UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period March 31, 2005

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

Commission File Number: 1-9819

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

Virginia (State or other jurisdiction of incorporation or organization)	52-1549373 (I.R.S. Employer Identification No.)
4551 Cox Road, Suite 300, Glen Allen, Virginia (Address of principal executive offices)	23060-6740 (Zip Code)

(804) 217-5800
(Registrant`s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
|X| Yes |_| No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). |_| Yes |X| No

On February 28, 2005, the registrant had 12,162,391 shares outstanding of common stock, $.01 par value, which is the registrant's only class of common stock.

DYNEX CAPITAL, INC.
FORM 10-Q

INDEX

</TABLE>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

<TABLE>
<CAPTION>

	March 31, 2005	December 31, 2004
ASSETS		
<S>	<C>	<C>
Cash and cash equivalents	$ 60,534	$ 52,522
Other assets	5,770	4,965
	66,304	57,487
Investments:		
Securitized finance receivables:		
Loans, net	996,076	1,036,123
Debt securities, available-for-sale	195,304	206,434
	1,191,380	1,242,557
Securities	70,033	87,706
Other investments	7,166	7,595
Other loans	5,242	5,589
	1,273,821	1,343,447
	$ 1,340,125	$ 1,400,934
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Non-recourse securitization financing	$ 1,131,617	$ 1,177,280
Repurchase agreements	59,367	70,468
	1,190,984	1,247,748
Accrued expenses and other liabilities	4,277	4,420
	1,195,261	1,252,168
Commitments and Contingencies (Note 11)	-	-
SHAREHOLDERS' EQUITY		
9.75% Cumulative Convertible Series D Preferred stock, par value $.01 per share, 50,000,000 shares authorized, 5,628,737 shares issued and outstanding ($57,624 aggregate liquidation preference)	55,666	55,666
Common stock, par value $.01 per share, 100,000,000 shares authorized, 12,162,391 shares issued and outstanding	122	122
Additional paid-in capital	366,896	366,896
Accumulated other comprehensive income	317	3,817
Accumulated deficit	(278,137)	(277,735)
	144,864	148,766
	$ 1,340,125	$ 1,400,934

</TABLE>

See notes to unaudited condensed consolidated financial statements.

DYNEX CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS
OF OPERATIONS AND COMPREHENSIVE LOSS (UNAUDITED)
(amounts in thousands except share data)

<TABLE>
<CAPTION>

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Interest income:		
Securitized finance receivables	$ 21,997	$ 32,886
Securities	1,126	559
Other investments	672	16
Other loans	258	170
	24,053	33,631
Interest and related expense:		
Non-recourse securitization financing	19,101	26,872
Repurchase agreements	454	242
Other	41	82
	19,596	27,196
Net interest income	4,457	6,435
Provision for loan losses	(2,261)	(7,200)
Net interest income (loss) after provision for loan losses	2,196	(765)
Impairment charges	(266)	(1,661)
Gain (loss) on sale of investments, net	79	(34)
Other income (expense)	417	(459)
General and administrative expenses	(1,492)	(2,468)
Net income (loss)	934	(5,387)
Preferred stock charge	(1,337)	(1,191)
Net loss to common shareholders	$ (403)	$ (6,578)
Change in net unrealized (loss)/gain on:		
Investments classified as available for sale during the period	(3,883)	259
Hedge instruments	383	81
Comprehensive loss	$ (2,566)	$ (5,047)
Net loss per common share:		
Basic and diluted	$ (0.03)	$ (0.60)

</TABLE>

See notes to unaudited condensed consolidated financial statements.

DYNEX CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENTS
OF CASH FLOWS (UNAUDITED)
(amounts in thousands)

<TABLE>
<CAPTION>

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Operating activities:		
Net income (loss)	$ 934	$ (5,387)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	2,261	7,200
Impairment charges	266	1,661
(Gain) loss on sale of investments	(79)	34
Amortization and depreciation	407	1,946
Net change in other assets, accrued expenses and other liabilities	(900)	28
Net cash and cash equivalents provided by operating activities	2,889	5,482

Investing activities:		
Principal payments received on securitized finance receivables	45,831	49,401
Payments received on other investments, securities, and other loans	12,624	5,559
Proceeds from sales of securities and other investments	5,168	290
Purchases of or advances on other investments	(92)	(318)
Other	102	75
Net cash and cash equivalents provided by investing activities	63,633	55,007
Financing activities:		
Principal payments on non-recourse securitization financing	(46,072)	(50,168)
Repayment of repurchase agreement borrowings	(11,101)	(2,379)
Repayment of senior notes	-	(10,049)
Dividends paid	(1,337)	-
Net cash and cash equivalents used for financing activities	(58,510)	(62,596)
Net increase (decrease) in cash and cash equivalents	8,012	(2,107)
Cash and cash equivalents at beginning of period	52,522	7,386
Cash and cash equivalents at end of period	$ 60,534	$ 5,279
Supplement disclosures of cash flow information:		
Cash paid for interest	$ 18,892	$ 25,419

</TABLE>

See notes to unaudited condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
DYNEX CAPITAL, INC.

March 31, 2005
(amounts in thousands except share and per share data)

NOTE 1 -- BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by accounting principles generally accepted in the United States of America, hereinafter referred to as "generally accepted accounting principles," for complete financial statements. The condensed consolidated financial statements include the accounts of Dynex Capital, Inc. and its qualified real estate investment trust ("REIT") subsidiaries and taxable REIT subsidiary ("Dynex" or the "Company"). All inter-company balances and transactions have been eliminated in consolidation.

The Company consolidates entities in which it owns more than 50% of the voting equity and control does not rest with others. The Company follows the equity method of accounting for investments with greater than 20% and less than a 50% interest in partnerships and corporate joint ventures or when it is able to influence the financial and operating policies of the investee but owns less than 50% of the voting equity. For all other investments, the cost method is applied.

The Company believes it has complied with the requirements for qualification as a REIT under the Internal Revenue Code (the "Code"). To the extent the Company qualifies as a REIT for federal income tax purposes, it generally will not be subject to federal income tax on the amount of its income or gain that is distributed as dividends to shareholders.

In the opinion of management, all significant adjustments, consisting of normal recurring accruals considered necessary for a fair presentation of the condensed consolidated financial statements have been included. The financial statements presented are unaudited. Operating results for the three months ended March 31, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with generally accepted accounting principles have been omitted. The unaudited financial statements included herein should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission.

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The primary estimates inherent in the accompanying condensed consolidated financial statements are discussed below.

The Company uses estimates in establishing fair value for its financial instruments. Securities classified as available-for-sale are carried in the accompanying financial statements at estimated fair value. Securities are both fixed-rate and adjustable-rate. Estimates of fair value for securities are based on market prices provided by certain dealers, when available. Estimates of fair value for certain other securities, including securities pledged as securitized finance receivables, are determined by calculating the present value of the projected cash flows of the instruments using market-based assumptions such as estimated future interest rates and estimated market spreads to applicable indices for comparable securities, and using collateral based assumptions such as prepayment rates and credit loss assumptions based on the most recent performance and anticipated performance of the underlying collateral.

The Company also has credit risk on loans in its portfolio as discussed in Note 5. An allowance for loan losses has been estimated and established for currently existing losses in the loan portfolio, which are deemed probable as to their occurrence. The allowance for loan losses is evaluated and adjusted periodically by management based on the actual and estimated timing and amount of probable credit losses. Provisions made to increase the allowance for loan losses are presented as provision for losses in the accompanying condensed consolidated statements of operations. The Company's actual credit losses may differ from those estimates used to establish the allowance.

Certain reclassifications have been made to the financial statements for 2004 to conform to the presentation adopted in 2005.

NOTE 2 -- SUBSEQUENT EVENTS

On April 25, 2005, the Company completed the redemption of the outstanding classes of the SASCO 2002-9 series of securitization financing. The redeemed bonds are held by the Company and will, therefore, remain outstanding. The redemption was financed with approximately $25,000 of cash and $170,000 of repurchase agreement financing.

In addition, on May 9, 2005, the Company sold certain securitized manufactured housing loans and securities, for a net $9,000. The sale is expected to result in the removal of approximately $372,000 in securitized finance receivable assets, net of reserves, and $369,000 in securitization financing borrowings from the Company's balance sheet. The Company expects to record a gain in excess of $8,000 on the sale. These investments were considered non-core assets for the Company.

NOTE 3 -- NET INCOME (LOSS) PER COMMON SHARE

Net income (loss) per common share is presented on both a basic and diluted per common share basis. Diluted net income (loss) per common share assumes the conversion of the convertible preferred stock into common stock, using the if-converted method and stock appreciation rights, to the extent that there are rights outstanding, using the treasury stock method, but only if these items are dilutive. The Series D preferred stock is convertible into one share of common stock for each share of preferred stock. The following table reconciles the numerator and denominator for both the basic and diluted net income (loss) per common share for the three months ended March 31, 2005 and 2004.

<TABLE>
<CAPTION>

	Three Months Ended March 31, 2005		2004	
	Income (loss)	Weighted-Average Number of Shares	Income (loss)	Weighted-Average Number of Shares
<S>	<C>	<C>	<C>	<C>
Net income (loss)	$ 934		$ (5,387)	
Preferred stock charge	(1,337)		(1,191)	
Net loss to common shareholders	$ (403)	12,162,391	$ (6,578)	10,873,903
Effect of dividends and additional shares of preferred stock	-	-	-	-
Diluted	$ (403)	12,162,391	$ (6,578)	10,873,903
Net loss per share:				
Basic and diluted		$ (0.03)		$ (0.60)
Reconciliation of shares included in calculation of earnings per share due to anti-dilutive effect:				
Conversion of Series A preferred stock	$ -	-	$ 289	246,798

Conversion of Series B preferred stock	-	-	402	344,094
Conversion of Series C preferred stock	-	-	500	342,446
Dividends and assumed conversion of Series D preferred stock	1,337	5,628,737	-	-
Expense and incremental shares of stock appreciation rights	-	257	-	17,830
	$ 1,337	5,628,994	$ 1,191	951,168

</TABLE>

NOTE 4 -- SECURITIZED FINANCE RECEIVABLES

The following table summarizes the components of securitized finance receivables at March 31, 2005 and December 31, 2004:

<TABLE>
<CAPTION>

<S>	March 31, 2005 <C>	December 31, 2004 <C>
Loans, at amortized cost	$ 1,023,757	$ 1,064,137
Allowance for loan losses	(27,681)	(28,014)
Loans, net	996,076	1,036,123
Debt securities, at fair value	195,304	206,434
	$ 1,191,380	$ 1,242,557

</TABLE>

The following table summarizes the amortized cost basis, gross unrealized gains and estimated fair value of debt securities pledged as securitized finance receivables at March 31, 2005 and December 31, 2004:

<TABLE>
<CAPTION>

<S>	March 31, 2005 <C>	December 31, 2004 <C>
Debt securities, at amortized cost	$ 197,125	$ 205,370
Gross unrealized (losses) gains	(1,821)	1,064
Estimated fair value	$ 195,304	$ 206,434

</TABLE>

The components of securitized finance receivables at March 31, 2005 and December 31, 2004 are as follows:

<TABLE>
<CAPTION>

	March 31, 2005			December 31, 2004		
	Loans, net	Debt Securities	Total	Loans, net	Debt Securities	Total
Collateral:						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Commercial	$ 621,257	$ -	$ 621,257	$ 640,090	$ -	$ 640,090
Manufactured housing	193,356	144,943	338,299	198,246	149,420	347,666
Single-family	208,288	49,130	257,418	225,055	52,753	277,808
	1,022,901	194,073	1,216,974	1,063,391	202,173	1,265,564
Allowance for loan losses	(27,681)	-	(27,681)	(28,014)	-	(28,014)
Funds held by trustees	131	119	250	130	43	173
Accrued interest receivable	6,373	205	6,578	6,548	202	6,750
Unamortized discounts and premiums, net	(5,648)	2,728	(2,920)	(5,932)	2,952	(2,980)
Unrealized (loss) gain, net	-	(1,821)	(1,821)	-	1,064	1,064
	$ 996,076	$ 195,304	$ 1,191,380	$ 1,036,123	$ 206,434	$1,242,557

</TABLE>

All of the securitized finance receivables are encumbered by non-recourse securitized financing.

