shares that I tendered and which were not exchanged because the consideration I chose has been oversubscribed, to the undersubscribed consideration, if available, regardless of whether that is the cash consideration or the Senior Notes consideration.

THE METHOD OF DELIVERY OF THIS DOCUMENT IS AT THE ELECTION AND RISK OF THE UNDERSIGNED. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE DELIVERY.

SIGN HERE:

Please type or print name(s)

Date: _____, 2003

Area Code and Telephone Number:

Taxpayer Identification or Social Security Number:

* Unless otherwise indicated, it will be assumed that we should tender all of the shares held by us for your account.

INSTRUCTION FORM WITH RESPECT TO THE OFFER TO PURCHASE
UP TO 683,703 SHARES OF SERIES C PREFERRED STOCK
OF DYNEX CAPITAL, INC.
FOR CASH AND/OR SENIOR NOTES

The undersigned acknowledge(s) receipt of your letter and the enclosed Offering Circular and the related Letter of Transmittal (which, as amended or supplemented from time to time, together constitute the "Offer"), in connection with the offer by Dynex Capital, Inc., a Virginia corporation ("Dynex"), to purchase up to 683,703 shares of Series C Preferred Stock.

This will instruct you to tender to Dynex the number of shares of Series C Preferred Stock indicated below held by you for the account or benefit of the undersigned (or, if no amount is indicated below, for all of the shares of Series C Preferred Stock held by you for the account of the undersigned) upon the terms and subject to the conditions set forth in the Offer, including proration provisions described in the Offering Circular.

As set forth in "The Offer" section of the Offering Circular, you may tender your shares of Series C Preferred Stock for cash, Senior Notes or a combination of those two forms of payment.

Aggregate number of shares of Series C Preferred Stock to be tendered by you for the account of the undersigned:

_____*

I wish to allocate the shares of Series C Preferred Stock that I have tendered in the following manner:

[_____] CASH OPTION: I hereby tender the number of shares of Series C Preferred Stock set forth above for cash in the amount of \$30.00 per tendered share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

or

[_____] NOTE OPTION: I hereby tender the number of shares of Series C Preferred Stock set forth above for \$31.50 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003. The Senior Notes will be issued in \$25.00 denominations and any integral multiple thereof. In cases where the consideration for shares tendered is not divisible, in the aggregate, by the \$25 denomination, you will receive cash consideration for the amount in excess of the nearest \$25 denomination not to exceed \$24.99;

or

[_____] COMBINATION OF CASH AND SENIOR NOTES CONSIDERATION: I hereby tender the number of shares set forth above in the following manner:

Cash: _____ shares of Series C Preferred Stock for cash, in the amount of \$30.00 per share, net, without interest, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003;

AND

Senior Notes: _____ shares of Series C Preferred Stock for \$31.50 in principal amount per tendered share of the Senior Notes, subject to proration and upon the terms and subject to the conditions set forth in Dynex's Offering Circular, dated January 8, 2003.

OVERSUBSCRIPTION ALLOCATION:

After Dynex has determined which shares to accept pursuant to the terms of the Offering Circular, if the particular consideration which you select is oversubscribed, whether the cash consideration or the Senior Notes consideration, you may elect to allocate any shares not exchanged for that particular consideration to the other consideration, instead of having your shares of Series C Preferred Stock that are not exchanged for the oversubscribed consideration returned to you. Please place an "X" in the box provided below if you wish any shares which were not exchanged due to an oversubscription, to be allocated to the undersubscribed option, if available.

[____] Oversubscription Allocation: Please allocate any shares that I tendered and which were not exchanged because the consideration I chose has been oversubscribed, to the undersubscribed consideration, if available, regardless of whether that is the cash consideration or the Senior Notes consideration.

THE METHOD OF DELIVERY OF THIS DOCUMENT IS AT THE ELECTION AND RISK OF THE UNDERSIGNED. IF DELIVERY IS BY MAIL, REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, PROPERLY INSURED, IS RECOMMENDED. IN ALL CASES, SUFFICIENT TIME SHOULD BE ALLOWED TO ASSURE DELIVERY.

SIGN HERE:

- -----

- -----

Please type or print name(s)

Date: _____, 2003

Area Code and Telephone Number:

- -----

Taxpayer Identification or Social Security Number:

- -----

- -----

* Unless otherwise indicated, it will be assumed that we should tender all of the shares held by us for your account.

GUIDELINES FOR CERTIFICATION OF TAXPAYER ID NO

EXHIBIT (a) (1) (F)

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION
NUMBER ON SUBSTITUTE FORM W-9

GUIDELINES FOR DETERMINING THE PROPER IDENTIFICATION NUMBER TO GIVE THE PAYER. Social Security numbers have nine digits separated by two hyphens: i.e. 000-00-0000. Employer identification numbers have nine digits separated by only one hyphen: i.e. 00-0000000. The table below will help determine the number to give the payer.

<TABLE>

<CAPTION>

For this type of account:

Give the
SOCIAL SECURITY
Number of

<S>	<C>
1. An individual's account	The individual
2. Two or more individuals (joint account)	The actual owner of the account or, if combined funds, anyone of the individuals(1)
3. Husband and wife (joint account)	The actual owner of the account or, if joint funds, either person(1)
4. Custodian account of a minor (Uniform Gift to Minors Act)	The minor(2)
5. Adult and minor (joint account)	The adult or, if the minor is the only contributor, the minor(1)
6. Account in the name of guardian or committee for a designated ward, minor, or incompetent person	The ward, minor, or incompetent person(3)
7. a. The usual revocable savings trust account (grantor is also trustee)	The grantor- trustee(1)
b. So-called trust account that is not a legal or valid trust under State law	The actual owner(1)
8. Sole proprietorship account	The Owner(4)
9. A valid trust, estate, or pension	The legal entity (Do not furnish the identifying number of the personal representative or trustee unless the legal entity itself is not designated in the account title.) (5)
10. Corporate account	The corporation
11. Religious, charitable, or educational organization account	The organization
12. Partnership account held in the name of the business	The partnership
13. Association, club, or other tax-exempt organization	The organization
14. A broker or registered nominee	The broker or nominee
15. Account with the Department of Agriculture in the name of a public entity (such as a State or local government, school district, or prison) that receives agricultural program payments	The public entity

<FN>

- (1) List first and circle the name of the person whose number you furnish.
(2) Circle the minor's name and furnish the minor's social security number.
(3) Circle the ward's, minor's or incompetent person's name and furnish such person's social security number.
(4) Show the name of the owner.
(5) List first and circle the name of the legal trust, estate, or pension trust.

NOTE: If no name is circled when there is more than one name, the number will be considered to be that of the first name listed.

</FN>
</TABLE>

GUIDELINES FOR CERTIFICATION OF TAXPAYER IDENTIFICATION
NUMBER ON SUBSTITUTE FORM W-9

OBTAINING A NUMBER

If you don't have a taxpayer identification number or you don't know your number, obtain Form SS-5, Application for a Social Security Number Card, or Form SS-4, Application for Employer Identification Number, at the local office of the Social Security Administration or the Internal Revenue Service and apply for a number.

PAYEES EXEMPT FROM BACKUP WITHHOLDING

Payees specifically exempted from backup withholding on ALL payments include the following:

- A corporation.
- A financial institution.
- An organization exempt from tax under section 501(a), or an individual retirement plan.
- The United States or any agency or instrumentality thereof.
- A State, the District of Columbia, a possession of the United States, or any subdivision or instrumentality thereof.
- A foreign government, a political subdivision of a foreign government, or any agency or instrumentality thereof.
- An international organization or any agency, or instrumentality thereof.
- A registered dealer in securities or commodities registered in the U.S. or a possession of the U.S.
- A real estate investment trust.
- A preferred trust fund operated by a bank under section 584(a).
- An exempt charitable remainder trust, or a non-exempt trust described in section 4947(a)(1).
- An entity registered at all times under the Investment Company Act of 1940.
- A foreign central bank of issue.

Payments of dividends and patronage dividends not generally subject to backup withholding include the following:

- Payments to nonresident aliens subject to withholding under section 1441.
- Payments to partnerships not engaged in a trade or business in the U.S. and which have at least one nonresident partner.
- Payments of patronage dividends where the amount received is not paid in money.
- Payments made by certain foreign organizations.
- Payments made to a nominee.

Payments of interest not generally subject to backup withholding include the following:

- Payments of interest on obligations issued by individuals. Note: You may be subject to backup withholding if this interest is \$600 or more and is paid in the course of the payer's trade or business and you have not provided your correct taxpayer identification number to the payer.
- Payments of tax-exempt interest (including exempt-interest dividends under section 852).
- Payments described in section 6049(b)(5) to nonresident aliens.
- Payments on tax-free covenant bonds under section 1451.
- Payments made by certain foreign organizations.
- Payments made to a nominee.

Exempt payees described above should file Form W-9 to avoid possible erroneous backup withholding. FILE THIS FORM WITH THE PAYER. FURNISH YOUR TAXPAYER IDENTIFICATION NUMBER, WRITE "EXEMPT" ON THE FACE OF THE FORM, AND RETURN IT TO THE PAYER, IF THE PAYMENTS ARE INTEREST, DIVIDENDS, OR PATRONAGE DIVIDENDS, ALSO SIGN AND DATE THE FORM.

Certain payments other than interest, dividends, and patronage dividends, that are not subject to information reporting are also not subject to backup withholding. For details, see the regulations under sections 6041, 6041A(a), 6045, and 6050A.

PRIVACY ACT NOTICE.--Section 6109 requires most recipients of dividend, interest, or other payments to give taxpayer identification numbers to payers who must report the payments to IRS. IRS uses the numbers for identification purposes. Payers must be given the numbers whether or not recipients are required to file tax returns. Beginning January 1, 1993, payers must generally withhold 31% of taxable interest, dividend, and certain other payments to a payee who does not furnish a taxpayer identification number to a payer. Certain penalties may also apply.

PENALTIES

(1) PENALTY FOR FAILURE TO FURNISH TAXPAYER IDENTIFICATION NUMBER.--If you fail to furnish your taxpayer identification number to a payer, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

(2) FAILURE TO REPORT CERTAIN DIVIDEND AND INTEREST PAYMENTS.--If you fail to include any portion of an includible payment for interest, dividends, or patronage dividends in gross income, such failure will be treated as being due to negligence and will be subject to a penalty of 5% on any portion of an under-payment attributable to that failure unless there is clear and convincing evidence to the contrary.

(3) CIVIL PENALTY FOR FALSE INFORMATION WITH RESPECT TO WITHHOLDING.--If you make a false statement with no reasonable basis which results in no imposition of backup withholding, you are subject to a penalty of \$500.

(4) CRIMINAL PENALTY FOR FALSIFYING INFORMATION.--Falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

FOR ADDITIONAL INFORMATION CONTACT YOUR TAX CONSULTANT OR
THE INTERNAL REVENUE SERVICE

EXHIBIT (d) (1)

DYNEX CAPITAL, INC.

Issuer

AND

WACHOVIA BANK NATIONAL ASSOCIATION

Trustee

INDENTURE

Dated as of _____, 2003

9.50% Senior Notes Due 2005
CROSS-REFERENCE TABLE*

Trust Indenture Act Section	Indenture Section
310 (a) (1).....	7.10
(a) (2).....	7.10
(a) (3).....	N.A.
(a) (4).....	N.A.
(a) (5).....	7.10
(b).....	7.9
(c).....	N.A.
311 (a).....	7.14
(b).....	7.14
(c).....	N.A.
312 (a).....	2.5(a); 5.1
(b).....	13.2
(c).....	12.2
313 (a).....	7.2
(b) (1).....	N.A.
(b) (2).....	7.2
(c).....	7.2
(d).....	7.2
314 (a).....	4.7(a); 5.2
(b).....	N.A.
(c) (1).....	13.4
(c) (2).....	13.4
(c) (3).....	N.A.
(d).....	N.A.
(e).....	13.4
(f).....	N.A.
315 (a).....	7.1(b)
(b).....	6.8
(c).....	7.1(a)
(d).....	7.1(c)
(e).....	6.9
316 (a) (last sentence).....	8.4
(a) (1) (A).....	6.7
(a) (1) (B).....	6.7
(a) (2).....	N.A.
(b).....	6.4
(c).....	8.1
317 (a).....	6.2
(b).....	4.4
318 (a).....	13.07; 13.08

N.A. means "not applicable".

* This Cross-Reference Table is not part of the Indenture.
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INDENTURE, dated as of _____, 2003, by and between DYNEX CAPITAL, INC., a Virginia corporation (the "Company"), and Wachovia Bank National Association, a national banking corporation (the "Trustee").

W I T N E S S E T H:

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the issuance of its 9.50% Senior Notes Due 2005 (the "Notes"), in an aggregate principal amount not to exceed \$30,000,000 and to provide the terms and conditions upon which the Notes are to be authenticated, issued and delivered, the Company has duly authorized the execution and delivery of this Indenture; and

WHEREAS, the Notes will be originally issued solely in global form, and in the event that the Company issues Notes in definitive form, such issuance will be accompanied by a supplement to this Indenture including the form of definitive Notes; and

WHEREAS, the Notes, the certificate of authentication to be borne by the Notes, a form of assignment, a form of option to require repurchase by the Company upon a Change of Control (as hereinafter defined), and a certificate of transfer to be borne by the Notes are to be substantially in the forms hereinafter provided for; and

WHEREAS, all acts and things necessary to make the Notes, when executed by the Company and authenticated and delivered by the Trustee or a duly authorized authenticating agent, as in this Indenture provided, the valid, binding and legal obligations of the Company, and to constitute these presents a valid agreement according to its terms, have been done and performed, and the execution of this Indenture and the issuance hereunder of the Notes have in all respects been duly authorized.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That in order to declare the terms and conditions upon which the Notes are, and are to be, authenticated, issued and delivered, and in consideration of the premises and of the purchase and acceptance of the Notes by the holders thereof, the Company covenants and agrees with the Trustee for the equal and proportionate benefit of the respective holders from time to time of the Notes (except as otherwise provided below) as follows:

ARTICLE I DEFINITIONS

Section 1.1 DEFINITIONS.

The terms defined in this Section 1.1 (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section 1.1. All other terms used in this Indenture that are defined in the Trust Indenture Act (as hereinafter defined) or that are by reference defined in the Securities Act (as hereinafter defined), except as herein otherwise expressly provided for or unless the context otherwise requires, shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force on the date of this Indenture. The words "herein," "hereof," "hereunder" and words of similar import refer to this Indenture as a whole and not to any particular Article or Section.

"Affiliate". An "Affiliate" of any specified person shall mean an "affiliate" as defined in Rule 144(a) as promulgated under the Securities Act.

"Board Of Directors". The term "Board of Directors" shall mean the Board of Directors of the Company or a committee of such Board of Directors duly authorized to act for it.

"Board Resolution". The term "Board Resolution" shall mean a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification.

"Business Day". The term "Business Day" shall mean a day, other than a Saturday, a Sunday or a day on which the banking institutions in the State and City of New York are authorized or obligated by law or executive order to close or a day that is declared a national or New York state holiday.

"Capital Stock". The term "Capital Stock" of any person shall mean any and all shares, interests, participations or other equivalents (however designated) of such person's corporate stock or any and all equivalent ownership interests in a person (other than a corporation) whether now outstanding or issued after the date hereof.

"Cede". The term "Cede" shall mean Cede & Co., a nominee of the Depository.

"Change Of Control". The term "Change of Control" shall have the meaning specified in Section 3.4(d).

"Change Of Control Purchase Price". The term "Change of Control Purchase Price" shall have the meaning specified in Section 3.4(a).

"Change Of Control Purchase Date". The term "Change of Control Purchase Date" shall have the meaning specified in Section 3.4(a).

"Change Of Control Offer". The term "Change of Control Offer" shall have the meaning specified in Section 3.4(a).

"Commission". The term "Commission" shall mean the United States Securities

and Exchange Commission, as from time to time constituted, created under the Exchange Act or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, the body performing such duties at such time.

"Company". The term "Company" shall mean Dynex Capital, Inc., a Virginia corporation, and subject to the provisions of Article X, shall include its successors and assigns.

"Corporate Trust Office of the Trustee". The term "Corporate Trust Office of the Trustee," or other similar term, shall mean the office of the Trustee at which at any particular time its corporate trust business shall be principally administered, from its office which is, located at 1021 East Cary Street, 3rd Floor (Corporate Trust-VA), Richmond, Virginia 23219.

"Covenant Defeasance". The term "covenant defeasance" shall have the meaning specified in Section 11.1(c).

"Custodian". The term "Custodian" shall mean the Trustee, as custodian for Cede pursuant to Section 2.5 with respect to the Notes in global form, or any successor entity thereto.

"Default". The term "default" shall mean any event that is, or after notice or passage of time, or both, would be, an Event of Default.

"Defaulted Interest". The term "Defaulted Interest" shall have the meaning specified in Section 2.3.

"Definitive Notes; In Definitive Form". The term "Definitive Notes" shall mean the Notes in definitive form. Any reference to Notes "in definitive form" shall mean definitive Notes.

"Depository". The term "Depository" shall mean, with respect to the Notes issuable or issued in whole or in part in global form, the person specified in Section 2.5(b) as the Depository with respect to the Notes, until a successor shall have been appointed and become such pursuant to the applicable provisions of this Indenture, and thereafter, "Depository" shall mean or include such successor.

"Disqualified Stock". The term "Disqualified Stock" means, with respect to any Person, any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is exchangeable for indebtedness, or is redeemable at the option of the holder thereof, in whole or in part on or prior to the stated maturity.

"DWAC". The term "DWAC" shall mean Deposit and Withdrawal at Custodian Service.

"Event of Default". The term "Event of Default" shall mean any event specified in Section 6.1(a) through (g).

"Exchange Act". The term "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Global Note". The term "Global Note" shall mean the note in global form as specified in Exhibit A.

"Indenture". The term "Indenture" shall mean this instrument as originally executed or, if amended or supplemented as herein provided, as so amended or supplemented.

"Legal Defeasance". The term "legal defeasance" shall have the meaning specified in Section 11.1(b).

"Note or Notes". The terms "Note" or "Notes" shall mean any one or more, as the case may be, of the 9.5% Senior Notes Due 2005 authenticated and delivered under this Indenture.

"Noteholder; Holder". The term "Noteholder" or "holder" as applied to any Note, or other similar term (but excluding the term "beneficial holder"), shall mean any person in whose name at the time a particular Note is registered on the Note registrar's books.

"Note Register". The term "Note register" shall have the meaning specified in Section 2.5(a).

"Note Registrar". The term "Note registrar" shall have the meaning specified in Section 2.5(a).

"Officers' Certificate". The term "Officers' Certificate," when used with respect to the Company, shall mean a certificate signed by two authorized officers which shall include (a) any of the President, the Chief Executive Officer, the Chief Operating Officer or the Chief Financial Officer and (b) any

Treasurer or Secretary or any Assistant Secretary of the Company, that is delivered to the Trustee. Each such certificate shall include the statements provided for in Section 13.4 if and to the extent required by the provisions of such Section.

"Opinion of Counsel". The term "Opinion of Counsel" shall mean an opinion in writing signed by legal counsel, who may be an employee of or counsel to the Company or other counsel acceptable to the Trustee, that is delivered to the Trustee. Each such opinion shall include the statements provided for in Section 13.4 if and to the extent required by the provisions of such Section.

"Outstanding". The term "outstanding" with reference to Notes as of any particular time shall mean, subject to the provisions of Section 8.4, all Notes authenticated and delivered by the Trustee under this Indenture, except

(a) Notes theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(b) Notes, or portions thereof, for which monies in the necessary amount shall have been deposited in trust with the Trustee for payment, redemption or repurchase; provided that if such Notes are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given pursuant to Article III or provision satisfactory to the Trustee shall have been made for giving such notice; and

(c) Notes paid or exchanged pursuant to Section 2.5 hereof or Notes in lieu of or in substitution for which other Notes shall have been authenticated and delivered pursuant to the terms of Section 2.6 unless proof satisfactory to the Trustee is presented that any such Notes are held by BONA FIDE holders in due course shall not be deemed outstanding.

"Payment Date". The term "Payment Date" shall mean each May 31, August 31, November 30 and February 28. -----

"Payment Default". The term "Payment Default" shall have the meaning specified in Section 6.1(d). -----

"Person". The term "person" shall mean a corporation, an association, a partnership, an individual, a joint venture, a joint stock company, a trust, an unincorporated organization or a government or an agency or a political subdivision thereof.

"Predecessor Note". The term "Predecessor Note" of any particular Note shall mean every previous Note evidencing all or a portion of the same debt as that evidenced by such particular Note; and, for the purposes of this definition, any Note authenticated and delivered under Section 2.6 in lieu of a lost, destroyed or stolen Note shall be deemed to evidence the same debt as the lost, destroyed or stolen Note.

"Record Date". The term "record date" with respect to any Payment Date shall have the meaning set forth in Section 2.3 hereof.

"Responsible Officer". The term "Responsible Officer" with respect to the Trustee, shall mean an officer of the Trustee assigned and duly authorized by the Trustee to administer its corporate trust matters.

"Restricted Payment". The term "Restricted Payment" means any of the following: (i) the declaration or payment of any dividend or any other distribution on Capital Stock of the Company or any payment made to the direct or indirect holders (in all their capacities as such) of Capital Stock of the Company (other than dividends or distributions payable solely in Capital Stock (other than Disqualified Stock) or in options, warrants or other rights to purchase Capital Stock (other than Disqualified Stock)); (ii) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or (iii) the making of any principal payment on, or the purchase, defeasance, repurchase, redemption or other acquisition or retirement for value, prior to any scheduled maturity, scheduled repayment or scheduled sinking fund payment, of any indebtedness existing on the Issue Date which is subordinated in right of payment to the Notes (other than indebtedness acquired in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition and other than calls and resecuritizations of non-recourse obligations.)

"Securities Act". The term "Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Subsidiary". The term "Subsidiary" of any specified person shall mean (i) a corporation, a majority of whose Capital Stock with voting power under ordinary circumstances to elect directors is at the time directly or indirectly owned by such person or (ii) any other person (other than a corporation) in which such person or such person and a Subsidiary or Subsidiaries of such person or a Subsidiary or Subsidiaries of such person directly or indirectly, at the date of determination thereof, has at least majority ownership.

"Successor Company". The term "Successor Company" shall have the meaning

specified in Section 11.1.

"Trust Indenture Act". The term "Trust Indenture Act" shall mean the Trust Indenture Act of 1939, as amended, as it was in force at the date of execution of this Indenture, except as provided in Sections 9.3 and 13.8; provided that in the event said Trust Indenture Act of 1939 is amended after the date hereof, the term "Trust Indenture Act" shall mean, to the extent required by such amendment, said Trust Indenture Act of 1939 as so amended.

"Trustee". The term "Trustee" shall mean Wachovia Bank National Association, its successors and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at the time serving as successor trustee hereunder.

"U.S. Government Obligations". The term "U.S. Government Obligations" shall mean securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a person controlled or supervised by, and acting as an agency or instrumentality of, the United States of America the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any such U.S. Government Obligation or a specific payment of principal or interest on any such U.S. Government Obligation held by such custodian for the account of the holder of such depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by such custodian in respect of the U.S. Government Obligation or the specific payment of principal of or interest on the U.S. Government Obligation evidenced by such depository receipt.

"Voting Stock". The term "Voting Stock" shall have the meaning set forth in Section 3.5(e) hereof.

Section 1.2 INCORPORATION BY REFERENCE OF TRUST INDENTURE ACT.

Whenever this Indenture refers to a provision of the Trust Indenture Act, the provision is incorporated by reference in and made a part of this Indenture.

The following Trust Indenture Act terms used in this Indenture have the following meanings:

"Indenture Securities" means the Notes;

"Indenture Security Holder" means a holder of Notes;

"Indenture To Be Qualified" means this Indenture;

"Indenture Trustee" or "Institutional Trustee" means the Trustee;

"Obligor" on the Notes means the Company and any successor obligor under the Trust Indenture Act.

All other terms used in this Indenture that are defined by the Trust Indenture Act, defined by Trust Indenture Act reference to another statute or defined by Commission rule under the Trust Indenture Act have the meanings so assigned to them.

Section 1.3 RULES OF CONSTRUCTION.

Unless the context otherwise requires:

- (1) a term has the meaning assigned to it;
- (2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles;
- (3) "or" is not exclusive;
- (4) words in the singular include the plural, and in the plural include the singular; and
- (5) provisions apply to successive events and transactions.

ARTICLE II

ISSUE, DESCRIPTION, EXECUTION, REGISTRATION AND EXCHANGE OF NOTES

Section 2.1 Designation, Amount and Issue of Notes.

The Notes shall be designated as "9.5% Senior Notes Due 2005." Notes not to exceed the aggregate principal amount of \$30,000,000 upon the execution of this Indenture, or from time to time thereafter, may be executed by the Company and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and make available for delivery said Notes upon the written order of the Company, signed by its (a) Chief Executive Officer, President, Chief Operating Officer or Chief Financial Officer, and (b) any Treasurer or Secretary or any Assistant Secretary, without any further action by the Company hereunder. The Global Note shall be exchangeable only as provided in Section 2.5.

Section 2.2 Form of Notes.

The Global Note shall represent all of the outstanding Notes and shall not be exchangeable for definitive Notes except as herein expressly provided. Payment of principal of and interest and premium, if any, on the Global Note shall be made in accordance with the provisions of Section 2.3 hereof.

The terms and provisions contained in the form of Global Note attached as Exhibit A hereto shall constitute, and are hereby expressly made, a part of this Indenture and to the extent applicable, the Company and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby.

Section 2.3 Date and Denomination of Notes; Payments of Principal and Interest.

The Notes shall be issuable in registered form only without coupons in denominations of \$25 principal amount and integral multiples thereof. Every Note shall be dated the date of its authentication, shall be repaid in equal quarterly installments of principal and shall bear interest on the outstanding principal balance from February 28, 2003 as provided in the Global Note. Principal and interest shall be first payable on May 31, 2003 and then quarterly on each August 31, November 30, February 28, and May 31 (each a "payment date") as specified on the face of the form of Global Note, attached as Exhibit A hereto.

The Trustee shall apply such principal payments to the reduction of the principal amount outstanding under the Global Note and shall direct the Depository and Custodian to record such reduction in principal on the Global Note.

The person in whose name any Note (or its Predecessor Note) is registered at the close of business on any record date with respect to any Payment Date (including any Note that is transferred or exchanged after the record date and on or before the Payment Date) shall be entitled to receive the principal and interest payable on Payment Date notwithstanding the cancellation of such Note upon any transfer or exchange subsequent to the record date and prior to such Payment Date. Principal and interest may, at the option of the Company, be paid by check mailed to the address of such person as it appears on the Note register; provided that, with respect to any holder of Notes with an aggregate principal amount equal to or in excess of \$5,000,000, at the request (such request to include appropriate wire instructions) of such holder in writing to the Trustee on or before the record date preceding any Payment Date, principal and interest on such holder's Notes shall be paid by wire transfer in immediately available funds. The term "record date" with respect to any Payment Date (except as otherwise provided herein for Defaulted Interest) shall mean the 15th day of the month in which such Payment Date occurs.

None of the Company, the Trustee or any paying agent shall have any responsibility or liability for any aspect of the records relating to or payment made on account of beneficial ownership interests in the Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Interest on the Notes shall be computed on the basis of a 360-day year composed of twelve 30-day months.

Any interest on any Note that is payable, but is not punctually paid or duly provided for, on any said May 31, August 31, November 30 or February 28 (herein called "Defaulted Interest") shall forthwith cease to be payable to the Noteholder on the relevant record date by virtue of his having been such Noteholder; and such Defaulted Interest shall be paid by the Company, at its election in each case, as provided in clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest to be paid on each Note and the date of the payment (which shall be not less than 25 days after the receipt by the Trustee of such notice, unless the Trustee shall consent to an earlier date), and at the same time, the Company shall deposit with the Trustee an amount of money equal to the aggregate amount to be paid in respect of such Defaulted Interest or shall make arrangements

satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest as in this clause provided. Thereupon, the Trustee shall fix a special record date for the payment of such Defaulted Interest, which shall be not more than 15 days and not less than 10 days prior to the date of the payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such special record date and, in the name and at the expense of the Company, shall cause notice of the payment of such Defaulted Interest and the special record date therefor to be mailed, first-class postage prepaid, to each Noteholder at his address as it appears in the Note register, not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Interest and the special record date therefor having been so mailed, such Defaulted Interest shall be paid to the persons in whose names the Notes (or their respective Predecessor Notes) were registered at the close of business on such special record date and shall no longer be payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Section 2.4 Execution of Notes.

The Notes shall be signed in the name and on behalf of the Company by the signature of its Chief Executive Officer, President, Chief Operating Officer or Chief Financial Officer and attested by the signature of its Treasurer, Secretary or any of its Assistant Secretaries (any of which signatures may be printed, engraved or otherwise reproduced thereon, by facsimile or otherwise). Only such Notes as shall bear thereon a certificate of authentication substantially in the form set forth on the form of Note attached as Exhibit A hereto, manually executed by the Trustee (or an authenticating agent appointed by the Trustee as provided by Section 13.11), shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee (or such an authenticating agent) upon any Note executed by the Company shall be conclusive evidence that the Note so authenticated has been duly authenticated and delivered hereunder and that the holder is entitled to the benefits of this Indenture.

In case any officer of the Company who shall have signed any of the Notes shall cease to be such officer before the Notes so signed shall have been authenticated and delivered by the Trustee, or disposed of by the Company, such Notes nevertheless may be authenticated and delivered or disposed of as though the person who signed such Notes had not ceased to be such officer of the Company; and any Note may be signed on behalf of the Company by such persons as, at the actual date of the execution of such Note, shall be the proper officers of the Company, although at the date of the execution of this Indenture any such person was not such an officer.