NOTE 5 -- ALLOWANCE FOR LOAN LOSSES

The Company reserves for probable estimated credit losses on loans in its investment portfolio. The following table summarizes the aggregate activity for the allowance for loan losses for the three months ended March 31, 2005 and 2004:

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	2005	2004
<S>	<C>	<C>
Allowance at beginning of period	$ 28,014	$ 43,364
Provision for loan losses	2,261	7,200
Credit losses, net of recoveries	(2,594)	(4,576)
Allowance at end of period	$ 27,681	$ 45,988

</TABLE>

The following table presents certain information on commercial mortgage loans that the Company has determined to be impaired. Impaired loans at March 31, 2005 declined from December 31, 2004 due to the repayment of approximately $8,350 of impaired loans during the first quarter.

<TABLE>
<CAPTION>

	Total Recorded Investment In Impaired Loans	Amount For Which There Is A Related Allowance For Loan Losses	Amount For Which There Is No Related Allowance For Loan Losses
<S>	<C>	<C>	<C>
March 31, 2005	$ 56,601	$ 18,500	$ 38,101
December 31, 2004	72,431	17,379	55,052

</TABLE>

NOTE 6 -- OTHER INVESTMENTS

The following table summarizes the Company's other investments at March 31, 2005 and December 31, 2004:

<TABLE>
<CAPTION>

	March 31, 2005	December 31, 2004
<S>	<C>	<C>
Delinquent property tax receivable securities, at amortized cost	$ 5,736	$ 6,000
Real estate owned	1,430	1,595
	$ 7,166	$ 7,595

</TABLE>

At March 31, 2005 and December 31, 2004, the Company had real estate owned with a current carrying value of $1,430 and $1,595, respectively. Real estate owned is acquired from foreclosures on delinquent property tax receivables. During the three months ended March 31, 2005 and March 31, 2004, the Company collected an aggregate of $876 and $1,800, respectively, on delinquent property tax receivables and securities, including net sales proceeds from related real estate owned.

NOTE 7 -- SECURITIES

The following table summarizes the fair value of the Company's securities classified as available-for-sale, at March 31, 2005 and December 31, 2004:

<TABLE>
<CAPTION>

	March 31, 2005		December 31, 2004	
	Fair Value	Effective Interest Rate	Fair Value	Effective Interest Rate

Securities, available-for-sale:				
<S>	<C>	<C>	<C>	<C>
Fixed-rate mortgage securities	$ 67,503	4.61%	$ 79,462	4.54%
Mortgage-related securities	25	0.33%	28	0.33%
Equity security	2,530		7,438	
	70,058		86,928	
Gross unrealized gains	197		852	
Gross unrealized losses	(222)		(74)	
	$ 70,033		$ 87,706	

</TABLE>

NOTE 8 -- RECOURSE DEBT

The Company utilizes repurchase agreements, which are recourse to the Company, to finance certain of its investments. The Company had $59,367 and $70,468 of repurchase agreements outstanding as of March 31, 2005 and December 31, 2004, respectively. The repurchase agreements were collateralized by securities with a fair value of $65,426 and $78,491 as of March 31, 2005 and December 31, 2004, respectively.

NOTE 9 -- PREFERRED STOCK

At March 31, 2005 and December 31, 2004, the total liquidation preference, which includes accrued dividends payable, on the Preferred Stock was $57,624 and $58,040, respectively. There was $1,337 ($0.2375 per share) of accrued dividends payable on the Series D Preferred Stock as of both March 31, 2005 and December 31, 2004.

NOTE 10 -- DERIVATIVE FINANCIAL INSTRUMENTS

In June 2002, the Company entered into an interest rate swap which matures on June 28, 2005, to mitigate its interest rate risk exposure on $100,000 in notional value of its variable rate non-recourse securitization financing, which finance a like amount of fixed rate assets. Under the agreement, the Company will pay interest at a fixed rate of 3.73% on the notional amount and will receive interest based on one-month London Inter-Bank Offering Rate ("LIBOR") on the same amount. This contract has been treated as a cash flow hedge with changes in the value of the hedge being reported as a component of accumulated other comprehensive income. During the three months ended March 31, 2005, the Company recognized $327 in other comprehensive income on this position. At March 31, 2005, the aggregate accumulated other comprehensive loss on this hedge instrument was $165. As the repricing dates, interest rate indices and formulae for computing net settlements of the interest rate swap agreement match the corresponding terms of the underlying securitization financing being hedged, no ineffectiveness is assumed on this agreement and, accordingly, any prospective gains or losses are included in other comprehensive income. Amounts in accumulated other comprehensive income are reclassified into earnings in the same period during which the hedged transaction affects earnings.

In October 2002, the Company entered into a synthetic three-year amortizing interest-rate swap (using Eurodollar Futures contracts) with an initial notional balance of approximately $81,000 to mitigate its exposure to rising interest rates on a portion of its variable rate non-recourse securitization financing, which finance a like amount of fixed rate assets. During 2004, the Company determined that this instrument, which previously qualified for hedge accounting, ceased to be effective due to a significant deterioration in the correlation between the synthetic interest rate swap cash flow hedge and the financing being hedged, as measured by the correlation between the three-month Eurodollar futures and one-month LIBOR. Accordingly, the Company has discontinued hedge accounting and reflected the changes in market value of the hedge instrument in its statement of operations as other income (expense). The remaining unrealized loss included in other comprehensive income at the time the Company discontinued hedge accounting is being amortized over the remaining term of the hedge exposure. At March 31, 2005, the aggregate accumulated other comprehensive loss on this hedge instrument was $60. During March 2005, the company settled the remaining three Eurodollar contracts and recognized trading gains of $30 and interest expense of $56.

NOTE 11 -- COMMITMENTS AND CONTINGENCIES

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. Plaintiffs were two local businesses seeking status to represent as a class, delinquent taxpayers in Allegheny County whose delinquent tax liens had been assigned to GLS. 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, and whether the County had the right to assign the delinquent property tax receivables to GLS and therefore employ procedures for collection enjoyed by Allegheny County under state statute. This lawsuit was related to the purchase by GLS of delinquent property tax receivables from Allegheny County in 1997, 1998, and 1999. In July 2001, the Commonwealth Court issued a ruling that addressed, among other things, (i) the right of GLS to charge to the delinquent taxpayer a rate of interest of 12% per annum versus 10% per annum on the collection of its delinquent property tax receivables, (ii) the charging of a full month's interest on a partial month's delinquency; (iii) the charging of attorney's fees to the delinquent taxpayer for the collection of such tax receivables, and (iv) the charging to the delinquent taxpayer of certain other fees and costs. The Commonwealth Court in its opinion remanded for further consideration to the lower trial court items (i), (ii) and (iv) 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. The Commonwealth Court further ruled that Allegheny County could assign its rights in the delinquent property tax receivables to GLS, and that plaintiffs could maintain equitable class in the action. In October 2001, GLS, along with Allegheny County, filed an Application for Extraordinary Jurisdiction with the Supreme Court of Pennsylvania, Western District appealing certain aspects of the Commonwealth Court's ruling. In March 2003, the Supreme Court issued its opinion as follows: (i) the Supreme Court determined that GLS can charge delinquent taxpayers a rate of 12% per annum; (ii) the Supreme Court remanded back to the lower trial court the charging of a full month's interest on a partial month's delinquency; (iii) the Supreme Court revised the Commonwealth Court's ruling regarding recouping attorney fees for collection of the receivables indicating that the recoupment of fees requires a judicial review of collection procedures used in each case; and (iv) the Supreme Court upheld the Commonwealth Court's ruling that GLS can charge certain fees and costs, while remanding back to the lower trial court for consideration the facts of each individual case. Finally, the Supreme Court remanded to the lower trial court to determine if the remaining claims can be resolved as a class action. The lower trial court had set the hearing on the class-action status for late April 2005, but the hearing was delayed until no earlier than June 2005. In August 2003, the Pennsylvania legislature enacted a law amending and clarifying certain provisions of the Pennsylvania statute governing GLS' right to the collection of certain interest, costs and expenses. The law is retroactive to 1996, and amends and clarifies that as to items (ii)-(iv) noted above by the Supreme Court, that GLS can charge a full month's interest on a partial month's delinquency, that GLS can charge the taxpayer for legal fees, and that GLS can charge certain fees and costs to the taxpayer at redemption. Subsequent to the enactment of the law, challenges to the retroactivity provisions of the law were filed in separate cases, which did not include GLS as a defendant. In September 2004, the Trial Court in that litigation upheld the retroactive provisions enacted in 2003. Plaintiffs have appealed in that case. The Company believes that the ultimate outcome of this litigation will not have a material impact on our financial condition, but may have a material impact on reported results for the particular period presented.

The Company and Dynex Commercial, Inc. ("DCI"), formerly an affiliate of the Company and now known as DCI Commercial, Inc., were defendants in state court in Dallas County, Texas in the matter of Basic Capital Management et. al. (collectively, "BCM" or "the Plaintiffs") 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 as a defendant. The complaint, which was further amended during pretrial proceedings, alleged 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 $160,000 "master" loan commitment entered into in February 1998; and that DCI breached another alleged loan commitment of approximately $9,000. The trial commenced in January 2004 and in February 2004, the jury in the case rendered a verdict in favor of one of the plaintiffs and against the Company on the alleged breach of the loan agreements for tenant improvements and awarded that plaintiff damages in the amount of $253. The jury also awarded the Plaintiffs' attorneys fees in the amount of $2,100. The jury entered a separate verdict against DCI in favor of BCM under two mutually exclusive damage models, for $2,200 and $25,600, respectively. The jury found in favor of DCI on the alleged $9,000 loan commitment, but did not find in favor of DCI for counterclaims made against BCM. After considering post-trial motions, the presiding judge entered judgment in favor of the Company and DCI, effectively overturning the verdicts of the jury and dismissing damages awarded by the jury. Plaintiffs have filed an appeal. DCI is a former affiliate of the Company, and the Company believes that it will have no obligation for amounts, if any, awarded to the plaintiffs as a result of the actions of DCI.

On February 11, 2005, a putative class action lawsuit was filed against the Company, our subsidiary MERIT Securities Corporation, Stephen J. Benedetti and Thomas H. Potts in United States District Court for the Southern District of New York by the Teamsters Local 445 Freight Division Pension Fund. The lawsuit purports to be a class action on behalf of purchasers of MERIT Series 13 securitization financing bonds, which are collateralized by manufactured housing loans. The allegations include federal securities laws violations in connection with the issuance in August 1999 by MERIT Securities Corporation of our MERIT Series 13 bonds. The suit also alleges fraud and negligent misrepresentations in connection with MERIT Series 13. The Company is currently evaluating the allegations made in the lawsuit and intends to vigorously defend itself against them.

Although no assurance can be given with respect to the ultimate outcome of the above litigation, the Company believes the resolution of these lawsuits will not have a material effect on the Company's condensed consolidated balance sheet, but could materially affect consolidated results of operations in a given year.

NOTE 12 -- STOCK BASED COMPENSATION

On January 2, 2005, the Company granted 126,297 stock appreciation rights (SAR) to certain of its employees and officers under the Dynex Capital, Inc. 2004 Stock Incentive Plan. The SARs vest over the next four years in equal annual installments, expire on December 31, 2011 and have an exercise price of $7.81 per share, which was the market price of the stock on the grant date.