Section 2.5 Exchange and Transfer of Notes; Restrictions on Transfer; Depository.

Any exchange or transfer of all or a part of the Global Note for definitive Notes pursuant to this Section 2.5 must be accompanied by a supplemental indenture that shall include the form of such definitive Notes. Except as otherwise expressly provided herein, the Global Note may not be exchanged for definitive Notes.

(a) The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency of the Company designated pursuant to Section 4.2 being herein sometimes collectively referred to as the "Note register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the transfers of Notes. Such Note register shall be in written form or in any form capable of being converted into written form within a reasonable period of time. The Trustee is hereby appointed "Note registrar" for the purpose of transfers of Notes as herein provided. The Company may appoint one or more co-registrars. The Global Note shall be registered in the name of Cede & Co. Inc. as designee of The Depository unless exchanged as expressly provided for herein.

Subject to the first paragraph of Section 2.5:

upon surrender for registration of transfer of any Note to the Note registrar or any co-registrar and satisfaction of the requirements for such transfer set forth in this Section 2.5, the Company shall execute, and the Trustee shall authenticate and make available for delivery, in the name of the designated transferee or transferees, one or more new Notes of any authorized denominations and of a like aggregate principal amount may be required by Section 2.5(c).

notes may be exchanged for other Notes of any authorized denominations and of a like aggregate principal amount, upon surrender of the Notes to be exchanged at any such office or agency. Whenever any Notes are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and make available for delivery, the Notes that the Noteholder making the exchange is entitled to receive bearing certificate numbers not contemporaneously outstanding.

all Notes presented or surrendered for registration of transfer or for exchange shall (if so required by the Company, the Trustee, the Note registrar or any co-registrar) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company, executed by the Noteholder thereof or his attorney duly authorized in writing.

no service charge shall be charged to the Noteholder for any exchange or registration of transfer of Notes, but the Company may require payment of a sum sufficient to cover any tax, assessments or other governmental charges that may be imposed in connection therewith.

none of the Company, the Trustee or the Depository, the Note registrar or any co-registrar shall be required to exchange or register a transfer of (a) any Notes for a period of 15 days next preceding the mailing of a notice of redemption, (b) any Notes called for redemption or, if a portion of any Note is selected or called for redemption, such portion thereof selected or called for redemption, or (c) any Notes surrendered for repurchase pursuant to Section 3.5 or, if a portion of any Note is surrendered for repurchase pursuant to Section 3.5, such portion thereof surrendered for repurchase pursuant to Section 3.5.

all Notes issued upon any transfer or exchange of Notes shall be the valid obligations of the Company, evidencing the same debt and entitled to the same benefits under this Indenture as the Notes surrendered upon such registration of transfer or exchange. All Notes, the transfer and/or exchange of which is effectuated by the Trustee pursuant to this Section 2.5, shall be accompanied by an Officers' Certificate of the Company certifying that such transfer, exchange and/or registration is authorized by the Company and permitted hereunder.

any transfer of a definitive Note or Notes must be effected by the delivery to the transferee (or its nominee) of a definitive Note or Notes registered in the name of the transferee (or its nominee) on the books maintained by the Trustee. With respect to any such transfer, the Company shall execute and the Trustee shall authenticate and make available for delivery to the transferee (or such transferee's nominee, as the case may be), a definitive Note or Notes in the appropriate aggregate principal amount in the name of such transferee (or its nominee) and bearing such restrictive legends as may be required by this Indenture.

(b) Notwithstanding any other provisions of this Indenture (other than the provisions set forth in this Section 2.5(b)), the Global Note may not be transferred as a whole except by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such successor Depository.

The Depository shall be a clearing agency registered under the Exchange Act. The Company initially appoints the Depository Trust Company to act as Depository with respect to the Global Note. The Global Note shall be issued to the Depository, registered in the name of Cede, as the nominee of the Depository, and shall not be exchanged or transferred except as expressly provided for herein and shall be deposited with the Trustee as Custodian for Cede.

Neither the Company nor the Trustee (or any registrar, paying agent or conversion agent under this Indenture) shall have responsibility for the performance by the Depository or its participants or indirect participants of its respective obligations under the rules and procedures governing its operations. The Depository will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account with the Depository interests in the Global Note are credited, and only in respect of the principal amount of the Notes represented by the Global Note as to which such participant or participants has or have given such direction.

If at any time the Depository for the Global Note notifies the Company that it is unwilling or unable to continue as Depository for such Notes, the Company may appoint a successor Depository with respect to such Notes. If a successor Depository for the Notes is not appointed by the Company within 90 days after the Company receives such notice, the Company shall execute, and the Trustee, upon receipt of an Officers' Certificate for the authentication and delivery of

Notes, shall authenticate and make available for delivery, Notes in definitive form, in an aggregate principal amount equal to the principal amount of the Global Note in exchange for the Global Note.

Definitive Notes issued in exchange for all or a part of the Global Note pursuant to this Section 2.5(b) shall be registered in such names and in such authorized denominations as the Depository, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. Upon execution and authentication, the Trustee shall make available for delivery such definitive Notes to the persons in whose names such definitive Notes are so registered.

At such time as all interest in the principal, premium, if any, and interest of the Global Note has been paid, redeemed, repurchased or canceled, the Global Note shall be, upon receipt thereof, canceled by the Trustee in accordance with standing procedures and instructions existing between the Depository and the Custodian. At any time prior to such cancellation, if any interest in the principal, premium, if any, and interest of the Global Note is paid, exchanged for definitive Notes, redeemed, repurchased, converted, canceled or transferred to a transferee who receives definitive Notes therefor or any definitive Note is exchanged or transferred for part of the Global Note, the principal amount of the Global Note shall, in accordance with the standing procedures and instructions existing between the Depository and the Custodian, be reduced or increased, as the case may be, and an endorsement shall be made on the Global Note by the Trustee or the Custodian, at the direction of the Trustee, to reflect such reduction or increase.

The Company and the Trustee may for all purposes, including the making of payments due on the Notes, deal with the Depository as the authorized representative of the Noteholders for the purposes of exercising the rights of Noteholders hereunder. The rights of the owner of any beneficial interest in the Global Note shall be limited to those established by law and agreements between such owners and depository participants; provided that no such agreement shall give any rights to any person against the Company or the Trustee without the written consent of the parties so affected. Multiple requests or directions from and votes of the Depository, as holder of notes in book-entry form with respect to any particular matter, shall not be deemed inconsistent to the extent they do not represent an amount of notes in excess of those held in the name of the Depository or its nominee.

(c) Each holder or former holder of a Note agrees to indemnify the Company and the Trustee against any liability that may result from the transfer, exchange or assignment of such holder's or former holder's Note in violation of any provision of this Indenture and/or applicable U.S. federal or state securities law.

Section 2.6 Mutilated, Destroyed, Lost or Stolen Notes.

In case any Note shall become mutilated or be destroyed, lost or stolen, the Company in its discretion may execute, and upon its request, the Trustee or an authenticating agent appointed by the Trustee shall authenticate and make available for delivery a new Note bearing a number not contemporaneously outstanding in exchange and substitution for the mutilated Note or in lieu of and in substitution for the Note so destroyed, lost or stolen. The Company may charge such applicant for the expenses of the Company in replacing a Note. In every case the applicant for a substituted Note shall furnish to the Company, to the Trustee and, if applicable, to such authenticating agent such security or indemnity as may be required by them to save each of them harmless from any loss, liability, cost or expense caused by or connected with such substitution, and in every case of destruction, loss or theft, the applicant shall also furnish to the Company, to the Trustee and, if applicable, to such authenticating agent evidence to their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof.

The Trustee or such authenticating agent may authenticate any such substituted Note and deliver the same upon the receipt of such security or indemnity as the Trustee, the Company and, if applicable, such authenticating agent may require. Upon the issuance of any substituted Note, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses connected therewith. In case any Note that has matured or is about to mature or has been called for redemption or is about to be repurchased shall become mutilated or be destroyed, lost or stolen, the Company may, instead of issuing a substitute Note, pay or authorize the payment of the same (without surrender thereof, except in the case of a mutilated Note), as the case may be, if the applicant for such payment shall furnish to the Company, to the Trustee and, if applicable, to such authenticating agent such security or indemnity as may be required by them to save each of them harmless from any loss, liability, cost or expense caused by or connected with such substitution, and in case of destruction, loss or theft, evidence satisfactory to the Company, the Trustee and, if applicable, any paying agent of the destruction, loss or theft of such Note and of the ownership thereof.

Every substitute Note issued pursuant to the provisions of this Section 2.6

in lieu of any Note that is destroyed, lost or stolen shall constitute an additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be enforceable by anyone, and shall be entitled to all the benefits of (but shall be subject to all the limitations set forth in) this Indenture equally and proportionately with any and all other Notes duly issued hereunder. To the extent permitted by law, all Notes shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement or payment or conversion of mutilated, destroyed, lost or stolen Notes and shall preclude any and all other rights or remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment or conversion of negotiable instruments or other securities without their surrender.

Section 2.7 Temporary Notes.

If definitive Notes are to be issued as provided herein, pending the preparation of such definitive Notes, the Company may execute and the Trustee or an authenticating agent appointed by the Trustee shall, upon written request of the Company, authenticate and make available for delivery temporary Notes (printed or lithographed). Temporary Notes shall be issuable in any authorized denomination and shall be substantially in the form of the definitive Notes but with such omissions, insertions and variations as may be appropriate for temporary Notes, all as may be determined by the Company. Every such temporary Note shall be executed by the Company and authenticated by the Trustee or such authenticating agent upon the same conditions and in substantially the same manner, and with the same effect, as the definitive Notes. Without unreasonable delay the Company shall execute and deliver to the Trustee or such authenticating agent definitive Notes (other than in the case of Notes in global form) and thereupon any or all temporary Notes (other than the Global Note) may be surrendered in exchange therefor, at each office or agency maintained by the Company pursuant to Section 4.2 and the Trustee or such authenticating agent shall authenticate and make available for delivery in exchange for such temporary Notes an equal aggregate principal amount of definitive Notes. Such exchange shall be made by the Company at its own expense and without any charge therefor. Until so exchanged, the temporary Notes shall in all respects be entitled to the same benefits and subject to the same limitations under this Indenture as definitive Notes authenticated and delivered hereunder.

Section 2.8 Cancellation of Notes Paid, Etc.

All Notes surrendered for the purpose of payment, redemption, repurchase, exchange or registration of transfer shall, if surrendered to the Company or any paying agent or any Note registrar or any conversion agent, be surrendered to the Trustee and promptly canceled by it or, if surrendered to the Trustee, shall be promptly canceled by it and no Notes shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Indenture. If required by the Company, the Trustee shall return canceled Notes to the Company. If the Company shall acquire any of the Notes, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Notes unless and until the same are delivered to the Trustee for cancellation.

Section 2.9 Cusip Numbers.

The Company in issuing the Notes may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use CUSIP numbers in notices of redemption as a convenience to holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Notes, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company shall promptly notify the Trustee of any change in the CUSIP numbers.

ARTICLE III REDEMPTION AND REPURCHASE OF NOTES

Section 3.1 Redemption Prices.

The Notes are redeemable at the option of the Company at any time at the Company's option, upon notice as set forth in Section 3.2, in whole at any time or in part from time to time, at the redemption price of 100% of principal amount of Notes plus accrued and unpaid interest.

Section 3.2 Notice of Redemption; Selection of Notes.

In case the Company shall desire to exercise the right to redeem all or, as the case may be, any part of the Notes pursuant to Section 3.1, it shall fix a date for redemption and, in the case of any redemption pursuant to Section 3.1, it or, at its written request accompanied by the proposed form of notice of

redemption (which must be received by the Trustee at least 45 days or, if the Note is issued solely as a Global Note, at least 20 days prior to the date fixed for redemption, unless a shorter period is agreed to by the Trustee or as otherwise required by the Depository), the Trustee in the name of and at the expense of the Company, shall mail or cause to be mailed a notice of such redemption at least 30 and not more than 60 days or, if the Note is issued solely as a Global Note, at least 10 and not more than 15 days or as otherwise required by the Depository or law, prior to the date fixed for redemption to the holders of Notes so to be redeemed as a whole or in part at their last addresses as the same appear on the Note register, provided that subject to the approval of the form of notice by the Trustee if the Company shall give such notice, it shall also give such notice, and notice of the Notes to be redeemed, to the Trustee. Any such notice shall reflect that the Company has agreed to deposit with the Trustee on or prior to the date fixed for redemption an amount sufficient to redeem the principal amount of the Notes called for redemption and all interest accrued thereon up to the date fixed for redemption. Such mailing shall be by first class mail. The notice, if mailed in the manner herein provided, shall be conclusively presumed to have been duly given, whether or not the holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the holder of any Note designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Note.

Each such notice of redemption shall identify the Notes to be redeemed (including CUSIP numbers), specify the aggregate principal amount of Notes to be redeemed, the date fixed for redemption, the redemption price at which Notes are to be redeemed, the place or places of payment, that payment shall be made upon presentation and surrender of such Notes, that interest accrued to the date fixed for redemption shall be paid as specified in said notice and that on and after said date, interest thereon or on the portion thereof to be redeemed shall cease to accrue. If fewer than all the Notes are to be redeemed, the notice of redemption shall identify the Notes to be redeemed. In case any Note is to be redeemed in part only, the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of such Note, a new Note or Notes in principal amount equal to the unredeemed portion thereof shall be issued.

On or prior to the Business Day prior to the redemption date specified in the notice of redemption given as provided in this Section 3.2, the Company shall deposit by 11:00 A.M. Eastern Time with the Trustee or with one or more paying agents (or, if the Company is acting as its own paying agent, set aside, segregate and hold in trust as provided in Section 4.4) an amount of money sufficient to redeem on the redemption date all the Notes so called for redemption at the appropriate redemption price, together with accrued interest to the date fixed for redemption. If fewer than all the Notes are to be redeemed, the Company shall give the Trustee written notice in the form of an Officers' Certificate not fewer than 15 days (or such shorter period of time as may be acceptable to the Trustee) prior to the redemption date as to the aggregate principal amount of Notes to be redeemed.

If fewer than all the Notes are to be redeemed, the Trustee shall select the Notes or portions thereof to be redeemed (in principal amounts of \$25 or integral multiples thereof), by lot or, in its discretion, on a PRO RATA basis; provided, however, that as long as the Notes are issued in global form, such Notes shall be redeemed in accordance with the procedures established by the Depository. The Notes (or portions thereof) so selected shall be deemed duly selected for redemption for all purposes hereof.

Section 3.3 Payment of Notes Called for Redemption.

If notice of redemption has been given as above provided, the Notes or portion of Notes with respect to which such notice has been given shall become due and payable on the date and at the place or places stated in such notice at the applicable redemption price, together with interest thereon accrued to the date fixed for redemption subject to the provision in the last sentence of this paragraph, and on and after said date (unless the Company shall default in the payment of such Notes at the redemption price, together with interest thereon accrued to said date), interest on the Notes or portion of Notes so called for redemption shall cease to accrue, and, except as provided in Sections 7.6 and 11.3, to be entitled to any benefit or security under this Indenture, and the holders thereof shall have no right in respect of such Notes except the right to receive the redemption price thereof and unpaid interest thereon to the date fixed for redemption. On presentation and surrender of such Notes at a place of payment in said notice specified, the said Notes or the specified portions thereof shall be paid and redeemed by the Company at the applicable redemption price, together with interest accrued thereon to the date fixed for redemption; provided that any quarterly payment of principal and interest becoming due on the date fixed for redemption shall be payable to the holders of such Notes registered as such on the relevant record date subject to the terms and provisions of Section 2.3 hereof.

Upon presentation of any Note redeemed in part only, the Company shall execute and the Trustee shall authenticate and make available for delivery to the holder thereof, at the expense of the Company, a new Note or Notes, of

authorized denominations, in principal amount equal to the unredeemed portion of the Notes so presented.

If any Note called for redemption shall not be so paid upon surrender thereof for redemption, such Note shall be deemed to remain outstanding and the principal and premium, if any, shall, until paid or duly provided for, bear interest from the date fixed for redemption at the rate borne by the Note until the principal, interest and premium, if any, shall have been paid or duly provided for.

Section 3.4 Repurchase of Notes upon a Change of Control.

(a) If a Change of Control shall occur at any time, then each holder of Notes shall have the right to require that the Company repurchase such holder's Notes in whole or in part in integral multiples of \$25 at a purchase price (the "Change of Control Purchase Price") in cash in an amount equal to 101% of the remaining outstanding principal balance of such Notes, plus accrued and unpaid interest thereon, if any, to the purchase date (the "Change of Control Purchase Date") pursuant to the offer described below (the "Change of Control Offer") and in accordance with the other procedures set forth in this Indenture.

(b) Within 30 days following any Change of Control, the Company shall publish a notice in the Wall Street Journal, notify the Trustee thereof and give written notice of such Change of Control to each holder of Notes, by first-class mail, postage prepaid, at the Noteholder's address appearing in the Note register, stating, among other things, (i) that a Change of Control has occurred, (ii) the Change of Control Purchase Price, (iii) the Change of Control Purchase Date (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed, or such later date as is necessary to comply with requirements under the Exchange Act), (iv) that any Note not tendered shall continue to accrue interest and to have all of the benefits of this Indenture, (v) that, unless the Company defaults in the payment of the Change of Control Purchase Price, any Notes accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Change of Control Purchase Date, (vi) that Noteholders electing to have any Notes purchased pursuant to a Change of Control Offer shall be required to surrender the Notes, with the form entitled "Option of Noteholder to Elect Purchase" on the reverse of the Notes completed, to the Company at the address specified in the notice prior to the close of business on the third Business Day preceding the Change of Control Purchase Date, (vii) that Noteholders shall be entitled to withdraw their election if the Company receives, not later than the close of business on the second Business Day preceding the Change of Control Purchase Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Noteholder, the principal amount of Notes delivered for purchase, and a statement that such Noteholder is withdrawing his election to have such Notes purchased, and (viii) that Noteholders whose Notes are being purchased only in part shall be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered, which unpurchased portion must be equal to \$25 in principal amount or an integral multiple thereof. The Company shall comply with the requirements of Rule 13e-4 and 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the Notes in connection with a Change of Control.

(c) On the Change of Control Purchase Date, the Company shall, to the extent lawful, (i) accept for payment Notes or portions thereof tendered pursuant to the Change of Control Offer, (ii) deposit with the Trustee in immediately available funds by 11:00 A.M. Eastern Time an amount equal to the Change of Control Purchase Price in respect of all Notes or portions thereof so tendered and (iii) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate stating the Notes or portions thereof tendered to the Company. The Trustee shall promptly mail to each Noteholder of Notes so accepted payment in an amount equal to the purchase price of such Notes, and the Trustee shall promptly authenticate and mail to each Noteholder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; provided that each such new Note shall be in a principal amount of \$25 or an integral multiple thereof. The Company shall publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

(d) The term "Change in Control" shall mean an event or series of events in which (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) acquires "beneficial ownership" (as determined in accordance with Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 50% of the total Voting Stock of the Company whether by purchase tender, merger or otherwise; provided, however, that any such person or group shall not be deemed to be the beneficial owner of, or to beneficially own, any Voting Stock tendered in a tender offer until such tendered Voting Stock is accepted for purchase under the tender offer; or all or substantially all of the assets of the Company are sold, exchanged or otherwise is transferred to such person or group (other than any pledges or transfers made in connection with the securitization of the Company's assets.)

(e) "Voting Stock" means stock of the class or classes pursuant to

which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of a corporation (irrespective whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

ARTICLE IV
PARTICULAR COVENANTS OF THE COMPANY

Section 4.1 Payment of Principal, Premium and Interest.

The Company covenants and agrees that it shall duly and punctually pay or cause to be paid the principal of and premium, if any, and interest on each of the Notes at the places, at the respective times and in the manner provided herein and in the Notes. Any amounts of cash to be given to the Trustee or paying agent shall be deposited with the Trustee or paying agent in immediately available funds by 11:00 A.M. Eastern Time. Each installment of principal and interest on the Notes due on any quarterly Payment Date may be paid by mailing checks for the amounts payable to or upon the written order of the holders of Notes entitled thereto as they shall appear on the Note register; provided that, with respect to any holder of Notes with an aggregate principal amount equal to or in excess of \$5,000,000, at the request (such request to include appropriate wire instructions) of such holder in writing to the Trustee, principal and interest on such holder's Notes shall be paid by wire transfer in immediately available funds. An installment of principal or interest shall be considered paid on the date due if the Trustee or paying agent (other than the Company, a Subsidiary of the Company or any Affiliate of any of them) holds on that date money designated for and sufficient to pay the installment of principal or interest and is not prohibited from paying such money to the holders of the Notes pursuant to the terms of this Indenture.

Section 4.2 Maintenance of Office or Agency.

The Company shall maintain in Richmond, Virginia, an office or agency, which may be an office or agency of the Trustees where the Notes may be surrendered for registration of transfer or exchange or for presentation for payment or for redemption or repurchase and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company shall give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee.

The Company may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations. The Company shall give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

The Company hereby initially designates the Trustee as paying agent, Note registrar and the Corporate Trust Office of the Trustee, as offices or agencies of the Company for the purposes set forth in the first paragraph of this Section 4.2.

So long as the Trustee is the Note registrar, the Trustee agrees to mail, or cause to be mailed, the notices set forth in Section 7.11(a).

Section 4.3 Appointments to Fill Vacancies in Trustee's Office.

The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, shall appoint, in the manner provided in Section 7.11, a Trustee, so that there shall at all times be a Trustee hereunder.

Section 4.4 Provisions as to Paying Agent.

(a) If the Company shall appoint a paying agent other than the Trustee, or if the Trustee shall appoint such a paying agent, the Company or the Trustee, as the case may be, shall cause such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section 4.4:

(1) that it shall hold all sums held by it as such agent for the payment of the principal of, premium, if any, or interest on the Notes (whether such sums have been paid to it by the Company or by any other obligor on the Notes) in trust for the benefit of the holders of the Notes;

(2) that it shall give the Trustee written notice of any failure by the Company (or by any other obligor on the Notes) to make any payment of the principal of, premium, if any, or interest on the Notes when the

same shall be due and payable; and

(3) that at any time during the continuance of an Event of Default, upon request of the Trustee, it shall forthwith pay to the Trustee all sums so held in trust.

The Company shall, before each due date of the principal of, premium, if any, or interest on the Notes, deposit with the paying agent a sum sufficient to pay such principal, premium, if any, or interest, and (unless such paying agent is the Trustee) the Company shall promptly notify the Trustee of any failure to take such action.

(b) If the Company shall act as its own paying agent, it shall, on or before each due date of the principal of, premium, if any, or interest on the Notes, set aside, segregate and hold in trust for the benefit of the holders of the Notes a sum sufficient to pay such principal, premium, if any, or interest so becoming due and shall notify the Trustee of any failure to take such action and of any failure by the Company (or any other obligor under the Notes) to make any payment of the principal of, premium, if any, or interest on the Notes when the same shall become due and payable.

(c) Anything in this Section 4.4 to the contrary notwithstanding, the Company may, at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture, or for any other reason, pay or cause to be paid to the Trustee all sums held in trust by the Company or any paying agent hereunder as required by this Section 4.4, such sums to be held by the Trustee upon the trusts herein contained and upon such payment by the Company or any paying agent to the Trustee, the Company or such paying agent shall be released from all further liability with respect to such sums.

(d) Anything in this Section 4.4 to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section 4.4 is subject to Sections 11.3 and 11.4.

Section 4.5 Corporate Existence.

Subject to Article X, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect (i) its corporate existence, and the corporate, partnership or other existence of any Subsidiary of the Company, in accordance with the respective organizational documents (as the same may be amended from time to time) of the Company or any such Subsidiary and (ii) the rights (charter and statutory), licenses and franchises of the Company and its Subsidiaries; provided that the Company shall not be required to preserve any such right, license or franchise, or the corporate, partnership or other existence of any of its Subsidiaries if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Subsidiaries, taken as a whole, and that the loss thereof is not materially adverse to the holders of the Notes.

Section 4.6 Stay, Extension and Usury Laws.

The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law that would prohibit or forgive the Company from paying all or any portion of the principal of or interest on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, or that may affect the covenants or the performance of this Indenture; and the Company (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it shall not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law has been enacted.

Section 4.7 Compliance Statement; Notice of Defaults.

(a) The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company an Officers' Certificate stating whether or not to the best knowledge of the signers thereof the Company is in compliance (without regard to periods of grace or notice requirements) with all conditions and covenants under this Indenture, and if the Company shall not be in compliance, specifying such non-compliance and the nature and status thereof of which such signer may have knowledge.

(b) The Company shall file with the Trustee written notice of the occurrence of any default or Event of Default within ten days of its becoming aware of any such default or Event of Default.

Section 4.8 Limitation on Dividend and Other Payment Restrictions Affecting Subsidiaries.

The Company shall not, and shall not permit any of its Subsidiaries to,

directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction on the ability of any Subsidiary to (i) pay dividends or make any other distribution on its Capital Stock or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to, the Company or a Subsidiary of the Company, (ii) make loans or advances to the Company or any Subsidiary of the Company, or (iii) transfer any of its properties or assets to the Company other than any Subsidiary other than in each case any encumbrance or restriction relating to the securitization of the assets of the Company or Subsidiary consistent with past practice.

Section 4.9 Taxes. -----

The Company shall pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all taxes, assessments and governmental charges (including withholding taxes and any penalties, interest and additions to taxes) levied or imposed upon the Company or its Subsidiaries or upon the income, profits or property of the Company or any such Subsidiary and (ii) all lawful claims for labor, materials and supplies that, if unpaid, might by law become a lien upon the property of the Company or any such Subsidiary; provided that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which disputed amounts adequate reserves have been made.

Section 4.10 Insurance. -----

The Company shall provide, or cause to be provided, for itself and its Subsidiaries, insurance (including appropriate self-insurance) against loss or damage of the kinds customarily insured against by corporations similarly situated and owning like properties, including, but not limited to, products liability insurance and public liability insurance, with reputable insurers or with the government of the United States of America or an agency or instrumentality thereof, in such amounts with such deductibles and by such methods as shall be determined in good faith by the Board of Directors to be appropriate.

Section 4.11 Limitation on Restricted Payments. -----

The Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, make any Restricted Payment, unless:

(a) no Default or Event of Default shall have occurred and be continuing at the time of or after giving effect to such Restricted Payment; and

(b) the aggregate amount of all such Restricted Payments does not exceed the sum of (i) the cumulative real estate investment trust taxable income of the Company earned for the tax years ended after December 31, 2001, as determined by Section 857(b)(2) of the Code, without giving effect to the dividends paid deduction defined in Section 561 of the Code and (ii) One Million Dollars (\$1,000,000).

The provisions of this covenant shall not prohibit any distribution by the Company which is necessary to maintain the Company's status as a real estate investment trust under the Code.

Section 4.12 Limitations on Transactions with Affiliates. -----

The Company shall not, and shall not permit any of its Subsidiaries to, conduct any business or enter into any transactions or series of transactions with or for the benefit of any of its Affiliates (each, an "Affiliate Transaction"), except in good faith and on terms that are, in the aggregate, no less favorable to the Company or such Subsidiary, as the case may be, than those that could have been obtained in a comparable transaction on an arm's-length basis from a Person who is not such an Affiliate. All Affiliate Transactions (and each series of related Affiliate Transactions which are a part of a common plan) involving aggregate payments or other market value in excess of \$3 million, shall be approved unanimously by the Board of Directors of the Company, such approval to be evidenced by a board resolution stating that such directors have, in good faith, determined that such transactions or related transactions comply with the foregoing provision; and if the Company or any Subsidiary of the Company enters into an Affiliate Transaction (or a series of related Affiliate Transactions which are part of a common plan) involving aggregate payments or market value in excess of \$5 million, the Company or such Subsidiary shall, prior to the consummation thereof, obtain a favorable opinion as to the fairness of such transaction or related transactions from an independent financial advisor and file the same with the Trustee; provided that this sentence shall not be applicable with respect to sales or purchases of products or services by the Company or from its Affiliates in the ordinary course of business on terms similar to those that could have been obtained in a comparable transaction on an

arms-length basis from a Person who is not such an Affiliate. Notwithstanding the foregoing, the restrictions set forth in this covenant shall not apply to (i) customary directors' fees and (ii) customary fees or transactions by and among the Company and its wholly owned Subsidiaries.

ARTICLE V
NOTEHOLDERS' LISTS AND REPORTS BY THE COMPANY

Section 5.1 Noteholders' Lists.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of holders of Notes, the Company and the Trustee, and shall otherwise comply with Trust Indenture Act Section 312(a). If the Trustee is not the Notes registrar, the Company shall furnish to the Trustee on or before at least seven Business Days preceding each interest payment date and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee reasonably may require of the names and addresses of holders of Notes, and the Company shall otherwise comply with Trust Indenture Act Section 312(a).

Section 5.2 Reports by Company.