The Company has elected to follow the intrinsic value method in accounting for its stock based compensation issued to employees and non-employee directors. Accordingly, the Company did not recognize compensation expense upon the issuance of its stock appreciation rights, because the term was fixed and the exercise price equaled the market price of the underlying stock on the date of the grant.

If the Company had applied the fair value method to SARs granted to employees using the Black-Scholes pricing model, the Company would have recorded approximately $16 of compensation expense resulting in pro forma net loss to common shareholders of $419 for the first quarter of 2005, which would have had no effect on pro forma net loss per common share on a basic and diluted basis.

NOTE 13 -- RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (Revised 2004), Share-Based Payment (FAS 123R). This statement supersedes APB Opinion No. 25 and its related implementation guidance. The statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The most significant change resulting from this statement is the requirement for public companies to expense employee share-based payments under fair value as originally introduced in SFAS No. 123. This statement is effective for public companies as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The Company will adopt this statement effective January 1, 2006. The Company presented the amount that would have been recorded in general and administrative expense for the quarter ended March 31, 2005 if the Company had adopted the provisions of FAS 123R in Note 12 above.

In September 2004, the FASB Board directed the FASB Staff to delay the effective date for adoption of paragraphs 10-20 of Emerging Issues Task Force ("EITF") Issue 03-1, "The Meaning of Other-Than-Temporary Impairment," until the issuance of implementation guidance for debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairment under paragraph 16 of EITF 03-1. The delay of the effective date for paragraphs 10-20 of EITF 03-1 will be superseded upon final issuance of Statement of Financial Position "FSP" EITF Issue 03-1-a. The Company has reviewed this statement and does not believe that its adoption will have a significant impact on its financial position, results of operations or cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the financial condition and results of operations of the Company for the three months ended March 31, 2005 should be read in conjunction with the Company's Unaudited Condensed Consolidated Financial Statements and the accompanying Notes to Unaudited Condensed Consolidated Financial Statements included in this report.

The Company is a financial services company, which invests in loans and securities principally consisting of, or secured by, single family mortgage loans, commercial mortgage loans, manufactured housing installment loans and delinquent property tax receivables. The loans and securities in which the Company invests have generally been pooled and pledged to a securitization trust (i.e. securitized) as collateral for non-recourse bonds ("non-recourse securitization financing"), which provides long-term financing for such loans while limiting credit, interest rate and liquidity risk. The Company earns the net interest spread between the interest income on the loans and securities in its investment portfolio and the interest and other expenses associated with the non-recourse securitization financing. The Company also collects payments from property owners on its investment in delinquent property tax receivables.

In recent years, the Company elected to sell certain non-core assets, improving its financial flexibility by converting investments into cash, and the Company completed a restructuring of its equity capital while simultaneously eliminating preferred dividends in arrears. The Company's total investment portfolio assets over the last four quarters have declined approximately $516 million to $1.27 billion at March 31, 2005. During that time, the Company has improved its liquidity, as cash and cash equivalents is now $60.5 million compared to $5.3 million at March 31, 2004. In 2004, the Company also restructured its preferred stock resulting in the elimination or payment-in-kind of $18.5 million in dividends in arrears.

In addition, on May 9, 2005, the Company sold certain securitized manufactured housing loans and securities, for a net $9.0 million. The sale is expected to result in the removal of approximately $372 million in securitized finance receivable assets, net of reserves, and $369 million in securitization financing borrowings from the Company's balance sheet. The Company expects to record a gain on the sale in excess of $8.0 million on the sale. These investments were considered non-core assets for the Company and contributed $981 thousand in net interest income and $150 thousand of net cash flows for the first quarter of 2005. The Company anticipates being able to replace the income and cash flows quickly once the Company begins to substantively reinvest its capital.

In our securitization trusts, we have retained the right to redeem outstanding securitization financing bonds based on percentages of the original financing that remains outstanding, or at a certain date. Securitization financing bonds with an outstanding balance of approximately $200 million at March 31, 2005 and secured by approximately $208 million in single-family loans were redeemed in April 2005. The redemption of these bonds, which at the date of the redemption had declined to $195.7 million, was financed with approximately $170.7 million of repurchase agreement financing and $25.0 million of the Company's capital. The Company anticipates reissuing these bonds during 2005.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the Company's financial condition and results of operations are based in large part upon its consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Critical accounting policies are defined as those that are reflective of significant judgments or uncertainties, and which may result in materially different results under different assumptions and conditions, or the application of which may have a material impact on the Company's financial statements. The following are the Company's critical accounting policies.

Consolidation of Subsidiaries. The consolidated financial statements represent the Company's accounts after the elimination of inter-company transactions. The Company consolidates entities in which it owns more than 50% of the voting equity and control of the entity does not rest with others. The Company follows the equity method of accounting for investments with greater than 20% and less than a 50% interest in partnerships and corporate joint ventures or when it is able to influence the financial and operating policies of the investee but owns less than 50% of the voting equity. For all other investments, the cost method is applied.

Impairments. The Company evaluates all securities in its investment portfolio for other-than-temporary impairments. A security is generally defined to be other-than-temporarily impaired if, for a maximum period of three consecutive quarters, the carrying value of such security exceeds its estimated fair value and the Company estimates, based on projected future cash flows or other fair value determinants, that the fair value will remain below the carrying value for the foreseeable future. If an other-than-temporary impairment is deemed to exist, the Company records an impairment charge to adjust the carrying value of the security down to its estimated fair value. In certain instances, as a result of the other-than-temporary impairment analysis, the recognition or accrual of interest will be discontinued and the security will be placed on non-accrual status.

The Company considers an investment to be impaired if the fair value of the investment is less than its recorded cost basis. Impairments of other investments are generally considered to be other-than-temporary when the fair value remains below the carrying value for three consecutive quarters. If the impairment is determined to be other-than-temporary, an impairment charge is recorded in order to adjust the carrying value of the investment to its estimated value.

Allowance for Loan Losses. The Company has credit risk on loans pledged in securitization financing transactions and classified as securitized finance receivables in its investment portfolio. An allowance for loan losses has been estimated and established for currently existing probable losses. Factors considered in establishing an allowance include current loan delinquencies, historical cure rates of delinquent loans, and historical and anticipated loss severity of the loans as they are liquidated. The allowance for loan losses is evaluated and adjusted periodically by management based on the actual and estimated timing and amount of probable credit losses, using the above factors, as well as industry loss experience. Where loans are considered homogeneous, the allowance for losses is established and evaluated on a pool basis. Otherwise, the allowance for losses is established and evaluated on a loan-specific basis. Provisions made to increase the allowance are a current period expense to operations.

Generally, the Company considers manufactured housing loans to be impaired when they are thirty-days past due. The Company also provides an allowance for currently existing credit losses within outstanding manufactured housing loans that are current as to payment but which the Company has determined to be impaired based on default trends, current market conditions and empirical observable performance data on the loans. Single-family loans are considered impaired when they are sixty-days past due. Commercial mortgage loans are evaluated on an individual basis for impairment. Generally, a commercial loan with a debt service coverage ratio of less than one is considered impaired. However, based on a commercial loan's details, commercial loans with a debt service coverage ratio less than one may not be considered impaired; conversely, commercial loans with a debt service coverage ratio greater than one may be considered impaired. Certain of the commercial mortgage loans are covered by loan guarantees that limit the Company's exposure on these loans. The level of allowance for loan losses required for these loans is reduced by the amount of applicable loan guarantees. The Company's actual credit losses may differ from the estimates used to establish the allowance.

FINANCIAL CONDITION

Below is a discussion of the Company's financial condition.

<TABLE>
<CAPTION>

(amounts in thousands except per share data)	March 31, 2005	December 31, 2004
Investments:		
Securitized finance receivables:		
<S>	<C>	<C>
Loans, net	$ 996,076	$ 1,036,123
Debt securities	195,304	206,434
Securities	70,033	87,706
Other investments	7,166	7,595
Other loans	5,242	5,589
Non-recourse securitization financing	1,131,617	1,177,280
Repurchase agreements	59,367	70,468
Shareholders' equity	144,864	148,766
Common book value per share	$ 7.28	$ 7.60

</TABLE>

Securitized finance receivables. Securitized finance receivables decreased to $1.19 billion at March 31, 2005 compared to $1.24 billion at December 31, 2004. This decrease of $51.2 million is primarily the result of $44.6 million of paydowns on the collateral, $2.3 million of additions to the allowance for loan losses, $3.4 million of cash payments received applied to principal, $2.1 million of net interest accretion and $2.9 million of unrealized losses on a debt security.

Securities. Securities decreased during the three months ended March 31, 2005 by $17.7 million, to $70.0 million at March 31, 2005 from $87.7 million at December 31, 2004 due to principal payments of $11.9 million, the sale of $4.9 million of equity securities and a net $0.8 million decrease in the fair value of available-for-sale securities.

Other investments. Other investments at March 31, 2005 consist primarily of a security collateralized by delinquent property tax receivables. Other investments decreased from $7.6 million at December 31, 2004 to $7.2 million at March 31, 2005. This decrease is primarily the result of pay-downs and proceeds from sales of real estate owned properties which together totaled of $0.8 million during the quarter and other than temporary impairment charges of $0.1 million. These decreases were partially offset by interest accruals of $0.4 million on the security and additional advances for collections of $0.1 million.

Other loans. Other loans decreased by $0.4 million from $5.6 million at December 31, 2004 to $5.2 million at March 31, 2005 as the result of pay-downs during the period.

Non-recourse securitization financing. Non-recourse securitization financing decreased $45.7 million, from $1.18 billion at December 31, 2004 to $1.13 billion at March 31, 2005. This decrease was primarily a result of principal payments received of $44.6 million on the associated finance receivables pledged which were used to pay down the non-recourse securitization financing in accordance with the respective indentures. Additionally, for certain securitizations, surplus cash in the amount of $1.6 million was retained within the security structure and used to repay non-recourse securitization financing outstanding, instead of being released to the Company, as certain performance triggers were not met in such securitizations. These decreases were partially offset by amortization of discounts of $0.7 million.

Repurchase Agreements. Repayments of repurchase agreements of $11.1 million reduced the outstanding balance to $59.4 million as of March 31, 2005 compared to $70.5 million as of December 31, 2004.

Shareholders' equity. Shareholders' equity decreased to $144.9 million at March 31, 2005 from $148.8 million at December 31, 2004. This decrease was primarily the result of a net decrease in accumulated other comprehensive income of $3.9 million on investments available-for-sale and preferred stock dividends of $1.3 million. These decreases were partially offset by net income of $0.9 million and $0.4 million of deferred gains on hedging instruments.

RESULTS OF OPERATIONS

<TABLE>
<CAPTION>

(amounts in thousands except per share information)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
<S>	<C>	<C>
Net interest income	$ 4,457	$ 6,435
Net interest income (loss) after provision for loan losses	2,196	(765)
Impairment charges	(266)	(1,661)
General and administrative expenses	(1,492)	(2,468)
Net income (loss)	934	(5,387)
Net loss per common share:		
Basic and diluted	$ (0.03)	$ (0.60)

</TABLE>

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004. The increase in net income and decrease in net loss per common share during the three months ended March 31, 2005 as compared to the same period in 2004 is primarily the result of a $4.9 million decrease in provision for loan losses, and $1.4 million decrease in impairment charges, and a decrease in general and administrative expense and other income (expense) of $1.9 million, offset by a decrease net interest income of $2.0 million.

Net interest income decreased from $6.4 million to $4.5 million for the quarter ended March 31, 2005 from the same period in 2004. Net interest income decreased primarily as a result of a decline in overall interest earning assets and a decline in the net interest spread earned on the investment portfolio from 1.21% to 0.73% for the three-month periods ended March 31, 2004 and 2005, respectively, as discussed below. Net interest income after provision for loan losses for the three months ended March 31, 2005 increased to $2.2 million from a loss of $0.8 million for the same period for 2004. Provision for loan losses decreased by $4.9 million from $7.2 million in 2004 to $2.3 million in the current period due primarily to the sale in 2004 of the Company's rights and interests in a securitization trust containing manufactured housing loans and the subsequent derecognition of said securitization trust. There were also no provisions for loan losses on the Company's remaining manufactured housing loans for the first quarter of 2005 due to their impending sale as discussed in Note 2 to the condensed financial statements.

Impairment charges for the three months ended March 31, 2004 were $0.3 million compared to $1.7 million for the same period in 2004. The $1.4 million decrease of impairment losses for the three-months ended March 31, 2005 compared to the same period in 2004 reflects other than temporary impairment of its investment in delinquent property tax receivables and REO properties in 2004 that was not experienced in 2005.

General and administrative expense decreased to $1.5 million for the three-months ended March 31, 2005 from $2.5 million for the same period in 2004. This decrease was primarily the result of the reductions in compensation expense and litigation costs incurred during the three months ended March 31, 2004 that were not experienced in 2005.

The following table summarizes the average balances of interest-earning assets and their average effective yields, along with the average interest-bearing liabilities and the related average effective interest rates, for each of the periods presented. Assets that are on non-accrual status are excluded from the table below for each period presented.

Average Balances and Effective Interest Rates

<TABLE>
<CAPTION>

	Three Months Ended March 31,			
	2005		2004	
	Average Balance	Effective Rate	Average Balance	Effective Rate
Interest-earning assets:(1)				
<S>	<C>	<C>	<C>	<C>
Securitized finance receivables(2)	$ 1,226,852	7.17%	$ 1,768,007	7.44%
Securities	72,807	5.69%	28,412	7.87%
Cash	54,200	2.21%	8,636	0.75%
Other loans	7,092	14.53%	8,227	8.25%
Other investments	7,394	20.14%	-	-
Total interest-earning assets	$ 1,368,346	7.00%	$ 1,813,282	7.42%
Interest-bearing liabilities:				
Non-recourse securitization financing(3)	$ 1,147,513	6.49%	$ 1,681,370	6.26%
Repurchase agreements	69,216	2.62%	22,773	1.45%
Senior notes	-	-	6,700	9.50%
Total interest-bearing liabilities	$ 1,216,729	6.27%	$ 1,710,843	6.21%
Net interest spread on all investments(3)		0.73%		1.21%
Net yield on average interest-earning assets(3)(4)		1.43%		1.56%

<FN>

(1) Average balances exclude adjustments made in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" to record available-for-sale securities at fair value.

(2) Average balances exclude funds held by trustees of $233 and $335 for the three months ended March 31, 2005 and 2004, respectively.

(3) Effective rates are calculated excluding non-interest related collateralized bond expenses. If included, the effective rate on interest-bearing liabilities would be 6.44% and 6.36% for the three months ended March 31, 2005 and 2004.

(4) Net yield on average interest-earning assets reflects net interest income excluding non-interest related collateralized bond expenses divided by average interest earning assets for the period, annualized.

</FN>
</TABLE>

The net interest spread decreased 48 basis points, to 0.73% for the three months ended March 31, 2005 from 1.21% for the same period in 2004. The net yield on average interest earning assets for the three months ended March 31, 2005 also decreased relative to the same period in 2004, to 1.43% from 1.56%. The decline in the Company's net interest spread can be attributed to decreasing yields on interest-earning assets and increases in the cost of interest-bearing liabilities. Yields on interest earning assets declined as a significant portion of the investment portfolio has been converted to cash, as the Company acquired in late 2004 a $60 million fixed rate security with a yield of 3.83% and as adjustable interest earning assets continue to decline due to sales and prepayments. Interest-bearing liability costs increased by 6 basis points for the three month period ended March 31, 2005, compared to the same period in 2004 due primarily to increases in one-month LIBOR and the repayment in 2004 of higher rated, lower yield bond classes. This has been moderated by an increase in repurchase agreement financing with yields tied to one-month LIBOR. The average One-Month LIBOR rate increased to 2.64% for the three-month period ended March 31, 2005 compared to 1.10% for the three-month period ended March 31, 2004. The average six-month LIBOR rate decreased to 3.08% for the three-month period ended March 31, 2005 compared to 1.18% for the same period in 2004.

The following table summarizes the amount of change in interest income and interest expense due to changes in interest rates versus changes in volume:

<TABLE>
<CAPTION>

Three Months Ended March 31, 2005 vs.
Three Months Ended March 31, 2004

(amounts in thousands)	Rate	Volume	Total
<S>	<C>	<C>	<C>
Securitized finance receivables	$ (1,148)	$ (9,741)	$ (10,889)
Securities	(192)	668	476
Other investments	291	365	656
Other loans	114	(26)	88
Total interest income	(935)	(8,734)	(9,669)
Securitization financing	472	(8,179)	(7,707)
Senior notes	(80)	(80)	(160)
Repurchase agreements	111	261	372
Total interest expense	503	(7,998)	(7,495)
Net interest income	$ (1,438)	$ (736)	$ (2,174)

<FN>

Note: The change in interest income and interest expense due to changes in both volume and rate, which cannot be segregated, has been allocated proportionately to the change due to volume and the change due to rate. This table excludes non-interest related dividends on equity securities, securitization financing expense, other interest expense and provision for credit losses.

</FN>
</TABLE>

From March 31, 2004 to March 31, 2005, average interest-earning assets declined $445 million, or approximately 25%. Approximately half of that decline resulted from the derecognition of a securitization trust collateralized by manufactured housing loans. Another large portion of such reduction relates to paydowns on the Company's adjustable-rate single-family mortgage loans and manufactured housing loans. The Company's portfolio as of March 31, 2005 consists of $231.5 million of adjustable rate assets and $1.1 billion of fixed-rate assets. The Company currently finances approximately $216.8 million of the fixed-rate assets with non-recourse LIBOR based floating-rate liabilities. As short-term interest rates continue to increase, the downward resetting of the single-family ARM loans will reverse and the cost of interest-bearing liabilities will continue to increase, with the reduction of net interest spread in future periods depending on how quickly the rates increase.

Interest Income and Interest-Earning Assets. At March 31, 2005, $1.1 billion of the investment portfolio consists of loans and securities which pay a fixed-rate of interest, and approximately $231.5 million of the investment portfolio is comprised of loans and securities that have coupon rates which adjust over time (subject to certain periodic and lifetime limitations) in conjunction with changes in short-term interest rates. Approximately 69% of the ARM loans underlying the ARM securities and securitized finance receivables are indexed to and reset based upon the level of six-month LIBOR; approximately 14% of the ARM loans are indexed to and reset based upon the level of the one-year Constant Maturity Treasury (CMT) index. The Company finances its investment portfolio with principally non-recourse securitization financing. At March 31, 2005, approximately $740 million of fixed-rate bonds and $380 million of adjustable rate bonds were outstanding. The following table presents a breakdown, by principal balance, of the Company's securitized finance receivables and securities by type of underlying loan. This table excludes mortgage-related securities, other investments and unsecuritized loans.

<TABLE>
<CAPTION>

Investment Portfolio Composition(1)
($ in millions)

	LIBOR Based ARM Loans	CMT Based ARM Loans	Other Indices Based ARM Loans	Fixed-Rate Loans	Total
<C>	<C>	<C>	<C>	<C>	<C>
2004, Quarter 1	$ 235.3	$ 46.5	$ 45.0	$ 1,479.0	$ 1,805.8
2004, Quarter 2	215.8	41.9	40.8	1,443.1	1,741.6
2004, Quarter 3	196.1	38.8	39.5	1,335.8	1,610.2
2004, Quarter 4	176.7	34.5	37.6	1,112.8	1,361.6
2005, Quarter 1	163.7	32.9	34.9	1,069.1	1,300.6

<FN>

(1) Includes only the principal amount of securitized finance receivables, ARM securities and fixed-rate mortgage securities.

</FN>
</TABLE>

Credit Exposures. The Company's predominate securitization structure is non-recourse securitization financing, whereby loans and securities are pledged to a trust, and the trust issues bonds pursuant to an indenture. Generally these securitization structures use over-collateralization, subordination, third-party guarantees, reserve funds, bond insurance, mortgage pool insurance or any combination of the foregoing as a form of credit enhancement. From an economic point of view, the Company generally has retained a limited portion of the direct credit risk in these securities. In many instances, the Company retained the "first-loss" credit risk on pools of loans that it has securitized.

The following table summarizes the aggregate principal amount of certain investments of the Company; the direct credit exposure retained by the Company (represented by the amount of over-collateralization pledged and subordinated securities owned by the Company), net of the credit reserves and discounts maintained by the Company for such exposure; and the actual credit losses incurred for each quarter presented. Credit Exposure, Net of Credit Reserves is based on the credit risk retained by the Company for the loans and securities pledged to the securitization trust, from an economic point of view. The table includes any subordinated security retained by the Company. The Company's credit exposure, net of credit reserves was substantially unchanged from 2004.

The table excludes other forms of credit enhancement from which the Company benefits, and based upon the performance of the underlying loans, may provide additional protection against losses. These additional protections include loss reimbursement guarantees with a remaining balance of $26.6 million and a remaining deductible aggregating $0.5 million on $29.3 million of securitized single family mortgage loans which are subject to such reimbursement agreements; guarantees aggregating $19.5 million on $200.0 million of securitized commercial mortgage loans, whereby losses on such loans would need to exceed the respective guarantee amount before the Company would incur credit losses; and $95.8 million of securitized single family mortgage loans which are subject to various mortgage pool insurance policies whereby losses would need to exceed the remaining stop loss of at least 77% on such policies before the Company would incur losses. This table excludes any credit exposure on unsecuritized loans and other investments.

Credit Reserves and Actual Credit Losses
($ in millions)

<TABLE>
<CAPTION>

	Outstanding Loan Principal Balance	Credit Exposure, Net Of Credit Reserves	Actual Credit Losses	Credit Exposure, Net Of Credit Reserves To Outstanding Loan Balance
<C>	<C>	<C>	<C>	<C>
2004, Quarter 1	$ 1,775.1	$ 54.3	$ 6.0	3.06%
2004, Quarter 2	1,716.1	48.0	8.0	2.80%
2004, Quarter 3	1,613.4	39.8	6.5	2.47%
2004, Quarter 4	1,296.5	39.9	4.6	3.08%
2005, Quarter 1	1,245.8	39.4	2.6	3.16%

</TABLE>

The following table summarizes single family mortgage loan, manufactured housing loan and commercial mortgage loan delinquencies as a percentage of the outstanding collateral balance for those securities in which the Company has retained a portion of the direct credit risk. The delinquencies as a percentage of the outstanding securitized finance receivables balance have decreased to 6.16% at March 31, 2005 from 6.60% at March 31, 2004 primarily due to the sale of certain securitized finance receivable investments in the fourth quarter of 2004 where the Company had credit risk on the assets sold. The Company monitors and evaluates its exposure to credit losses and has established reserves based upon anticipated losses, general economic conditions and trends in the investment portfolio. As of March 31, 2005, management believes the level of credit reserves is appropriate for currently existing losses.

Delinquency Statistics (1)

<TABLE>
<CAPTION>

	30 to 60 days delinquent	60 to 90 days delinquent	90 days and over delinquent (2)	Total
<C>	<C>	<C>	<C>	<C>
2004, Quarter 1	3.46%	0.52%	2.62%	6.60%
2004, Quarter 2	3.04%	2.17%	4.85%	10.04%
2004, Quarter 3	2.53%	0.46%	4.64%	7.63%
2004, Quarter 4	1.27%	0.32%	5.38%	6.97%
2005, Quarter 1	1.35%	0.42%	4.39%	6.16%

- --

<FN>
(1) Excludes other investments and unsecuritized loans.
(2) Includes foreclosures, repossessions and REO.
</FN>
</TABLE>

General and Administrative Expense. The following tables present a breakdown of general and administrative expense by category and business unit.