The Company shall deliver to the Trustee within 15 days after it files the same with the Commission, copies of all reports and information (or copies of such portions of any of the foregoing as the Commission may by its rules and regulations prescribe), if any, which the Company is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act or pursuant to the immediately following sentence. So long as the Notes remain listed on the American Stock Exchange, the Company shall file with the Commission such reports as may be required pursuant to Section 13 of the Exchange Act in respect of a security registered pursuant to Section 12 of the Exchange Act, regardless of whether the Company is otherwise required to file such reports. If the Company is not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act (or otherwise required to file reports pursuant to the immediately preceding sentence) and so long as at least Three Million Dollars (\$3,000,000) in aggregate principal amount of Notes remain outstanding, the Company shall deliver to the Trustee, within 15 days after it would have been required to file such information with the Commission were it required to do so, annual and quarterly financial statements, including any notes thereto (and, in the case of a fiscal year end, an auditors' report by an independent certified public accounting firm of established national reputation), and a "Management's Discussion and Analysis of Financial Condition and Results of Operations," in each case substantially equivalent to that which it would have been required to include in such quarterly or annual reports, information, documents or other reports if it had been subject to the requirements of Section 13 or 15(d) of the Exchange Act. The Company shall provide copies of the foregoing materials to the Noteholders to the extent required by the Trust Indenture Act once this Indenture has been qualified. The Company shall also comply with the other provisions of the Trust Indenture Act Section 314(a).

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

ARTICLE VI
DEFAULTS AND REMEDIES

Section 6.1 Events of Default.

In case one or more of the following Events of Default (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) shall have occurred and be continuing:

(a) default in the payment of the principal of or premium, if any, on the Notes when due at maturity, upon a payment date or upon redemption or otherwise, including failure by the Company to purchase the Notes when required under Section 3.5; or

(b) default in the payment of any installment of interest on the Notes as and when the same shall become due and payable and continuance of such default for a period of 30 days; or

(c) a failure on the part of the Company to duly observe or perform any other covenants or agreements on the part of the Company in this Indenture (other than a default in the performance or breach of a covenant or agreement

that is specifically dealt with elsewhere in this Section 6.1) that continues for a period of 90 days after the date on which written notice of such failure, requiring the Company to remedy the same, shall have been given to the Company by the Trustee, or to the Company and a Responsible Officer of the Trustee, by the holders of at least 25% in aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 8.4; or

(d) an event of default occurs under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company or any of its Subsidiaries (or the payment of which is guaranteed by the Company or any of its Subsidiaries), other than any non-recourse indebtedness, whether such indebtedness or guarantee now exists or shall be created after the date hereof, which default (i) is caused by a failure to pay principal or interest on such indebtedness prior to the expiration of the grace period provided in such indebtedness (a "Payment Default") or (ii) results in the acceleration of such indebtedness prior to its expressed maturity and, in each case, the principal amount of such indebtedness, together with the principal amount of any other such indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates \$25,000,000 or more;

(e) final judgments or decrees shall be entered by a court of competent jurisdiction against the Company or any Subsidiary involving liabilities of \$40,000,000 or more (singly or in the aggregate) (after deducting the portion of such liabilities accepted by a reputable insurance company) and such final judgments or decrees shall not have been vacated, discharged, satisfied or stayed pending appeal within 60 days from the entry thereof;

(f) the Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect, or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it or shall make a general assignment for the benefit of creditors or shall fail generally to pay its debts as they become due; or

(g) an involuntary case or other proceeding shall be commenced against the Company seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 consecutive days;

then, and in each and every such case (other than an Event of Default specified in Section 6.1(f) or (g)), unless the principal of all of the Notes shall have already become due and payable, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Notes then outstanding hereunder determined in accordance with Section 8.4, by notice in writing to the Company (and to the Trustee if given by Noteholders), may declare the principal of, premium, if any, on the Notes and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Notes contained to the contrary notwithstanding. If an Event of Default specified in Section 6.1(f) or (g) occurs and is continuing, the principal of all the Notes and the interest accrued thereon shall be immediately due and payable. The foregoing provision is subject to the conditions that if, at any time after the principal of the Notes shall have been so declared due and payable, and before any judgment or decree for the payment of the monies due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient to pay all matured installments of interest upon all Notes and the principal of and premium, if any, on any and all Notes that shall have become due otherwise than by acceleration (with interest on overdue installments of interest (to the extent that payment of such interest is enforceable under applicable law) and on such principal and premium, if any, at the rate borne by the Notes, to the date of such payment or deposit) and amounts due to the Trustee pursuant to Section 7.7, and if any and all defaults under this Indenture, other than the nonpayment of principal of, premium, if any, and accrued interest on Notes that shall have become due by acceleration, shall have been cured or waived pursuant to Section 6.7, then and in every such case the holders of a majority in aggregate principal amount of the Notes then outstanding, by written notice to the Company and to the Trustee, may waive all defaults or Events of Default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or Event of Default, or shall impair any right consequent thereto. The Company shall notify a Responsible Officer of the Trustee, promptly upon becoming aware thereof, of any Event of Default.

In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of such waiver or rescission and annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company, the holders of Notes and the Trustee shall be restored respectively to

their several positions and rights hereunder, and all rights, remedies and powers of the Company, the holders of Notes and the Trustee shall continue as though no such proceeding had been taken.

Section 6.2 Payments of Notes on Default; Suit Therefor.

The Company covenants that (a) in case a default shall be made in the payment of any installment of interest upon any of the Notes as and when the same shall become due and payable, and such default shall have continued for a period of 30 days, or (b) in case default shall be made in the payment of the principal of or premium, if any, on any of the Notes as and when the same shall have become due and payable, whether upon a Payment Date, at maturity of the Notes or in connection with any redemption or repurchase, by declaration or otherwise, then, upon demand of the Trustee, the Company shall pay to the Trustee, for the benefit of the holders of the Notes, the whole amount that then shall have become due and payable on all such Notes for principal of, premium, if any, or interest, or both, as the case may be, with interest upon the overdue principal, premium, if any, and (to the extent that payment of such interest is enforceable under applicable law) upon the overdue installments of interest at the rate borne by the Notes; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any expenses or liabilities incurred by the Trustee hereunder other than through its negligence or willful misconduct. Until such demand by the Trustee, the Company may pay the principal of and premium, if any, and interest on the Notes to the registered holders, whether or not the Notes are overdue.

In case the Company shall fail forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company or any other obligor on the Notes and collect in the manner provided by law out of the property of the Company or any other obligor on the Notes wherever situated the monies adjudged or decreed to be payable.

In case there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other obligor on the Notes under Title 11 of the United States Code or any other applicable law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Company or such other obligor, the property of the Company or such other obligor, or in the case of any other judicial proceedings relative to the Company or such other obligor upon the Notes, or to the creditors or property of the Company or such other obligor, the Trustee, irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 6.2, shall be entitled and empowered, by intervention in such proceedings or otherwise, subject to the rights of the Trustee under Section 7.3 and 7.7 hereof, to file and prove a claim or claims for the whole amount of principal, premium, if any, and interest owing and unpaid in respect of the Notes and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and of the Noteholders allowed in such judicial proceedings relative to the Company or any other obligor on the Notes, its or their creditors, or its or their property and to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same after the deduction of any amounts due the Trustee under Section 7.7; and any receiver, assignee or trustee in bankruptcy or reorganization, liquidator, custodian or similar official is hereby authorized by each of the Noteholders to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Noteholders, to pay to the Trustee any amount due it for reasonable compensation, expenses, advances and disbursements, including counsel fees incurred by it up to the date of such distribution. To the extent that such payment of reasonable compensation, expenses, advances and disbursements out of the estate in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, monies, securities and other property that the holders of the Notes may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or adopt on behalf of any Noteholder any plan of reorganization or arrangement affecting the Notes or the rights of any Noteholder, or to authorize the Trustee to vote in respect of the claim of any Noteholder in any such proceeding.

All rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Trustee without the possession of any of the Notes or the production thereof on any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be

brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the holders of the Notes.

In any proceedings brought by the Trustee pursuant to this Indenture or any supplement hereto (and in any proceedings involving the interpretation of any provision of this Indenture to which the Trustee shall be a party), the Trustee shall be held to represent all the holders of the Notes, and it shall not be necessary to make any holders of the Notes parties to any such proceedings.

Section 6.3 Application of Monies Collected by Trustee.

Any monies collected by the Trustee pursuant to this Article VI shall be applied in the order following, at the date or dates fixed by the Trustee for the distribution of such monies, upon presentation of the several Notes and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First: To the payment of all amounts due the Trustee under Section 7.7;

Second: In case the principal of the outstanding Notes shall not have become due and be unpaid, to the payment of interest on the Notes in default in the order of the maturity of the installments of such interest, with interest (to the extent that such interest has been collected by the Trustee) upon the overdue installments of interest at the rate borne by the Notes, such payments to be made ratably to the persons entitled thereto; and

Third: In case the principal of the outstanding Notes shall have become due, by declaration or otherwise, and be unpaid, to the payment of the whole amount then due and unpaid upon the Notes for principal, premium, if any, and interest, with interest on the overdue principal and premium, if any, and (to the extent that such interest has been collected by the Trustee) upon overdue installments of interest at the rate borne by the Notes; and in case such monies shall be insufficient to pay in full the whole amounts so due and unpaid upon the Notes, then to the payment of such principal, premium, if any, and interest without preference or priority of principal and premium, if any, over interest, or of interest over principal and premium, if any, or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably to the aggregate of such principal and premium, if any, and accrued and unpaid interest.

Section 6.4 Proceedings by Noteholder.

No holder of any Note shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture, or for the appointment of a receiver, trustee, liquidator, custodian or other similar official, or for any other remedy hereunder, unless such holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof, as hereinbefore provided, and unless also the holders of not less than 25% in aggregate principal amount of the Notes then outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee for 60 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding, and no direction inconsistent with such written request shall have been given to the Trustee pursuant to Section 6.7; it being understood and intended, and being expressly covenanted by the taker and holder of every Note with every other taker and holder and the Trustee, that no one or more holders of Notes shall have any right in any manner whatever by virtue of or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of any other holder of Notes, to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Notes (except as otherwise provided herein). For the protection and enforcement of this Section 6.4, each and every Noteholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

Notwithstanding any other provision of this Indenture and any provision of any Note, the right of any holder of any Note to receive payment of the principal of, premium, if any, and interest on such Note, on or after the respective due dates expressed in such Note, or to institute suit for the enforcement of any such payment on or after such respective dates against the Company shall not be impaired or affected without the consent of such holder except as otherwise set forth herein.

Section 6.5 Proceedings by Trustee.

In case of an Event of Default and subject to the provisions of Section 7.7

hereof, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

Section 6.6 Remedies Cumulative and Continuing.

Except as provided in Section 2.6, all powers and remedies given by this Article VI to the Trustee or to the Noteholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of such powers and remedies or of any other powers and remedies available to the Trustee or the holders of the Notes, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture, and no delay or omission of the Trustee or of any holder of any of the Notes to exercise any right or power accruing upon any default or Event of Default occurring and continuing as aforesaid shall impair any such right or power or shall be construed to be a waiver of any such default or any acquiescence therein; and, subject to the provisions of Section 6.4, every power and remedy given by this Article VI or by law to the Trustee or to the Noteholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Noteholders.

Section 6.7 Direction of Proceedings and Waiver of Defaults by Majority of Noteholders.

The holders of a majority in aggregate principal amount of the Notes at the time outstanding (determined in accordance with Section 8.4) shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee; provided that (a) such direction shall not be in conflict with any rule of law or with this Indenture and (b) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. The holders of a majority in aggregate principal amount of the Notes at the time outstanding (determined in accordance with Section 8.4) may on behalf of the holders of all of the Notes waive any past default or Event of Default hereunder and its consequences except (i) a default in the payment of interest or premium, if any, on, or the principal of, the Notes or (ii) a default in respect of a covenant or provisions hereof that under Article IX cannot be modified or amended without the consent of the holders of all Notes then outstanding. Whenever any default or Event of Default hereunder shall have been waived as permitted by this Section 6.7, said default or Event of Default shall for all purposes of the Notes and this Indenture be deemed to have been cured and to be not continuing and the Company, the Trustee and the holders of the Notes shall as reasonably possible be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.

Section 6.8 Notice of Defaults.

The Trustee shall, within 90 days after the occurrence of a default, mail to all Noteholders, as the names and addresses of such holders appear upon the Note register, notice of all defaults of which a Responsible Officer has actual knowledge, unless such defaults shall have been cured or waived before the giving of such notice; provided that, except in the case of default in the payment of the principal of, premium, if any, or interest on any of the Notes, the Trustee shall be protected in withholding such notice if and so long as a Responsible Officer of the Trustee in good faith determines that the withholding of such notice is in the interests of the Noteholders.

Section 6.9 Undertaking to Pay Costs.

All parties to this Indenture agree, and each holder of any Note by his acceptance thereof shall be deemed to have agreed, that any court may, in its discretion, require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; provided that the provisions of this Section 6.9 shall not apply to any suit instituted by the Trustee, to any suit instituted by any Noteholder or group of Noteholders holding in the aggregate more than 10% in principal amount of the indenture securities outstanding, or to any suit instituted by any Noteholder for the enforcement of the payment of the principal of, premium, if any, or interest on any Note on or after the due date expressed in such Note.

ARTICLE VII
CONCERNING THE TRUSTEE

Section 7.1 Duties and Responsibilities of Trustee.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default:

(i) the Trustee need perform only those duties that are specifically set forth in this Indenture and no others; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; provided that in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(i) this paragraph (c) does not limit the effect of paragraph (b) of this Section 7.1;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer of the Trustee unless it is proved that the Trustee was negligent in ascertaining the pertinent facts reasonably available to the Trustee; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.7.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), (c) and (e) of this Section 7.1.

(e) The Trustee may refuse to perform any duty or exercise any right or power or extend or risk its own funds or otherwise incur any financial liability unless it receives indemnity satisfactory to it against any loss, liability or expense.

Section 7.2 Reports by Trustee to Holders.

Within 60 days after each April 1 commencing with the April 1 following the date of this Indenture, the Trustee shall, if required by the Trust Indenture Act, mail to each Noteholder a brief report dated as of such April 1 that complies with Trust Indenture Act Section 313(a). The Trustee also shall comply with Trust Indenture Act Sections 313(b) and 313(c).

The Company shall promptly notify the Trustee in writing if the Notes become listed or desisted on any stock exchange or automatic quotation system.

A copy of each report at the time of its mailing to Noteholders shall be mailed to the Company and, to the extent required by Section 5.2 hereof and of the Trust Indenture Act Section 313(d), filed with the Commission and each stock exchange, if any, on which the Notes are listed.

Section 7.3 Reliance on Documents, Opinions, etc.

Except as otherwise provided in Section 7.1:

(a) The Trustee may rely and shall be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, coupon or other paper or document believed by it in good faith to be genuine and to have been signed or presented by the proper party or parties;

(b) Any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed or required by the Trust Indenture Act); and any resolution of the Board of Directors may be evidenced to the Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of the Company;

(c) The Trustee may consult with counsel of its selection and any advice or opinion of counsel shall be full and complete authorization and protection in respect of any action taken or omitted by it hereunder in good faith and in accordance with such advice or opinion of counsel;

(d) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys, and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed by it with due care hereunder; no Depository, Custodian or paying agent who is not the Trustee shall be deemed an agent of the Trustee, and the Trustee (in its capacity as Trustee) shall not be responsible for any act or omission by any such Depository, Custodian or paying agent;

(e) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the holders pursuant to this Indenture unless such holders have offered the Trustee reasonable security or indemnity against the costs, expenses and liabilities that would be incurred by it in compliance with such request or direction.