<TABLE>
<CAPTION>

	Servicing	Corporate/Investment Portfolio Management	Total
<C>	<C>	<C>	<C>
2004, Quarter 1	$ 1,008.9	$ 1,459.6	$ 2,468.5
2004, Quarter 2	986.8	1,028.1	2,014.9
2004, Quarter 3	930.3	916.8	1,847.1
2004, Quarter 4	557.5	859.8	1,417.3
2005, Quarter 1	525.2	966.4	1,491.6

</TABLE>

General and administrative expense decreased to $1.5 million for the three-months ended March 2005 from $2.5 million for the same period in 2004. This decrease was primarily the result of reduced compensation expense, primarily in the tax lien servicing operation, and legal fees incurred in the first quarter of 2004.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (Revised 2004), Share-Based Payment. This statement supersedes APB Opinion No. 25 and its related implementation guidance. The statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. The most significant change resulting from this statement is the requirement for public companies to expense employee share-based payments under fair value as originally introduced in SFAS No. 123. This statement is effective for public companies as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company will adopt this statement effective July 1, 2005 and is currently evaluating the impact it will have on net income had the Company adopted the provisions of SFAS No. 123, for each year presented.

In September 2004, the FASB Board directed the FASB Staff to delay the effective date for adoption of paragraphs 10-20 of Emerging Issues Task Force ("EITF") Issue 03-1, "The Meaning of Other-Than-Temporary Impairment," until the issuance of implementation guidance for debt securities that are impaired solely due to interest rates and/or sector spreads and analyzed for other-than-temporary impairment under paragraph 16 of EITF 03-1. The delay of the effective date for paragraphs 10-20 of EITF 03-1 will be superseded upon final issuance of Statement of Financial Position "FSP" EITF Issue 03-1-a. The Company has reviewed this statement and does not believe that its adoption will have a significant impact on its financial position, results of operations or cash flows.

Non-GAAP Information on Securitized Finance Receivables and Non-Recourse Securitization Financing

The Company finances its securitized finance receivables through the issuance of non-recourse securitization financing. The Company presents in its condensed consolidated financial statements the securitized finance receivables as assets, and the associated securitization financing as a liability. Because the securitization financing is recourse only to the finance receivables pledged, and is therefore not a general obligation of the Company, the risk to the Company on its investment in securitized finance receivables is limited to its net investment (i.e., the excess of the finance receivables pledged over the non-recourse securitization financing). This excess is often referred to as overcollateralization. The purpose of the information presented in this section is to present the securitized finance receivables on a net investment basis, and to provide estimated fair value information using various assumptions on such net investment. The Company monitors and evaluates the performance of these securitization transactions based on the Company's net investment in such transactions, and believes the tables below will assist the investor in understanding the Company's actual investment in these transactions, the credit risk which the Company has retained on its investments, the performance of these investments, and the estimated fair value of these investments based on the assumptions set forth below.

In the tables below, the "principal balance of net investment" in securitized finance receivables represents the excess of the principal balance of the collateral pledged over the outstanding balance of the associated non-recourse securitization financing owned by third parties. The "amortized cost basis of net investment" is principal balance of net investment plus or minus premiums and discounts and related costs. The Company generally has sold the investment grade classes of the securitization financing to third parties, and has retained the portion of the securitization financing that is below investment grade.

The Company estimates the fair value of its net investment in collateralized bond securities as the present value of the projected cash flow from the collateral, adjusted for the impact of and assumed level of future prepayments and credit losses, less the projected principal and interest due on the bonds owned by third parties. The Company master services three of its collateral for collateralized bond securities. Structured Asset Securitization Corporation (SASCO) Series 2002-9 is master-serviced by Wells Fargo Bank. CCA One Series 2 and Series 3 are master-serviced by Bank of New York. Monthly payment reports for those securities master-serviced by the Company may be found on the Company's website at www.dynexcapital.com.

Below is a summary as of March 31, 2005, by each series of the Company's net investment in securitized finance receivables where the fair value exceeds $0.5 million. The following tables show the Company's net investment in each of the securities presented below on both a principal balance and amortized cost basis, as those terms are defined above. The accompanying condensed consolidated financial statements of the Company present the securitized finance receivables as an asset, and present the associated securitization financing bond obligation as a non-recourse liability. In addition, the Company carries only its investment in MERIT Series 11 at fair value. As a result, the table below is not meant to present the Company's investment in securitized finance receivables or the non-recourse securitization financing in accordance with generally accepted accounting principles applicable to the Company's transactions. See below for a reconciliation of the amounts included in the table to the Company's condensed consolidated financial statements.

<TABLE>
<CAPTION>

(amounts in thousands) Securitized Financing Bond Series (1)	Collateral Type	Principal Balance Of Collateral Pledged	Principal Balance of Collateralized Bonds Outstanding to Third Parties	Principal Balance Of Net Investment	Amortized Cost Basis Of Net Investment
<S>	<C>	<C>	<C>	<C>	<C>
MERIT Series 11	Securities backed by single-family mortgage and manufactured housing loans	$ 206,416	$ 179,842	$ 26,574	$ 15,698
MERIT Series 12	Manufactured housing loans	193,356	182,567	10,789	1,068
SASCO 2002-9	Single family loans	208,288	200,417	7,871	11,406
MCA Series 1	Commercial mortgage loans	67,199	62,474	4,725	1,024
CCA One Series 2	Commercial mortgage loans	214,121	192,018	22,103	13,260
CCA One Series 3	Commercial mortgage loans	339,937	299,976	39,961	46,825
		$ 1,229,317	$ 1,117,294	$ 112,023	$ 89,281

<FN>
(1) MERIT stands for MERIT Securities Corporation; MCA stands for Multifamily Capital Access One, Inc. (now known as Commercial Capital Access One, Inc.); and CCA stands for Commercial Capital Access One, Inc. Each such entity is a wholly owned limited purpose subsidiary of the Company. SASCO stands for Structured Asset Securitization Corporation
</FN>
</TABLE>

The following table reconciles the balances presented in the table above with the amounts included for securitized finance receivables and securitization financing in the accompanying condensed consolidated financial statements.

<TABLE>
<CAPTION>

(amounts in thousands)	Non-recourse

	Securitized Finance Receivables	Securitization Financing
Principal balances per the above table	$ 1,229,317	$ 1,117,294
Principal balance of security excluded from above table	2,480	2,542
Recorded impairments on debt securities	(14,823)	-
Premiums and discounts	(2,920)	6,672
Accrued interest and other	5,007	5,109
Allowance for loan losses (1)	(27,681)	-
Balance per condensed consolidated financial statements	$ 1,191,380	$ 1,131,617

<FN>
(1) Allowance for loan losses includes $15,448 for commercial loans, $11,808 for manufactured housing loans, and $425 for single-family loans.
</FN>
</TABLE>

The following table summarizes the fair value of the Company's net investment in securitized finance receivables securities, the various assumptions made in estimating value, and the cash flow received from such net investment during the three months ended March 31, 2005. As the Company does not present its investment in non-recourse securitization financing on a net investment basis and carries only its investment in MERIT Series 11 at fair value, the table below is not meant to present the Company's investment in securitized finance receivables or non-recourse securitization financing in accordance with generally accepted accounting principles applicable to the Company's transactions.
<TABLE>
<CAPTION>

	Fair Value Assumptions			($ in thousands)	
Collateralized Bond Series	Weighted-average prepayment speeds	Losses	Projected cash flow termination date	Fair value of net investment (1)	Cash flows received in 2005, net (2)
MERIT Series 11	30% CPR on SF securities; 8% CPR on MH securities	4.2% annually on MH loans	Anticipated final maturity in 2025	$ 8,519 (5)	$ 637
MERIT Series 12	7% CPR	3.6% annually on MH loans	Anticipated final maturity in 2027	736 (5)	249
SASCO 2002-9	28% CPR	0.10% annually	Anticipated call date in 2005	14,573	1,388
MCA One Series 1	(3)	1.00% annually	Anticipated final maturity in 2018	2,751	264
CCA One Series 2	(4)	0.80% annually	Anticipated call date in 2010	12,764	430
CCA One Series 3	(4)	1.20% annually	Anticipated call date in 2009	22,114	104
				$ 61,457	$ 3,072

<FN>
(1) Calculated as the net present value of expected future cash flows, discounted at 16%. Expected cash flows were based on the forward LIBOR curve as of March 31, 2005, and incorporate the resetting of the interest rates on the adjustable rate assets to a level consistent with projected prevailing rates. Increases or decreases in interest rates and index levels from those used would impact the calculation of fair value, as would differences in actual prepayment speeds and credit losses versus the assumptions set forth above.
(2) Cash flows received by the Company during the three months ended March 31, 2005, equal to the excess of the cash flows received on the collateral pledged, over the cash flow requirements of the collateralized bond security
(3) Computed at 0% CPR through June 2008 due to prepayment lockouts and yield maintenance provisions
(4) Computed at 0% CPR until the respective call date due to prepayment lockouts and yield maintenance provisions

(5) The Company executed an agreement subsequent to the end of the quarter to sell certain of its interest in Merit Series 11 and Merit Series 12 for $8.0 million and retained the servicing rights related to the Series. The retained servicing rights were valued at approximately $2.5 million and $0.7 million for MERIT Series 11 and 12, respectively, and was estimated using the assumptions in the table above. See Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations for additional discussion of the transaction.
</FN>
</TABLE>

The above tables illustrate the Company's estimated fair value of its net investment in securitized finance receivables. In its condensed consolidated financial statements, the Company carries its investments at amortized cost, except for its investment in MERIT Series 11, which it carries at estimated fair value. Inclusive of recorded allowance for loan losses of $27.7 million, the Company's net investment in collateralized bond securities is approximately $59.8 million. This amount compares to an estimated fair value, utilizing a discount rate of 16%, of approximately $61.5 million, as set forth in the table above.

The following table compares the fair value of the non-GAAP disclosure of these investments at various discount rates, but otherwise using the same assumptions as set forth for the two immediately preceding tables:

<TABLE>
<CAPTION>

Fair Value of Net Investment

Collateralized Bond Series	12%	16%	20%	25%
<S>	<C>	<C>	<C>	<C>
MERIT Series 11A	$ 9,931	$ 8,519	$ 7,441	$ 6,406
MERIT Series 12-1	713	736	741	732
SASCO 2002-9	16,430	14,573	13,146	11,774
MCA One Series 1	3,295	2,751	2,323	1,908
CCA One Series 2	15,205	12,764	10,795	8,852
CCA One Series 3	25,274	22,114	19,396	16,521
	$ 70,848	$ 61,457	$ 53,842	$ 46,193

</TABLE>

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically financed its operations from a variety of sources. Currently, the Company's primary source for funding its operations is principally the cash flow generated from the investment portfolio, which includes net interest income and principal payments and prepayments on these investments. From the cash flow on its investment portfolio, the Company funds its operating overhead costs, including the servicing of its delinquent property tax receivables, repays any remaining recourse debt, and makes additional investments. Should the Company's future operations require access to sources of capital such as lines of credit and repurchase agreements, the Company believes that it would be able to access such sources.

The Company's cash flow from its investment portfolio for the quarter ended March 31, 2005 was approximately $10.8 million, inclusive of proceeds received on the sale of investments. Such cash flow is after payment of principal and interest on the associated non-recourse securitization financing (i.e., non-recourse debt) outstanding. From the cash flow on its investment portfolio, the Company funds its operating overhead costs, including the servicing of its delinquent property tax receivables, and repays any remaining recourse debt.

The Company's cash flow from its investment portfolio is subject to fluctuation due to changes in interest rates, repayment rates and default rates and related losses. In a period of rapidly rising interest rates, the Company's net interest margin and cash flow from the investment portfolio is likely to be significantly impacted due to increased borrowing costs on variable-rate non-recourse collateralized bonds. The Company anticipates, however, that it will have sufficient cash flow from its investment portfolio to meet all of its obligations.

Non-recourse securitization financing. Dynex, through limited-purpose finance subsidiaries, has issued non-recourse debt in the form of non-recourse securitization financing to fund the majority of its investment portfolio. The obligations under the non-recourse securitization financing are payable solely from the securitized finance receivables and are otherwise non-recourse to the Company. The maturity of each class of non-recourse securitization financing is directly affected by the rate of principal prepayments on the related collateral and is not subject to margin call risk. Each series is also subject to redemption according to specific terms of the respective indentures, generally on the earlier of a specified date or when the remaining balance of the bonds equals 35% or less of the original principal balance of the bonds. At March 31, 2005, Dynex had $1.1 billion of non-recourse securitization financing outstanding. Approximately $740 million of the non-recourse securitization financing carries a fixed rate of interest, and approximately $380 million carries a rate of interest, which adjusts monthly based on One-Month LIBOR.

Repurchase agreements. The Company uses repurchase agreements to finance certain of its investments. As of March 31, 2005, the Company had $59.4 million of repurchase agreements financing approximately $65.4 million of mortgage-backed securities. Subsequent to the end of the first quarter, the Company financed the redemption of the outstanding bonds of a securitization financing with approximately $170 million of repurchase agreements, as discussed in "Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations" above.

FORWARD-LOOKING STATEMENTS

Certain written statements in this Form 10-Q made by the Company that are not historical fact constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements contained in this Item as well as those discussed elsewhere in this Report addressing the results of operations, our operating performance, events, or developments that we expect or anticipate will occur in the future, including statements relating to investment strategies, net interest income growth, earnings or earnings per share growth, and market share, as well as statements expressing optimism or pessimism about future operating results, are forward-looking statements. The forward-looking statements are based upon management's views and assumptions as of the date of this Report, regarding future events and operating performance and are applicable only as of the dates of such statements. Such forward-looking statements may involve factors that could cause the actual results of the Company to differ materially from historical results or from any results expressed or implied by such forward-looking statements. The Company cautions the public not to place undue reliance on forward-looking statements, which may be based on assumptions and anticipated events that do not materialize.

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

Economic Conditions. The Company is affected by general economic conditions. An increase in the risk of defaults and credit risk resulting from an economic slowdown or recession could result in a decrease in the value of the Company's investments and the over-collateralization associated with its securitization transactions. As a result of the Company being heavily invested in short-term high quality investments, a worsening economy could benefit the Company by creating opportunities for the Company to invest in assets that become distressed as a result of the worsening conditions. These changes could have an effect on the Company's financial performance and the performance on the Company's securitized loan pools.

Investment Portfolio Cash Flow. Cash flows from the investment portfolio fund the Company's operations and repayments of outstanding debt, and are subject to fluctuation due to changes in interest rates, repayment rates and default rates and related losses. Cash flows from the investment portfolio are likely to sequentially decline until the Company meaningfully begins to reinvest its capital. There can be no assurances that the Company will be able to find suitable investment alternatives for its capital, nor can there be assurances that the Company will meet its reinvestment and return hurdles.

Defaults. Defaults by borrowers on loans securitized by the Company may have an adverse impact on the Company's financial performance, if actual credit losses differ materially from estimates made by the Company or exceed reserves for losses recorded in the financial statements. The allowance for loan losses is calculated on the basis of historical experience and management's best estimates. Actual default rates or loss severity may differ from the Company's estimate as a result of economic conditions. Actual defaults on adjustable-rate mortgage loans may increase during a rising interest rate environment. In addition, commercial mortgage loans are generally large dollar balance loans, and a significant loan default may have an adverse impact on the Company's financial results.

Interest Rate Fluctuations. The Company's income and cash flow depends on its ability to earn greater interest on its investments than the interest cost to finance these investments. Interest rates in the markets served by the Company generally rise or fall with interest rates as a whole. A majority of the Company's investments, including loans and securities currently pledged as securitized finance receivables and securities, are fixed-rate. The Company currently finances these fixed-rate assets through non-recourse securitization financing and repurchase agreements, approximately $380 million of which is variable rate and resets monthly. Financing fixed-rate assets with variable-rate bonds exposes the Company to reductions in income and cash flow in a period of rising interest rates. Through the use of interest rate swaps and synthetic swaps, the Company has reduced this exposure by approximately $100 million as of March 31, 2005. In addition, a portion of the investments held by the Company are adjustable-rate securitized finance receivables. These investments are financed through non-recourse long-term securitization financing, which reset monthly. 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 borrowing has no delayed resets or such interest rate caps.

Third-party Servicers. Third-party servicers service the majority of the Company's investment portfolio. To the extent that these servicers are financially impaired, the performance of the Company's investment portfolio may deteriorate, and defaults and credit losses may be greater than estimated. In addition, third-party servicers are generally obligated to advance scheduled principal and interest on a loan if such loan is securitized, and to the extent the third-party servicer fails to make this advance, the Company may be required to make the advance. The actual credit losses experienced by the Company are in large part influenced by the quality of servicing by these third-party servicers.

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

Competition. The financial services industry is a highly competitive market in which we compete with a number of institutions with greater financial resources. In purchasing portfolio investments and in issuing securities, we compete with other mortgage REITs, investment banking firms, savings and loan associations, commercial banks, mortgage bankers, insurance companies, federal agencies and other entities, many of which have greater financial resources and a lower cost of capital than we do. Increased competition in the market and our competitors greater financial resources have adversely affected the Company, and may continue to do so. Competition may also continue to keep pressure on spreads resulting in the Company being unable to reinvest its capital at a satisfactory risk-adjusted basis.

Regulatory Changes. The Company's businesses as of and for the quarter ended March 31, 2005 were 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. The Company is a REIT and is required to meet certain tests in order to maintain its REIT status as described in the earlier discussion of "Federal Income Tax Considerations." If the Company should fail to maintain its REIT status, it would not be able to hold certain investments and would be subject to income taxes

Section 404 of the Sarbanes-Oxley Act of 2002. Based on the Company's expected market capitalization at June 30, 2005, the Company anticipates that it will be required to be compliant with the provisions of Section 404 of the Sarbanes-Oxley Act of 2002 by December 31, 2005. Failure to be compliant may result in doubt in the capital markets about the quality and adequacy of the Company's internal disclosure controls. This could result in the Company having difficulty in or being unable to raise additional capital in these markets in order to finance its operations and future investments.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument due to fluctuations in interest and foreign exchange rates and in equity and commodity prices. Market risk is inherent to both derivative and non-derivative financial instruments. Accordingly, the scope of the Company's market risk management extends beyond derivatives to include all market risk sensitive financial instruments. As a financial services company, net interest income comprises the primary component of the Company's earnings. Additionally, cash flow from the investment portfolio represents the primary component of the Company's incoming cash flow. Cash flow from the investment portfolio includes net interest income received and returns of invested capital. The Company is subject to interest-rate risk resulting primarily from the use of leverage to finance its investment portfolio. Specifically, the Company is subject to risk resulting from interest rate fluctuations to the extent that there is a gap between the amount of interest-earning assets and the amount of interest-bearing liabilities that are prepaid, mature or re-price within specified periods. While certain investments may perform poorly in an increasing or decreasing interest rate environment, other investments may perform well, and others may not be impacted at all.

The Company focuses on the sensitivity of its portfolio cash flow, and measures such sensitivity to changes in interest rates. Changes in interest rates are defined as instantaneous, parallel, and sustained interest rate movements in 100 basis point increments. The Company estimates its net interest margin cash flow for the next twenty-four months assuming interest rates over such time period follow the forward LIBOR curve (based on 90-day Eurodollar futures contracts) as of March 31, 2005. Once the base case has been estimated, cash flows are projected for each of the defined interest rate scenarios. Those scenario results are then compared against the base case to determine the estimated change to cash flow.

The following table summarizes the Company's portfolio cash flow sensitivity analysis as of March 31, 2005. This analysis represents management's estimate of the percentage change in net interest margin cash flow given a parallel shift in interest rates as discussed above. Certain investments, including other loans and other investments are excluded from this analysis because they are not interest rate sensitive or if no leverage exists relative to these investments. The "Base Case" included in the table below represents the interest rate environment as it existed as of March 31, 2005. At March 31, 2005, one-month LIBOR was 2.87% and six-month LIBOR was 3.40%. The analysis is heavily dependent upon the assumptions used in the model. The effect of changes in future interest rates, the shape of the yield curve or the mix of assets and liabilities may cause actual results to differ significantly from the modeled results. In addition, certain financial instruments provide a degree of "optionality." The most significant option affecting the Company's portfolio is the borrowers' option to prepay the loans. The model applies prepayment rate assumptions representing management's estimate of prepayment activity on a projected basis for each collateral pool in the investment portfolio. The model applies the same prepayment rate assumptions for all five cases indicated below. The extent to which borrowers utilize the ability to exercise their option may cause actual results to significantly differ from the analysis. Furthermore, the projected results assume no additions or subtractions to the Company's portfolio, and no change to the Company's liability structure. Historically, there have been significant changes in the Company's assets and liabilities and there are likely to be such changes in the future.

<TABLE>
<CAPTION>

Basis Point Increase (Decrease) In Interest Rates	Projected Change In Net Interest Margin Cash Flow From Base Case	Projected Change In Value, Expressed As A Percentage Of Shareholders' Equity
<S>	<C>	<C>
+200	(13.3)%	(4.3)%
+100	(5.6)%	(1.9)%
Base		
-100	3.6%	1.5%
-200	13.1%	3.7%

</TABLE>

The Company's interest rate risk is related both to the rate of change in short term interest rates and to the level of short-term interest rates. Approximately $1.1 billion of the Company's investment portfolio assets are comprised of loans or securities that have coupon rates that are fixed, and approximately $231.5 million of the Company's investment portfolio assets are comprised of loans or securities that have coupon rates which adjust over time. At March 31, 2005, the Company has financed these assets with approximately $740 million of fixed-rate securitization financing, $380 million in adjustable-rate securitization financing, $59.4 million in repurchase agreement financing, and the balance with equity.

Generally, during a period of rising short-term interest rates, the Company's net interest spread earned on its investment portfolio will decrease. The decrease of the net interest spread results from (i) the lag in resets of the adjustable rate loans underlying the adjustable rate securities and securitized finance receivables relative to the rate resets on the associated borrowings and (ii) rate resets on the adjustable rate loans which are generally limited to 1% every six months or 2% every twelve months and subject to lifetime caps, while the associated borrowings have no such limitation. As to item (i), the Company has substantially limited its interest rate risk on such investments through (a) the issuance of fixed-rate securitization financing and (b) equity. In addition, the Company has entered into interest rate swaps and synthetic swaps to mitigate its interest rate risk exposure on fixed-rate investments financed with variable rate bonds as further discussed below. As to item (ii), as short-term interest rates stabilize and the adjustable rate loans reset, the net interest margin may be partially restored as the yields on the adjustable rate loans adjust to market conditions.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act is accumulated and communicated to management, including the Company's management, as appropriate, to allow timely decisions regarding required disclosures.

As of the end of the period covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Chief Financial Officer. Based upon that evaluation, the Company's management concluded that the Company's disclosure controls and procedures are effective.

In conducting its review of disclosure controls, management concluded that sufficient disclosure controls and procedures did exist to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in internal controls.