(f) Subject to the provisions of Section 7.1(c), the Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers;

(g) In connection with any request to transfer or exchange any Note, the Trustee may request a direction (in the form of an Officers' Certificate) from the Company and an Opinion of Counsel with respect to compliance with any restrictions on transfer or exchange imposed by this Indenture, the Securities Act, other applicable law or the rules and regulations of any exchange on which the Notes may be traded, and the Trustee may rely and shall be protected in acting upon such direction and in accordance with such Officers' Certificate and Opinion of Counsel;

(h) The Trustee shall not be deemed to have knowledge of any Event of Default or other fact or event upon the occurrence of which it may be required to take action hereunder unless one of its Responsible Officers has actual knowledge thereof obtained by a written statement.

Section 7.4 No Responsibility for Recitals, etc.

The recitals contained herein and in the Notes (except in the Trustee's certificate of authentication) shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Notes. The Trustee shall not be accountable for the use or application by the Company of any Notes or the proceeds of any Notes authenticated and delivered by the Trustee in conformity with the provisions of this Indenture.

Section 7.5 Trustee, Paying Agents or Registrar May Own Notes.

The Trustee, any paying agent or any Note registrar, in its individual or any other capacity, may become the owner or pledgee of Notes with the same rights it would have if it were not Trustee, paying agent or Note registrar.

Section 7.6 Monies to be Held in Trust.

Subject to the provisions of Section 11.5, all monies received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received. Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as may be agreed to in writing from time to time by the Company and the Trustee.

Section 7.7 Compensation and Expenses of Trustee.

The Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, such compensation as the Company and the Trustee shall from time to time agree in writing, for all services rendered by it hereunder in any capacity (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust), and the Company shall pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or willful misconduct. The Company also covenants to indemnify each of the Trustee or any predecessor Trustee in any capacity under

this Indenture and its agents and any authenticating agent for, and to hold them harmless against, any and all loss, liability, damage, claim or expense, including taxes (other than taxes based on the income of the Trustee) incurred without negligence or willful misconduct on the part of the Trustee or such agent or authenticating agent, as the case may be, and arising out of or in connection with the acceptance or administration of this trust or in any other capacity hereunder, including the costs and expenses of defending themselves against any claim of liability in the premises. The obligations of the Company under this Section 7.7 to compensate or indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall be secured by a lien prior to that of the Notes upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Notes. The obligation of the Company under this Section shall survive the satisfaction and discharge of this Indenture.

Section 7.8 Officers' Certificate as Evidence.

Except as otherwise provided in Section 7.1, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such Officers' Certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken or omitted by it under the provisions of this Indenture upon the faith thereof.

Section 7.9 Conflicting Interests of Trustee.

In the event that the Trust Indenture Act is applicable hereto, and if the Trustee has or shall acquire a conflicting interest within the meaning of Trust Indenture Act Section 310(b) and there exists an Event of Default hereunder (exclusive of any period of grace or requirement of notice), the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture.

Section 7.10 Eligibility of Trustee.

There shall at all times be a Trustee hereunder that shall be a person that satisfies the requirements of Trust Indenture Act Section 310(a)(1) and Section 310(a)(5) and that has a combined capital and surplus of at least \$50,000,000. If such person publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article VII.

Section 7.11 Resignation or Removal of Trustee.

(a) The Trustee may at any time resign by giving written notice of such resignation to the Company; and the Company shall mail, or cause to be mailed, notice thereof to the holders of Notes at their addresses as they shall appear on the Note register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee.

(b) In case at any time any of the following shall occur:

(i) the Trustee shall fail to comply with Section 7.9 after written request therefor by the Company or by any Noteholder who has been a bona fide holder of a Note or Notes for at least six months; or

(ii) the Trustee shall cease to be eligible in accordance with the provisions of Section 7.10 and shall fail to resign after written request therefor by the Company or by any such Noteholder; or

(iii) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, the Company may remove the Trustee and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or any Noteholder who has been a bona fide holder of a Note or Notes for at least

six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Notes at the time outstanding may at any time remove the Trustee and nominate a successor trustee, which shall be deemed appointed as successor trustee unless within ten days after notice to the Company of such nomination the Company objects thereto, in which case the Trustee so removed or any Noteholder, upon the terms and conditions and otherwise as provided in the next paragraph, may petition any court of competent jurisdiction for an appointment of a successor trustee.

If no successor trustee shall have been so appointed and have accepted appointment within 60 days after removal or the mailing of such notice of resignation to the Noteholders, the Trustee resigning or being removed may petition any court of competent jurisdiction for the appointment of a successor trustee, or, in the case of either resignation or removal, any Noteholder who has been a bona fide holder of a Note or Notes for at least six months may, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 7.11 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 7.12.

Section 7.12 Acceptance by Successor Trustee.

Any successor trustee appointed as provided in Section 7.11 shall execute, acknowledge and deliver to the Company and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon, the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as trustee herein; but on the written request of the Company or of the successor trustee, the Trustee ceasing to act shall, upon payment of any amounts then due it pursuant to the provisions of Section 7.7, execute and deliver an instrument transferring to such successor trustee all the rights and powers of the Trustee so ceasing to act. Upon request of any such successor trustee, the Company shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any Trustee ceasing to act shall, nevertheless, retain a lien upon all property and funds held or collected by such trustee as such, except for funds held in trust for the benefit of holders of particular Notes, to secure any amounts then due it pursuant to the provisions of Section 7.7.

No successor trustee shall accept appointment as provided in this Section 7.12 unless at the time of such acceptance such successor trustee shall be qualified under the provisions of Section 7.9 and eligible under the provisions of Section 7.10.

Upon acceptance of appointment by a successor trustee as provided in this Section 7.12, the Company shall mail or cause to be mailed notice of the succession of such Trustee hereunder to the holders of Notes at their addresses as they shall appear on the Note register. If the Company fails to mail such notice within ten days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Company.

Section 7.13 Successor, by Merger, etc.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor to the Trustee hereunder, provided such corporation shall be qualified under the provisions of Section 7.9 and eligible under the provisions of Section 7.10 without the execution or filing of any paper or any further act on the part of any of the parties hereto.

Section 7.14 Limitation on Rights of Trustee as Creditor.

If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Notes) and the Trust Indenture Act is applicable hereto, the Trustee shall be subject to the provisions of Trust Indenture Act Section 311(a) or, if applicable, Trust Indenture Act Section 311(b) regarding

the collection of the claims against the Company (or any such other obligor).

ARTICLE VIII
CONCERNING THE NOTEHOLDERS

Section 8.1 Action by Noteholders.

Whenever in this Indenture it is provided that the holders of a specified percentage in aggregate principal amount of the Notes may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action, the holders of such specified percentage have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by Noteholders in person or by agent or proxy appointed in writing, or (b) by a combination of such instrument or instruments and any such record of such a meeting of Noteholders. Whenever the Company or the Trustee solicits the taking of any action by the holders of the Notes, the Company or the Trustee may fix in advance of such solicitation, a date as the record date for determining holders entitled to take such action. The record date shall be not more than 15 days prior to the date of commencement of solicitation of such action.

Section 8.2 Proof of Execution by Noteholders.

Subject to the provisions of Sections 7.1 and 7.2, proof of the execution of any instrument by a Noteholder or by agent or proxy shall be sufficient if made in accordance with Section 7.3 hereof. The holding of Notes shall be proved by the Note register or by a certificate of the Note registrar.

Section 8.3 Who are Deemed Absolute Owners.

The Company, the Trustee, any paying agent and any Note registrar may deem the person in whose name such Note shall be registered upon the books of the Company to be, and may treat such person as, the absolute owner of such Note (whether or not such Note shall be overdue and notwithstanding any notation of ownership or other writing thereon) for the purpose of receiving payment of or on account of the principal of, premium, if any, and interest on such Note and for all other purposes; and neither the Company nor the Trustee nor any paying agent nor any Note registrar shall be affected by any notice to the contrary. All such payments so made to any holder for the time being, or upon order of such holder, shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for monies payable upon any such Note.

The Depository shall be deemed to be the owner of the Global Note for all purposes, including receipt of notices to Noteholders and payment of principal of, premium, if any, and interest on the Notes. None of the Company, the Trustee (in its capacity as Trustee), any paying agent or the Note registrar (or co-registrar) shall have any responsibility for any aspect of the records relating to or payments made on account of beneficial interests of the Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Section 8.4 Company-Owned Notes Disregarded.

In determining whether the holders of the requisite aggregate principal amount of Notes have concurred in any direction, consent, waiver or other action under this Indenture, Notes that are owned by the Company or any other obligor on the Notes or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any other obligor on the Notes shall be disregarded and deemed not to be outstanding for the purpose of any such determination; provided that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, consent, waiver or other action, only Notes that a Responsible Officer of the Trustee actually knows are so owned shall be so disregarded.

Notes so owned that have been pledged in good faith may be regarded as outstanding for the purposes of this Section 8.4 if the pledgee shall establish to the satisfaction of the Trustee the pledger's right to vote such Notes and that the pledgee is not the Company, any other obligor on the Notes or a person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any such other obligor.

In the case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the Company shall furnish to the Trustee promptly an Officers' Certificate listing and identifying all Notes, if any, known by the Company to be owned or held by or for the account of any of the above described persons; and subject to Section 7.1, the Trustee shall be entitled to accept such Officers' Certificate as conclusive evidence of the facts therein set forth

and of the fact that all Notes not listed therein are outstanding for the purpose of any such determination.

Section 8.5 Revocation of Consents, Future Holders Bound.

At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 8.1, of the taking of any action by the holders of the percentage in aggregate principal amount of the Notes specified in this Indenture in connection with such action, any holder of a Note that is shown by the evidence to be included in the Notes the holders of which have consented to such action may, by filing written notice with the Trustee at its Corporate Trust Office and upon proof of holding as provided in Section 8.2, revoke such action so far as concerns such Note. Except as aforesaid, any such action taken by the holder of any Note shall be conclusive and binding upon such holder and upon all future holders and owners of such Note and of any Notes issued in exchange or substitution therefor, irrespective of whether any notation in regard thereto is made upon such Note or any Note issued in exchange or substitution therefor.

ARTICLE IX SUPPLEMENTAL INDENTURES

Section 9.1 Supplemental Indentures Without Consent of Noteholders.

The Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for one or more of the following purposes:

(a) to convey, transfer, assign, mortgage or pledge to the Trustee as security for the Notes, any property or assets;

(b) to evidence the succession of another person to the Company, or successive successions, and the assumption by the Successor Company of the covenants, agreements and obligations of the Company pursuant to Article X;

(c) to add to the covenants of the Company such further covenants, restrictions or conditions as the Board of Directors and the Trustee shall consider to be for the benefit of the holders of Notes and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions or conditions a default or an Event of Default permitting the enforcement of all or any of the several remedies provided in this Indenture as herein set forth; provided that in respect of any such additional covenant, restriction or condition, such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default;

(d) to provide for the exchange of the Global Note for Notes to be issued in definitive form and to provide for exchangeability of such Notes with the Notes issued hereunder in fully registered form and to make all appropriate changes for such purpose;

(e) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture that may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture that shall not adversely affect the interests of the holders of the Notes;

(f) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Notes; or

(g) to modify, eliminate or add to the provisions of this Indenture to such extent necessary to effect the qualification of this Indenture under the Trust Indenture Act (if applicable), or under any similar federal statute hereafter enacted (if applicable).

The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, to make any further appropriate agreements and stipulations that may be therein contained and to accept the conveyance, transfer and assignment of any property thereunder, but the Trustee shall not be obligated to, but may in its discretion, enter into any supplemental indenture that affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section 9.1 may be executed by the Company and the Trustee without the consent of the holders of any of the Notes at the time outstanding, notwithstanding any of the provisions of Section 9.2.

Section 9.2 Supplemental Indentures With Consent of Noteholders.

With the consent (evidenced as provided in Article VIII) of the holders of not less than a majority in aggregate principal amount of the Notes at the time outstanding, the Company, when authorized by a Board Resolution and the Trustee, may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or any supplemental indenture or of modifying in any manner the rights of the holders of the Notes; provided that no such supplemental indenture shall (i) without the consent of the holders of each Note so affected, extend the fixed maturity of any Note or due date for principal installments thereunder, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof or premium, if any, thereon or reduce any amount payable on redemption or repurchase thereof, alter the obligation of the Company to repurchase the Notes at the option of the holder upon the occurrence of a Change of Control or impair or affect the right of any Noteholder to institute suit for the payment thereof or make the principal thereof or interest or premium, if any, thereon payable in any coin or currency other than that provided in the Notes, or (ii) without the consent of the holders of all the Notes then outstanding, reduce the aforesaid percentage of Notes, the holders of which are required to consent to any such supplemental indenture.

Upon the request of the Company, accompanied by a copy of a Board Resolution certified by its Secretary or Assistant Secretary authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Noteholders as aforesaid, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

It shall not be necessary for the consent of the Noteholders under this Section 9.2 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Section 9.3 Effect of Supplemental Indentures.

Any supplemental indenture executed pursuant to the provisions of this Article IX shall comply with the Trust Indenture Act, as then in effect, if such supplemental indenture is then required to so comply. Upon the execution of any supplemental indenture pursuant to the provisions of this Article IX, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitation of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the holders of Notes shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.4 Notation on Notes.

Notes authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article IX may bear a notation in form approved by the Company as to any matter provided for in such supplemental indenture, but they need not do so. After notice to the Trustee, if the Company shall determine to add such a notation, new Notes so modified as to conform, in the opinion of the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may, at the Company's expense, be prepared and executed by the Company, authenticated by the Trustee (or an authenticating agent duly appointed by the Trustee pursuant to Section 13.11) and delivered in exchange for the Notes then outstanding, upon surrender of such Notes then outstanding.

Section 9.5 Evidence of Compliance of Supplemental Indenture to be Furnished to the Trustee.

The Trustee shall be furnished with and, subject to the provisions of Sections 7.1 and 7.2, may rely conclusively upon an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article IX.

ARTICLE X CONSOLIDATION, MERGER, SALE, CONVEYANCE, TRANSFER AND LEASE

Section 10.1 Company may Consolidate, etc. on Certain Terms.

The Company shall not consolidate with or merge with or into, or convey,

transfer or lease all or substantially all of its assets (determined on a consolidated basis) to any person unless: (i) either the Company is the resulting, surviving or transferee person (the "Successor Company") or the Successor Company is a person organized and existing under the laws of the United States or any State thereof or the District of Columbia, and the Successor Company (if not the Company) expressly assumes by a supplemental indenture, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Company under this Indenture and the Notes, (ii) immediately after giving effect to such transaction, no Event of Default has happened and is continuing and (iii) the Company delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with this Indenture.

Section 10.2 Successor Company to be Substituted.

In case of any such consolidation, merger, sale, conveyance, transfer or lease and upon the assumption by the Successor Company, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of, premium, if any, and interest on all of the Notes and the due and punctual performance of all of the covenants and conditions of this Indenture to be performed by the Company, such Successor Company shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the party hereto. When a Successor Company duly assumes all the obligations of the Company pursuant to this Indenture and the Notes, the predecessor shall be released from all such obligations.

Section 10.3 Opinion of Counsel to be Given to Trustee.

The Trustee, subject to Sections 7.1 and 7.2, shall receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, conveyance, transfer or lease and any such assumption complies with the provisions of this Article X.

ARTICLE XI

SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONEYS

Section 11.1 Legal Defeasance And Covenant Defeasance Of The Notes.

(a) The Company may, at its option by Board Resolution, at any time, with respect to the Notes, elect to have either paragraph (b) or paragraph (c) below be applied to the outstanding Notes upon compliance with the conditions set forth in paragraph (d).

(b) Upon the Company's exercise under paragraph (a) of the option applicable to this paragraph (b), the Company shall be deemed to have been released and discharged from its obligations with respect to the outstanding Notes on the date the conditions set forth in paragraph (d) below are satisfied (hereinafter, "legal defeasance"). For this purpose, such legal defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the outstanding Notes, which shall thereafter be deemed to be "outstanding" only for the purposes of the Sections of and matters under this Indenture referred to in clauses (i) and (ii) below and to have satisfied all its other obligations under such Notes and this Indenture insofar as such Notes are concerned, except for the following, which shall survive until otherwise terminated or discharged hereunder: (i) the rights of holders of outstanding Notes to receive solely from the trust fund described in paragraph (d) below and as more fully set forth in such paragraph, payments in respect of the principal of, premium, if any, and interest on such Notes when such payments are due and (ii) obligations listed in Section 11.3.

(c) Upon the Company's exercise under paragraph (a) of the option applicable to this paragraph (c), the Company shall be released and discharged from its obligations under any covenant contained in Article IV, Article X and Section 3.4 with respect to the outstanding Notes on and after the date the conditions set forth in paragraph (d) are satisfied (hereinafter, "covenant defeasance"), and the Notes shall thereafter be deemed to be not "outstanding" for the purpose of any direction, waiver, consent or declaration or act of holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "outstanding" for all other purposes hereunder. For this purpose, such covenant defeasance means that, with respect to the outstanding Notes, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document, and such omission to comply shall not constitute a Default or an Event of Default under Section 6.1, but, except as specified above, the remainder of this Indenture and such Notes shall be unaffected thereby.

(d) The following shall be the conditions to application of either paragraph (b) or paragraph (c) above to the outstanding Notes:

(i) The Company shall have irrevocably deposited in trust with the Trustee, pursuant to an irrevocable trust and security agreement in form and substance satisfactory to the Trustee, cash or non-callable U.S. Government Obligations maturing as to principal and interest at such times, or a combination thereof, in such amounts as are sufficient, without consideration of the reinvestment of such interest and after payment of all federal, state and local taxes or other charges or assessments in respect thereof payable by the Trustee, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof (in form and substance reasonably satisfactory to the Trustee) delivered to the Trustee, to pay the principal of, premium, if any, and interest on the outstanding Notes on the dates on which any such payments are due and payable in accordance with the terms of this Indenture and of the Notes as well as all other sums payable hereunder by the Company;

(ii) (A) No Event of Default shall have occurred or be continuing on the date of such deposit, and (B) no Default or Event of Default under Section 6.1(f) or 6.1(g) shall occur on or before the 123rd day after the date of such deposit;

(iii) Such deposit shall not result in a Default under this Indenture or a breach or violation of, or constitute a default under, any other instrument or agreement to which the Company is a party or by which it or its property is bound;

(iv) In the case of a legal defeasance under paragraph (b) above, the Company shall have delivered to the Trustee an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee stating that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling applicable to such a defeasance or (B) since the date of this Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the holders of the Notes shall not recognize income, gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge and shall be subject to federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred; and, in the case of a covenant defeasance under paragraph (c) above, the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, in form and substance reasonably satisfactory to the Trustee, to the effect that holders of the Notes shall not recognize income, gain or loss for federal income tax purposes as a result of such deposit and defeasance and shall be subject to federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred;

(v) The holders shall have a perfected security interest under applicable law in the cash or U.S. Government Obligations deposited pursuant to Section 11.1(d) (i) above;

(vi) The Company shall have delivered to the Trustee an Opinion of Counsel, in form and substance reasonably satisfactory to the Trustee, to the effect that, after the passage of 123 days following the deposit, the trust funds shall not be subject to any applicable bankruptcy, insolvency, reorganization or similar law affecting creditors' rights generally;

(vii) Such defeasance shall not cause the Trustee to have a conflicting interest with respect to any securities of the Company; and

(viii) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee, each stating that all conditions precedent specified herein relating to the defeasance contemplated by this Section 11.1 have been complied with; provided, that no deposit under clause (i) shall be effective to terminate the obligations of the Company under the Notes or this Indenture prior to the passage of 123 days following such deposit.

Section 11.2 Termination of Obligations upon Cancellation of the Notes.

In addition to the Company's rights under Section 11.1, the Company may terminate all of its obligations under this Indenture (subject to Section 11.3) when:

(a) (i) all Notes theretofore authenticated and delivered (other than Notes that have been destroyed, lost or stolen and that have been replaced or paid as provided in Section 2.6) have been delivered to the Trustee for cancellation; and

(ii) the Company has paid or caused to be paid all other sums payable hereunder and under the Notes by the Company; or

(b)(i) the Notes not previously delivered to the Trustee for cancellation shall have become due and payable or are by their terms to become due and payable within one year or are to be called for redemption under arrangements satisfactory to the Trustee upon delivery of notice, (ii) the Company shall have irrevocably deposited with the Trustee, as trust funds, cash, in an amount sufficient to pay principal of premium, if any, and interest on the outstanding Notes, to maturity or redemption, as the case may be, (iii) such deposit shall not result in a breach or violation of, or constitute a default under, any agreement or instrument pursuant to which the Company is a party or by which it or its property is bound and (iv) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee, each stating that all conditions related to such defeasance have been complied with.

Section 11.3 Survival of Certain Obligations.

Notwithstanding the satisfaction and discharge of this Indenture and of the Notes referred to in Section 11.1 or 11.2, the respective obligations of the Company and the Trustee under Sections 2.3, 2.4, 2.5, 2.6, 3.1, 4.2, 5.1, 6.4, 6.9, 7.6, 7.11, 11.5, 11.6 and 11.7 shall survive until the Notes are no longer outstanding, and thereafter, the obligations of the Company and the Trustee under Sections 6.9, 7.6, 11.5, 11.6 and 11.7 shall survive. Nothing contained in this Article XI shall abrogate any of the rights, obligations or duties of the Trustee under this Indenture.

Section 11.4 Acknowledgment of Discharge by Trustee.

Subject to Section 11.7, after (i) the conditions of Section 11.1 or 11.2 have been satisfied, (ii) the Company has paid or caused to be paid all other sums payable hereunder by the Company and (iii) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent referred to in clause (i) above relating to the satisfaction and discharge of this Indenture have been complied with, the Trustee upon written request shall acknowledge in writing the discharge of the Company's obligations under this Indenture except for those surviving obligations specified in Section 11.3.

Section 11.5 Application of Trust Assets.

The Trustee shall hold any cash or U.S. Government Obligations deposited with it in the irrevocable trust established pursuant to Section 11.1 or 11.2, as the case may be. The Trustee shall apply the deposited cash or the U.S. Government Obligations, together with earnings thereon in accordance with this Indenture and the terms of the irrevocable trust agreement established pursuant to Section 11.1 or 11.2, as the case may be, to the payment of principal of, premium, if any, and interest on the Notes. The cash or U.S. Government Obligations so held in trust and deposited with the Trustee in compliance with Section 11.1 or 11.2, as the case may be, shall not be part of the trust estate under this Indenture, but shall constitute a separate trust fund for the benefit of all holders entitled thereto. Except as specifically provided herein, the Trustee shall not be requested to invest any amounts held by it for the benefit of the holders or pay interest on uninvested amounts to any holder.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 11.1 hereof or Section 11.2 hereof or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the holders of outstanding Notes.

Section 11.6 Repayment to the Company; Unclaimed Money.

Subject to applicable laws governing escheat of such property, and upon termination of the trust established pursuant to Section 11.1 hereof or 11.2 hereof, as the case may be, the Trustee shall promptly pay to the Company upon written request any excess cash or U.S. Government Obligations held by them. Additionally, if amounts for the payment of principal, premium, if any, or interest remains unclaimed for two years, the Trustee shall, upon written request, pay such amounts back to the Company forthwith. Thereafter, all liability of the Trustee with respect to such amounts shall cease. After payment to the Company, holders entitled to such payment must look to the Company for such payment as general creditors unless an applicable abandoned property law designates another person.

Section 11.7 Reinstatement.

If the Trustee is unable to apply any cash or U.S. Government Obligations in accordance with Section 11.1 or 11.2 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority

enjoining, restraining or otherwise prohibiting such application, the Company's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 11.1 or 11.2 until such time as the Trustee is permitted to apply all such cash or U.S. Government Obligations in accordance with Section 11.1 or 11.2, as the case may be; provided that if the Company makes any payment of principal of, premium, if any, or interest on any Notes following the reinstatement of its obligations, the Company shall be subrogated to the rights of the holders of such Notes to receive such payment from the amounts held by the Trustee.

ARTICLE XII

IMMUNITY OF INCORPORATORS, SHAREHOLDERS, OFFICERS AND DIRECTORS

Section 12.1 Indenture and Notes Solely Corporate Obligations.

No recourse for the payment of the principal of, or premium, if any, or interest on any Note, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company in this Indenture or in any supplemental indenture or in any Note, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, shareholder, officer or director, as such, past, present or future, of the Company or of any successor entity, either directly or through the Company or any successor entity, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issuance of the Notes.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

Section 13.1 Addresses for Notices, etc.

Any notice or demand that by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Notes on the Company shall be deemed to have been sufficiently given or made, for all purposes if given or served by being sent by prepaid overnight delivery or being deposited postage prepaid by registered or certified mail in a post office letter box addressed (until another address is filed by the Company with the Trustee) to Dynex Capital, Inc., 4551 Cox Road, Suite 300, Glen Allen, Virginia 23060, Attention: Chief Financial Officer with a copy to Elizabeth R. Hughes, Esq., Venable, Baetjer and Howard, LLP 80101 Towers Crescent Drive, Suite 300, Vienna, Virginia 22182. Any notice, direction, request or demand hereunder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or served by being sent by prepaid overnight delivery or being deposited postage prepaid by registered or certified mail in a post office letter box addressed to the Trustee, which office is, at the date as of which this Indenture is dated, located at 1021 East Cary Street, 3rd Floor (Corporate Trust-VA) Richmond, Virginia 23219. Attention: Chief Financial Officer.

The Trustee, by notice to the Company, may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Noteholder shall be mailed to him by first class mail, postage prepaid, at the address of such Noteholder as it appears on the Note register and shall be sufficiently given to such Noteholder if so mailed within the time prescribed.

Failure to mail a notice or communication to a Noteholder or any defect in it shall not affect its sufficiency with respect to other Noteholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

Section 13.2 Communications by Holders with Other Holders.

Noteholders may communicate pursuant to Trust Indenture Act Section 312(b) with other Noteholders with respect to their rights under this Indenture or the Notes. The Company, the Trustee, the Note registrar and any other person shall have the protection of Trust Indenture Act Section 312(c).

Section 13.3 Governing Law.

This Indenture shall be deemed to be a contract made under the substantive laws of Virginia and for all purposes shall be construed in accordance with the substantive laws of Virginia without regard to conflicts of laws principles thereof.

Section 13.4 Evidence of Compliance with Conditions Precedent; Certificates to Trustee.

Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, including those actions set forth in Trust Indenture Act Section 314(c), the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with, and an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant provided for in this Indenture shall include: (1) a statement that the person making such certificate or opinion has read such covenant or condition, (2) a brief statement as to the nature and scope of the examination or investigation upon which the statement or opinion contained in such certificate or opinion is based, (3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with and (4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

Section 13.5 Legal Holidays.

In any case where any payment date, date fixed for redemption, stated maturity or Change of Control Purchase Date of any Note shall not be a Business Day, then (notwithstanding any other provision of this Indenture or of the Notes) payment of interest or principal (and premium, if any) need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the payment date, date fixed for redemption, Change of Control Purchase Date, or at the stated maturity; provided, that no interest shall accrue for the period from and after such payment date, date fixed for redemption, Change of Control Purchase Date or stated maturity, as the case may be.

Section 13.6 No Security Interest Created.

Nothing in this Indenture or in the Notes, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or similar legislation, as now or hereafter enacted and in effect, in any jurisdiction where property of the Company or its Subsidiaries is located.

Section 13.7 Trust Indenture Act.

This Indenture is hereby made subject to, and shall be governed by, the provisions of the Trust Indenture Act required to be part of and to govern indentures qualified under the Trust Indenture Act.

Section 13.8 Trust Indenture Act Controls.

If any provision of this Indenture limits, qualifies, or conflicts with the duties imposed by operation of the Trust Indenture Act, the imposed duties, upon qualification of this Indenture under the Trust Indenture Act, shall control.

Section 13.9 Benefits of Indenture.

Nothing in this Indenture or in the Notes, expressed or implied, shall give to any person, other than the parties hereto, any paying agent, any authenticating agent, any conversion agent, any Note registrar and their successors hereunder and the holders of Notes, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 13.10 Table of Contents, Headings etc.

The table of contents and the titles and headings of the articles and sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

Section 13.11 Authenticating Agent.

The Trustee may appoint an authenticating agent that shall be authorized to act on its behalf and subject to its direction in the authentication and delivery of Notes in connection with the original issuance thereof and transfers and exchanges of Notes hereunder, including under Sections 2.4, 2.5, 2.6, 2.7 and 3.3, as fully to all intents and purposes as though the authenticating agent had been expressly authorized by this Indenture and those Sections to authenticate and deliver Notes. For all purposes of this Indenture, the

authentication and delivery of Notes by the authenticating agent shall be deemed to be authentication and delivery of such Notes "by the Trustee" and a certificate of authentication executed on behalf of the Trustee by an authenticating agent shall be deemed to satisfy any requirement hereunder or in the Notes for the Trustee's certificate of authentication. Such authenticating agent shall at all times be a person eligible to serve as Trustee hereunder pursuant to Section 7.10.

Any corporation into which any authenticating agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation or conversion to which any authenticating agent shall be a party, or any corporation succeeding to the corporate trust business of any authenticating agent, shall be the successor of the authenticating agent hereunder, if such successor company is otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the parties hereto or the authenticating agent or such successor company.