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting. There were no changes in the Company's internal controls or in other factors that could materially affect, or are reasonably likely to materially affect the Company's internal controls over financial reporting. There were also no significant deficiencies or material weaknesses in such internal controls requiring corrective actions.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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. Plaintiffs were two local businesses seeking status to represent as a class, delinquent taxpayers in Allegheny County whose delinquent tax liens had been assigned to GLS. 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, and whether the County had the right to assign the delinquent property tax receivables to GLS and therefore employ procedures for collection enjoyed by Allegheny County under state statute. This lawsuit was related to the purchase by GLS of delinquent property tax receivables from Allegheny County in 1997, 1998, and 1999. In July 2001, the Commonwealth Court issued a ruling that addressed, among other things, (i) the right of GLS to charge to the delinquent taxpayer a rate of interest of 12% per annum versus 10% per annum on the collection of its delinquent property tax receivables, (ii) the charging of a full month's interest on a partial month's delinquency; (iii) the charging of attorney's fees to the delinquent taxpayer for the collection of such tax receivables, and (iv) the charging to the delinquent taxpayer of certain other fees and costs. The Commonwealth Court in its opinion remanded for further consideration to the lower trial court items (i), (ii) and (iv) 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. The Commonwealth Court further ruled that Allegheny County could assign its rights in the delinquent property tax receivables to GLS, and that plaintiffs could maintain equitable class in the action. In October 2001, GLS, along with Allegheny County, filed an Application for Extraordinary Jurisdiction with the Supreme Court of Pennsylvania, Western District appealing certain aspects of the Commonwealth Court's ruling. In March 2003, the Supreme Court issued its opinion as follows: (i) the Supreme Court determined that GLS can charge delinquent taxpayers a rate of 12% per annum; (ii) the Supreme Court remanded back to the lower trial court the charging of a full month's interest on a partial month's delinquency; (iii) the Supreme Court revised the Commonwealth Court's ruling regarding recouping attorney fees for collection of the receivables indicating that the recoupment of fees requires a judicial review of collection procedures used in each case; and (iv) the Supreme Court upheld the Commonwealth Court's ruling that GLS can charge certain fees and costs, while remanding back to the lower trial court for consideration the facts of each individual case. Finally, the Supreme Court remanded to the lower trial court to determine if the remaining claims can be resolved as a class action. The lower trial court had set the hearing on the class-action status for late April 2005, but the hearing was delayed until no earlier than June 2005. In August 2003, the Pennsylvania legislature enacted a law amending and clarifying certain provisions of the Pennsylvania statute governing GLS' right to the collection of certain interest, costs and expenses. The law is retroactive to 1996, and amends and clarifies that as to items (ii)-(iv) noted above by the Supreme Court, that GLS can charge a full month's interest on a partial month's delinquency, that GLS can charge the taxpayer for legal fees, and that GLS can charge certain fees and costs to the taxpayer at redemption. Subsequent to the enactment of the law, challenges to the retroactivity provisions of the law were filed in separate cases, which did not include GLS as a defendant. In September 2004, the Trial Court in that litigation upheld the retroactive provisions enacted in 2003. Plaintiffs have appealed in that case. A hearing on the class-action status is currently set for late April 2005. We believe that the ultimate outcome of this litigation will not have a material impact on our financial condition, but may have a material impact on reported results for the particular period presented.

The Company and Dynex Commercial, Inc. ("DCI"), formerly an affiliate of the Company and now known as DCI Commercial, Inc., were defendants in state court in Dallas County, Texas in the matter of Basic Capital Management et al (collectively, "BCM" or "the Plaintiffs") 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 as a defendant. The complaint, which was further amended during pretrial proceedings, alleged 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 that DCI breached another alleged loan commitment of approximately $9 million. The trial commenced in January 2004 and in February 2004, the jury in the case rendered a verdict in favor of one of the plaintiffs and against the Company on the alleged breach of the loan agreements for tenant improvements and awarded that plaintiff damages in the amount of $0.3 million. The jury also awarded the Plaintiffs' attorneys fees in the amount of $2.1 million. The jury entered a separate verdict against DCI in favor of BCM under two mutually exclusive damage models, for $2.2 million and $25.6 million, respectively. The jury found in favor of DCI on the alleged $9 million loan commitment, but did not find in favor of DCI for counterclaims made against BCM. After considering post-trial motions, the presiding judge entered judgment in favor of the Company and DCI, effectively overturning the verdicts of the jury and dismissing damages awarded by the jury. Plaintiffs have filed an appeal. DCI is a former affiliate of the Company, and the Company believes that it will have no obligation for amounts, if any, awarded to the plaintiffs as a result of the actions of DCI.

On February 11, 2005, a putative class action lawsuit was filed against the Company, our subsidiary MERIT Securities Corporation, Stephen J. Benedetti and Thomas H. Potts in United States District Court for the Southern District of New York by the Teamsters Local 445 Freight Division Pension Fund. The lawsuit purports to be a class action on behalf of purchasers of MERIT Series 13 securitization financing bonds, which are collateralized by manufactured housing loans. The allegations include federal securities laws violations in connection with the issuance in August 1999 by MERIT Securities Corporation of our MERIT Series 13 bonds. The suit also alleges fraud and negligent misrepresentations in connection with MERIT Series 13. We are currently evaluating the allegations made in the lawsuit and intend to vigorously defend ourselves against them.

Although no assurance can be given with respect to the ultimate outcome of the above litigation, the Company believes the resolution of these lawsuits will not have a material effect on the Company's condensed consolidated balance sheet, but could materially affect consolidated results of operations in a given year.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None

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

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

10.1	Asset Purchase Agreement dated September 13, 2004 (filed herewith).
31.1	Certification of Principal Executive Officer and Chief Financial Officer pursuant to Section 302 (filed herewith).
32.1	Certification of Principal Executive Officer and Chief Financial Officer pursuant to Section 906 (filed herewith).

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DYNEX CAPITAL, INC.

Dated: May 20, 2005   By: /s/ Stephen J. Benedetti

Stephen J. Benedetti
Executive Vice President
(authorized officer of registrant and principal accounting officer)

EXHIBIT INDEX

Exhibit No.	
10.1	Asset Purchase Agreement dated September 13, 2004
31.1	Certification of Principal Executive Officer and Chief Financial Officer pursuant to Section 302.
32.1	Certification of Principal Executive Officer and Chief Financial Officer pursuant to Section 906.

Exhibit 10.1

EXECUTION COPY

ASSET PURCHASE AGREEMENT

among

DYNEX CAPITAL, INC.
a Virginia corporation,

GLS CAPITAL - CUYAHOGA, INC.
a Virginia corporation,

GLS - CUYAHOGA LIEN POOL ONE, INC.
a Virginia corporation,

and

PLYMOUTH PARK TAX SERVICES, LLC
a Delaware limited liability company

Dated as of September 13, 2004

TABLE OF CONTENTS

SCHEDULES

EXHIBITS

ASSET PURCHASE AGREEMENT

This ASSET PURCHASE AGREEMENT, dated as of September 13, 2004 (this "Agreement"), among DYNEX CAPITAL, INC., a Virginia corporation ("Dynex"), GLS CAPITAL - CUYAHOGA, INC., a Virginia corporation ("GLS Capital"), GLS - CUYAHOGA LIEN POOL ONE, INC., a Virginia corporation ("GLS Lien Pool One", together with GLS Capital, "GLS"; and GLS together with Dynex, the "Sellers") and PLYMOUTH PARK TAX SERVICES, LLC, a Delaware limited liability company ("PPTS").

WHEREAS, PPTS desires to purchase from GLS, and GLS desires to sell, transfer, assign, set over and convey to PPTS, certain Tax Liens (as defined below) and all of the right, title and interest of GLS in and to the County Agreement 1998 and the County Agreement 2004 (as defined below);

WHEREAS, concurrently with the execution of this Agreement, Cuyahoga County, Ohio will consent to the assignment by GLS Capital to PPTS of all of its right, title and interest in and to the County Agreement 1998 and the County Agreement 2004 pursuant to the County Amendment and Consent (as defined below);

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties hereto hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.01. Definitions. Whenever used in this Agreement, the following words and phrases, unless the context otherwise requires, shall have the following meanings:

"Additional Tax Liens" means those Tax Liens to be purchased by PPTS from the County pursuant to the County Agreement 2004 in 2004.

"Additional Tax Liens Adjustment Amount" has the meaning set forth in Section 2.04(a) hereof.

"Aggregate Purchase Price" has the meaning set forth in Section 2.01(a) hereof.

"Bankruptcy Code" means the United States Bankruptcy Code, 11 U.S.C. Section 101 et seq.

"Bankruptcy Tax Lien" means a Tax Lien with respect to which the related Property Owner, as of the Purchase Date, (i) had filed a voluntary petition for relief under the Bankruptcy Code, or (ii) had instituted against it an involuntary proceeding under the Bankruptcy Code which shall have resulted in an order for relief having been issued or which remained undismissed for a period of 30 days.

"Business Day" means any day other than a Saturday, Sunday and any day on which banks located in the State of New York are authorized or required to close for business.

"Closing Date" has the meaning set forth in Section 2.05 hereof.

"County" means Cuyahoga County, Ohio.

"County Agreement 1998" means the Tax Certificate Sale/Purchase Agreement, dated as of September 1, 1998, between the County Treasurer and GLS Capital (formerly GLS Capital Services - Cuyahoga, Inc.), as amended by the Amended Tax Certificate Sale/Purchase Agreement, dated as of November 18, 1998, the Third Amendment to Tax Certificate Sale/Purchase Agreement, dated as of August 31, 1999, the Fourth Amendment to Tax Certificate Sale/Purchase Agreement, dated as of August 10, 2000, and the Fifth Amendment to Tax Certificate Sale/Purchase Agreement, dated as of May 1, 2001, and as assigned to GLS Lien Pool One pursuant to the Assignment and Assumption Agreement, dated September 27, 2001, among GLS Capital, GLS Lien Pool One and the County Treasurer. The proposed Second Amendment to Tax Certificate Sale/Purchase Agreement, proposed to be dated as of May 31, 1999, was never executed.

"Collections" means, with respect to any Existing Tax Lien, all cash collections, cash equivalents and other proceeds of such Existing Tax Lien.

"County Agreement 2004" means the Tax Certificate Sale/Purchase Agreement, dated as of March 9, 2004, between the County Treasurer and GLS Capital.

"County Amendment and Consent" means the letter agreement, dated September 9, 2004, between the County and PPTS, in which the County consents to, among other things, GLS Capital's assignment of its right, title and interest in and to the County Agreement 2004 to PPTS.

"Dynex" means Dynex Capital, Inc., a Virginia corporation.

"Existing Tax Liens" means the Pre-2004 Tax Liens and the July 2004 Tax Liens.

"Escrow Agent" means Wachovia Bank, National Association, and its successors and assigns.

"Escrow Agreement" means the Escrow Agreement, to be dated as of the First Closing Date, among the Escrow Agent, PPTS and GLS Capital, substantially in the form of Exhibit A hereto.

"Face Amount" means the amount identified as "Delq Tax:" on the face of a Tax Lien Certificate, which is the amount of delinquent taxes secured by the related Tax Lien, reduced by any partial payments of such amount.

"Final Escrow Disbursement Date" has the meaning set forth in Section 2.03(b)(iv) hereof.

"First Closing" and "First Closing Date" has the meanings set forth in Section 2.05 hereof.

"GLS" has the meaning set forth in the preamble hereof.

"GLS Capital" means GLS Capital - Cuyahoga, Inc., a Virginia corporation.

"GLS Lien Pool One" means GLS - Cuyahoga Lien Pool One, Inc., a Virginia corporation.

"Holdback Amount" has the meaning set forth in Section 2.03(b)(iii) hereof.