Any authenticating agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time terminate the agency of any authenticating agent by giving written notice of termination to such authenticating agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any authenticating agent shall cease to be eligible under this Section, the Trustee shall promptly appoint a successor authenticating agent (which may be the Trustee), shall give written notice of such appointment to the Company and shall mail notice of such appointment to all holders of Notes as the names and addresses of such holders appear on the Note register.

The Company agrees to pay to the authenticating agent from time to time reasonable compensation for its services.

The provisions of Sections 7.3, 7.4, 7.5, 8.3 and this Section 13.11 shall be applicable to any authenticating agent.

Section 13.12 Execution in Counterparts.

This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

Wachovia Bank National Association hereby accepts the trusts in this Indenture declared and provided, upon the terms and conditions hereinabove set forth.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly signed and attested, all as of the date first written above.

DYNEX CAPITAL, INC.

By: _____
Name: Stephen J. Benedetti
Title: Chief Financial Officer and
Executive Vice President

Attest:

- -----

WACHOVIA BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Name: _____
Title: _____

Attest:

- -----

EXHIBIT A - FORM OF GLOBAL NOTE

[FORM OF FACE OF NOTE]

February 28, 2003

[\$30,000,000]
CUSIP

DYNEX CAPITAL, INC.

9.50% Senior Notes Due 2005

DYNEX CAPITAL, INC., a corporation duly organized and validly existing under the laws of the Commonwealth of Virginia (the "Company"), which term includes any Successor Company under the Indenture referred to on the reverse hereof, for value received hereby promises to pay to the Depository Trust Company or registered assigns, the principal sum of Thirty Million Dollars in equal quarterly installments as set forth below (subject to adjustment as set forth in the fourth paragraph hereof), at the office or agency of the Company maintained for that purpose in Richmond, Virginia, or, at the option of the holder of this Global Note, at the office of the Trustee, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest, quarterly, on May 31, August 31, November 30 and February 28 (each a "Payment Date"), commencing May 31, 2003, on the outstanding principal balance of this Global Note at said office or agency, in like coin or currency, at the rate per annum specified in the title of this Global Note, from February 28, 2003 or the most recent Payment Date, as the case may be, next preceding the date of this Global Note to which principal and interest has been paid or duly provided for, unless the date hereof is a date to which interest has been paid or duly provided for, in which case from the date of this Global Note.

Principal shall be due and payable on the Payment Date in eight equal quarterly installments in an amount equal to twelve and one-half percent (12.5%) of the initial principal amount of this Global Note as follows (subject to adjustment as set forth in the fourth paragraph hereof):

Due date -----	Amount -----
May 31, 2003	\$3,750,000
August 31, 2003	\$3,750,000
November 30, 2003	\$3,750,000
February 28, 2004	\$3,750,000
May 31, 2004	\$3,750,000
August 31, 2004	\$3,750,000
November 30, 2004	\$3,750,000
February 28, 2005	\$3,750,000

The Trustee shall apply such principal payments to the reduction of the aggregate principal amount outstanding under the Global Note and direct the Depository and Custodian to record such reduction in the aggregate principal amount outstanding under the Global Note. Any interest on any Note that is payable, but is not punctually paid or duly provided for on said May 31 and August 31, November 30 and February 28 and the continuance of such default for a period of thirty (30) days (herein called "Defaulted Interest") shall forthwith cease to be payable to the Noteholder on the relevant record date by virtue of his having been such Noteholder; and such Defaulted Interest shall be paid by the Company, at its election in each case, either (i) by notifying the Trustee of a special record date, the amount of interest to be paid on such special record date and the date of payment (not more than 25 days after receipt by the Trustee of such interest, unless the Trustee shall consent to an earlier date) and depositing with the Trustee an amount of money equal to the aggregate amount to be paid in respect of such Defaulted Interest on making arrangements satisfactory to the Trustee for such deposit or (ii) in any lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed and upon notice requested by such exchange, if, after notice to the Trustee, the Trustee deems such manner of payment to be practicable.

The principal and interest so payable on any May 31, August 31, November 30 and February 28 will be paid to the person in whose name this Global Note (or one or more Predecessor Notes) is registered at the close of business on the record date, which shall be the May 15, August 15, November 15 and February 15 (record date) (whether or not a Business Day) next preceding such May 15, August 15, November 15 and February 15, respectively; provided that any such interest not punctually paid or duly provided for shall be payable as provided in the Indenture. Interest shall be paid by check mailed to the registered holder at the registered address of such person unless other arrangements are made in accordance with the provisions of the Indenture.

This Global Note shall represent all of the outstanding Notes and shall not be exchangeable for definitive Notes except as expressly provided in the Indenture. Subject to the terms of the Indenture and the execution and delivery of a supplemental indenture, the aggregate principal amount of this Global Note represented hereby may from time to time be reduced or increased to reflect exchanges of a part of this Global Note for interests in the Global Note or definitive Notes or exchanges of interests in the Global Note or definitive Notes for a part of this Global Note, redemptions or repurchases of a part of this Global Note or cancellations of a part of this Global Note or transfers of interests in the Global Note or definitive Notes in return for a part of this Global Note or transfers of a part of this Global Note effected by delivery of interests in the Global Note or definitive Notes, in each case, and in any such case, by means of notations on the Schedule of Principal Repayments, Exchanges, Redemptions, Repurchases, Cancellations and Transfers on the last page hereof. Subject to the first sentence of this paragraph, (i) exchanges of a part of this Global Note for interests in the Global Note or definitive Notes, (ii) exchanges

of interests in the Global Note or definitive Notes for a part of this Global Note, (iii) redemptions or repurchases of a part of this Global Note, (iv) cancellations of a part of this Global Note, (v) transfers of interests in the Global Note or definitive Notes in return for a part of this Global Note and (vi) transfers of a part of this Global Note effected by delivery of interests in the Global Note or definitive Notes may be effected without the surrendering of this Global Note, provided that appropriate notations on the Schedule of Principal Repayments, Exchanges, Redemptions, Repurchases, Cancellations and Transfers are made by the Trustee, or the Custodian at the direction of the Trustee, to reflect the appropriate reduction or increase, as the case may be, in the aggregate principal amount of this Global Note resulting therefrom or as a consequence thereof.

Reference is made to the further provisions of this Global Note set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Global Note shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been manually signed by the Trustee or a duly authorized authenticating agent under the Indenture.

IN WITNESS WHEREOF, the Company has caused this Global Note to be duly executed under its corporate seal.

DYNEX CAPITAL, INC.

By: _____
Name: Stephen J. Benedetti
Title: Executive Vice President
and Chief Financial Officer

Attest:

- _____
Kathy Fern
Assistant Secretary

[FORM OF CERTIFICATE OF AUTHENTICATION]

CERTIFICATE OF AUTHENTICATION

Dated: _____

This is one of the Notes described in the within-named Indenture.

[_____] , as Trustee

By: _____
Authorized Signatory
[FORM OF REVERSE OF GLOBAL NOTE]

DYNEX CAPITAL, INC.

9.50% Senior Notes Due 2005

This Global Note is one of a duly authorized issue of Notes of the Company, designated as its 9.50% Senior Notes Due 2005 (herein called the "Notes"), limited to the aggregate principal amount of [\$30,000,000] all issued or to be issued under and pursuant to an Indenture dated as of February __, 2003 (the "Indenture"), between the Company and Wachovia Bank National Association, as trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a complete description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders of the Notes. Each Note is subject to, and qualified by, all such terms as set forth in the Indenture certain of which are summarized hereon and each holder of a Note is referred to the corresponding provisions of the Indenture for a complete statement of such terms. To the extent that there is any inconsistency between the summary provisions set forth in the Notes and the Indenture, the provisions of the Indenture shall govern. Capitalized terms used but not defined in this Global Note shall have the meanings ascribed to them in the Indenture.

In case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of, premium, if any, and accrued interest on all Notes may be declared, and upon said declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions permitting the Company and the Trustee,

with the consent of the holders of not less than a majority in aggregate principal amount of the Notes at the time outstanding, evidenced as in the Indenture provided, to execute supplemental indentures adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or modifying in any manner the rights of the holders of the Notes; provided that no such supplemental indenture shall (i) extend the fixed maturity of any Note, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof or premium, if any, thereon, or reduce any amount payable on redemption thereof, alter the obligation of the Company to repurchase the Notes at the option of the holders upon the occurrence of a Change of Control, or impair or affect the right of any Noteholder to institute suit for the payment thereof, or make the principal thereof or interest or premium, if any, thereon payable in any coin or currency other than that provided in the Notes, subject to the terms set forth in the Indenture without the consent of the holder of each Note so affected or (ii) reduce the aforesaid percentage of Notes, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all Notes then outstanding. The Company and the Trustee may amend or supplement the Indenture without notice to or consent of any holder of Notes in certain events specified in the Indenture. It is also provided in the Indenture that, prior to any declaration accelerating the maturity of the Notes, the holders of a majority in aggregate principal amount of the Notes at the time outstanding may on behalf of the holders of all of the Notes waive any past default or Event of Default under the Indenture and its consequences except a default in the payment of interest or any premium on or the principal of any of the Notes, or a default in respect of a covenant or provision of the Indenture that under Article IX thereof cannot be modified or amended without the consent of the holders of all Notes then outstanding. Any such consent or waiver by the holder of this Global Note (unless revoked as provided in the Indenture) shall be conclusive and binding upon such holder and upon all future holders and owners of this Global Note and any Notes that may be issued in exchange or substitution hereof, irrespective of whether or not any notation thereof is made upon this Global Note or such other Notes.

No reference herein to the Indenture and no provision of this Global Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Global Note at the place, at the respective times, at the rate and in the coin or currency herein prescribed.

Interest on the Notes shall be computed on the basis of a 360-day year composed of twelve 30-day months.

Subject to the terms of the Indenture, the Notes are issuable in registered form without coupons in denominations of \$25 principal amount and integral multiples thereof. At the office or agency of the Company referred to on the face hereof, and in the manner and subject to the limitations provided in the Indenture, without payment of any service charge but with payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration or exchange of Notes, Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations.

The Notes are redeemable at the option of the Company at any time. The Notes may be redeemed at the Company's option, upon notice as set forth in the Indenture, in whole at any time or in part from time to time, at the price of 100% of the outstanding principal amount, together with accrued interest to the date fixed for redemption; provided that if the date fixed for redemption is a date on or after the record date for the next following Payment Date and on or before the next following Payment Date, then the principal installment and interest payable on such following Payment Date shall be paid to the holder on the record date for the next following Payment Date.

If a Change of Control (as defined in the Indenture) shall occur at any time, then each holder of Notes shall have the right to require that the Company repurchase such holder's Notes in whole or in part in integral multiples of \$25, at a purchase price in cash in an amount equal to 101% of the principal amount of such Notes, plus accrued and unpaid interest, if any, to the repurchase date pursuant to an offer to be made by the Company and in accordance with the procedures set forth in the Indenture.

Upon due presentment for registration of transfer of this Global Note at the office or agency of the Company in Richmond, Virginia, or at the option of the holder of this Global Note, at the Corporate Trust Office of the Trustee, a new Note or Notes of authorized denominations for an equal aggregate principal amount will be issued to the transferee in exchange thereof, subject to the conditions and limitations provided in the Indenture, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company, the Trustee, any authenticating agent, any paying agent and any Note registrar may deem and treat the registered holder hereof as the absolute owner of this Global Note (whether or not this Global Note shall be overdue and notwithstanding any notation of ownership or other writing hereon made by anyone other than the Company or any Note registrar), for the purpose of receiving payment hereof, or on account hereof, and for all other purposes, and

neither the Company nor the Trustee nor any other authenticating agent nor any paying agent nor any Note registrar shall be affected by any notice to the contrary. All payments made to or upon the order of such registered holder shall, to the extent of the sum or sums paid, satisfy and discharge liability for monies payable on this Global Note.

No recourse for the payment of the principal of or any premium or interest on this Global Note, or for any claim based hereon or otherwise in respect hereof, and no recourse under or upon any obligation, covenant or agreement of the Company in the Indenture or any indenture supplemental thereto or in any Note, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, shareholder, officer or director, as such, past, present or future, of the Company or of any Successor Company, either directly or through the Company or any Successor Company, whether by virtue of any constitution, statute or rule of law or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released.

[FORM OF OPTION TO ELECT REPAYMENT

UPON A CHANGE OF CONTROL]

To: Dynex Capital, Inc.

The undersigned registered owner of this Global Note hereby irrevocably acknowledges receipt of a notice from Dynex Capital, Inc. (the "Company") as to the occurrence of a Change of Control with respect to the Company and requests and instructs the Company to repay the entire principal amount of this Global Note, or the portion thereof (which is \$25 principal amount or an integral multiple thereof) below designated, in accordance with the terms of the Indenture referred to in this Global Note, together with accrued interest to such date, to the registered holder hereof.

Dated: _____

Signature(s)

Social Security or Other Taxpayer
Identification Number

Principal amount to be repaid (if less
than all): \$ _____

NOTICE: The option to elect payment upon a Change of Control must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

[FORM OF ASSIGNMENT]

For value received _____ hereby sell(s),
assign(s) and transfer(s) unto _____ (please insert social security
or other identifying number of assignee) the within Note, and hereby irrevocably
constitutes and appoints _____ attorney to transfer the
said Note on the books of the Company, with full power of substitution in the
premises.

Dated: _____

Signature(s)

Signature(s) must be guaranteed by an eligible Guarantor Institution (banks,
stock brokers, savings and loan associations and credit unions) with membership
in an approved signature guarantee medallion program pursuant to Securities and
Exchange Commission Rule 17Ad-15.

Signature Guarantee

NOTICE: The assignment must correspond with the name as written upon the face of
the Note in every particular without alteration or enlargement or any change
whatever.

NOTICE: Transfers are subject to the limitations set forth in the Indenture.
SCHEDULE A

SCHEDULE OF PRINCIPAL REPAYMENTS, EXCHANGES,
REDEMPTIONS, REPURCHASES, CANCELLATIONS AND TRANSFERS

The initial principal amount of this Global Note is U.S. [\$30,000,000]. The following scheduled repayments of principal, additions to principal, redemptions, repurchases, exchanges of a part of this Global Note for an interest in the Global or Note definitive Notes have been made:

<TABLE>
<CAPTION>

<S>		<C>		<C>
		Principal Amount Added on		Principal Amount
		Exchange of Interest in		Redeemed, Repurchased
		the Global Note or		Exchanged for Interest in
		Definitive Notes		the Global Note or
				Definitive Notes
Date and amounts of Principal				Remaining Principal
Repayments				Amount Outstanding
				Following such Transaction
May 31, 2003 -				
Aug. 31, 2003 -				
Nov. 30, 2003 -				
Feb. 28, 2004 -				
May 31, 2004 -				
Aug. 31, 2004-				
Nov. 30, 2004-				
Feb. 28, 2005 -				

</TABLE>