"July 2004 Tax Liens" means the Tax Liens listed on Schedule A hereto levied by the County and sold to GLS on July 30, 2004.

"July 2004 Cut-off Date" means July 30, 2004.

"Officer's Certificate" means a certificate signed by a Responsible Officer.

"Person" means any individual, corporation, partnership, limited partnership, limited liability partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof.

"Pre-2004 Tax Liens" means the Tax Liens listed on Schedule A hereto levied by the County and sold to GLS prior to 2004.

"Pre-2004 Cut-off Date" means May 26, 2004.

"Property" means, with respect to a Tax Lien, the real estate encumbered by the Tax Lien.

"Property Owner" means, as to each Property, the owner of record thereof; provided, however, that where the context makes reference to redemption of a Tax Lien related to a Property, the term "Property Owner" shall also include any Person who has a statutory right to redeem such Tax Lien.

"Purchase Date" means, with respect to a particular Existing Tax Lien, the date on which the Existing Tax Lien was first acquired by GLS.

"PPTS" means Plymouth Park Tax Services, LLC, a Delaware limited liability company.

"Redemptive Value" means, with respect to any Tax Lien at any given time, the amount (consisting of principal, interest, penalties, costs and any other amounts) required to redeem such Tax Lien at such time, which amount is at least equal to the applicable amount set forth on Exhibit A hereto with respect to the Existing Tax Liens.

"Responsible Officer" means, with respect to Dynex or GLS, the officer of such party assigned the responsibility for the performance of its duties in connection with the transactions contemplated herein.

"Second Closing" and "Second Closing Date" has the meanings set forth in Section 2.05 hereof.

"Tax Lien" means any real property tax lien, including but not limited to any Existing Tax Lien and any Additional Tax Lien.

"Tax Lien Documents" means, for each Existing Tax Lien, the related Tax Certificate and all other documents relating to the Existing Tax Lien affecting the value of the Existing Tax Lien or otherwise contained in the records of GLS relating to the Existing Tax Lien.

"Tax Lien Interest Rate" means, with respect to any Tax Lien, the annual rate at which interest accrues on the Tax Lien Principal Balance of such Tax Lien.

"Tax Lien Principal Balance" means, with respect to any Tax Lien at the time of any determination, the principal amount upon which interest at the Tax Lien Interest Rate accrues.

"Tax Certificate" means an instrument issued by the County pursuant to Ohio Revised Code 5721.33 evidencing a Tax Lien sold by the County to the purchaser thereof.

"Tax Sale Certificate Number" means, with respect to any Tax Certificate, the number, if any, of each Tax Certificate and by which such Tax Certificate is to be identified on the books and records of GLS, as set forth in the applicable Tax Lien Schedule.

"Transaction Documents" means, collectively, this Agreement, the County Agreement 1998, the County Agreement 2004, the Escrow Agreement and the County Amendment and Consent.

"Transferred Assets" has the meaning set forth in Section 2.01(a) hereof.

Section 1.02. Other Definitional Provisions. (a) All terms defined in this Agreement shall have the defined meanings when used in any certificate or other document made or delivered pursuant hereto unless otherwise defined therein.

(b) The words "hereof," "herein," "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement; Article, Section, Schedule and Exhibit references contained in this Agreement are references to Articles, Sections, Schedules and Exhibits in or to this Agreement unless otherwise specified; and the term "including" shall mean "including without limitation".

(c) The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such terms.

(d) Any agreement, instrument or statute defined or referred to herein or in any instrument or certificate delivered in connection herewith means such agreement, instrument or statute as from time to time amended, modified or supplemented and includes (in the case of agreements or instruments) references to all attachments thereto and instruments incorporated therein; references to a Person are also to its permitted successors and assigns.

ARTICLE II
TERMS OF ACQUISITION

Section 2.01. Purchase and Sale of Tax Liens. (a) Subject to the terms and conditions of this Agreement, GLS hereby sells, transfers, assigns, sets over and otherwise conveys to PPTS all right, title and interest of GLS, whether now owned or hereinafter acquired, in and to the following (collectively, the "Transferred Assets"):

(i) all Pre-2004 Tax Liens, which as of the Pre-2004 Cut-off Date had an aggregate Redemptive Value of $18,438,441.03;

(ii) the County Agreement 1998, pursuant to which the County sold the Pre-2004 Tax Liens to GLS;

(iii) all July 2004 Tax Liens, which as of the July 2004 Cut-off Date had an aggregate Redemptive Value of $4,308,037.80;

(iv) the County Agreement 2004, pursuant to which the County sold the July 2004 Tax Liens to GLS and pursuant to which GLS Capital has the right to purchase Subsequent Liens (as defined in the County Agreement 2004) for the tax years 2004, 2005 and future tax years;

(v) the contractual right, pursuant to the County Agreement 2004, of GLS Capital to purchase the Additional Tax Liens, which, as of July 9, 2004, had an aggregate face amount of $15,994,103.84;

(vi) the remaining balance of credits, pursuant to the County Agreement 2004, set forth on Schedule B hereto as of August 30, 2004 against certain Tax Liens returned by GLS Capital to the County pursuant to which the County is obligated to deliver substitute Tax Liens to GLS Capital;

(vii) all installment payment or similar agreements, if any, entered into between GLS and the Property Owners;

(viii) all payments representing Collections in respect of the Pre-2004 Tax Liens and the July 2004 Tax Liens received by GLS since the close of business on September 10, 2004, which payments shall be netted against the Aggregate Purchase Price as provided in Section 2.03(b)(i) hereof;

(ix) the proceeds of any and all of the foregoing; and

(x) the Tax Lien Documents and all other books, records, files and information (including electronic information whether in hard copy of electronic format) relating to any of the foregoing.

(b) All assets of GLS that are not enumerated in Section 2.01(a) above, including all payments representing Collections received by GLS prior to the close of business on September 10, 2004 shall be retained by GLS.

Section 2.02. Assumed Liabilities. Subject to the terms and conditions of this Agreement, on the First Closing Date, PPTS shall assume and agree to pay, perform and discharge when due any and all of GLS Capital's obligations to the County under the County Agreement 1998 and the County Agreement 2004.

Section 2.03. Aggregate Purchase Price. (a) As full payment for the Transferred Assets, PPTS shall pay to GLS an aggregate amount of $19,075,129.13 (the "Aggregate Purchase Price"), subject to the increase, if any, set forth in Section 2.04 below.

(b) The Aggregate Purchase Price shall be paid as follows:

(i) First, at the First Closing an amount in cash equal to $18,375,129.13, less any Collections received by GLS since the close of business on September 10, 2004, shall be paid by wire transfer of immediately available funds to or upon the order of GLS Capital;

(ii) Second, at the First Closing an amount in cash equal to

$700,000 shall be paid to the Escrow Agent, with such amount to be held and disbursed pursuant to the terms of the Escrow Agreement;

(iii) Third, at the Second Closing an amount in cash equal to the Additional Tax Liens Adjustment Amount, if any, shall be paid to the Escrow Agent, with such amount to be held and disbursed pursuant to the terms of the Escrow Agreement (the aggregate amount paid to the Escrow Agent pursuant to Section 2.03(b)(ii) and this Section 2.03(b)(iii) shall collectively be referred to as the "Holdback Amount"); and

(iv) Fourth, subject to any claims made pursuant to Article IX hereof, the remaining balance of the Holdback Amount, if any, shall be released by the Escrow Agent to or upon the order of GLS Capital pursuant to the provisions of the Escrow Agreement on the first anniversary of the First Closing Date (the "Final Escrow Disbursement Date").

Section 2.04. Additional Tax Liens Adjustment Amount. (a) The "Additional Tax Liens Adjustment Amount" shall be calculated as follows: in the event that the Additional Tax Liens are in excess of Five Million Dollars ($5,000,000) in aggregate Face Amount (the "Excess Additional Tax Liens"), the Additional Tax Liens Adjustment Amount shall be equal to the lesser of (I) $750,000, and (II) the product of (A) the Face Amount of the Excess Additional Tax Liens and (B) one minus the quotient of (i) the purchase price paid to the County for the Additional Tax Liens divided by (ii) the Face Amount of the Additional Tax Liens.

(b) Not less than five Business Days prior to PPTS purchasing the Additional Tax Liens, PPTS shall deliver to Dynex a certificate (the "Adjustment Certificate") setting forth, in reasonable detail, (A) an itemized list showing the individual and aggregate Face Amounts of the Additional Tax Liens to be purchased by PPTS from the County and (B) the individual and aggregate Face Amounts of the Excess Additional Tax Liens, (C) the purchase price paid by PPTS to the County for the Excess Additional Tax Liens, and (D) the resulting Additional Tax Liens Adjustment Amount. If Dynex has any objections to the Adjustment Certificate, PPTS and Dynex shall promptly, in good faith, use their best efforts to resolve the objections in order the consummate the Second Closing on the scheduled Second Closing Date.

Section 2.05. Closings. The closing of the sale of the Transferred Assets (other than the Additional Tax Liens) (the "First Closing") shall take place at a location, time and date as shall be agreed upon by Dynex, GLS and PPTS, on or prior to September 20, 2004, such closing to commence at 10 a.m., New York time (the "First Closing Date"). The closing of the sale of the Additional Tax Liens (the "Second Closing") shall take place at a location, time and date as shall be agreed upon by Dynex, GLS and PPTS (the "Second Closing Date"; each of the First Closing Date and the Second Closing Date shall be deemed a "Closing Date"), promptly after the consummation of the purchase of the Additional Tax Liens by PPTS from the County. PPTS shall use its best reasonable efforts to cause the consummation of the purchase of the Additional Tax Liens at the earliest possible date.

Section 2.06. Acquisition of Additional Tax Liens. GLS, Dynex and PPTS acknowledge that certain cooperation has existed between the parties and will continue to exist between the parties both before and after the execution of this Agreement as it relates to the purchase of the Additional Tax Liens. PPTS agrees to reimburse GLS and Dynex for all third-party fees, costs and expenses incurred in connection with the contemplated acquisition of the Additional Tax Liens; provided, however, GLS and Dynex will not incur such fees, costs or expenses without PPTS's prior approval. PPTS shall deliver to Dynex the schedule of the Additional Tax Liens that PPTS proposes to purchase from the County within one Business Day after the date PPTS submits such schedule to the County.

ARTICLE III
THE TAX LIENS

Section 3.01. Representations and Warranties of Sellers with Respect to the Tax Liens. (a) The Sellers, jointly and severally, hereby represent and warrant that, as of the First Closing Date, (1) the information set forth in Schedule A and in Schedule B will be correct in all material respects and (2) as to the Existing Tax Liens transferred hereunder:

(i) GLS was the sole owner and holder of the Tax Lien;

(ii) GLS had full power and authority to sell the Tax Lien to PPTS;

(iii) GLS sold the Tax Lien to PPTS free and clear of any and all liens, pledges, charges, security interests or any other statutory impediments to transfer of any nature encumbering the Tax Lien (but subject to the right of redemption by the related Property Owner);

(iv) the sale of the Tax Lien by GLS to PPTS did not contravene or conflict with any laws, rules or regulations or any material contractual or other restriction, limitation or encumbrance applicable to GLS;

(v) the Tax Lien was a legal, valid, binding and enforceable lien on the related Property and an enforceable obligation of the related Property Owner to pay the Redemptive Value thereof, and all extensions required to be filed, if any, have been filed in order to preserve the lien of the Tax Lien on the related Property;

(vi) the Tax Lien represented a first priority lien on the underlying Property, subject only to other Tax Liens on the Property being sold hereunder, and except, with respect to a Bankruptcy Tax Lien, the Bankruptcy Tax Lien may have been subordinated to the liens of other creditors under the provisions of the Bankruptcy Code, including but not limited to Section 724(b) thereof;

(vii) the Tax Lien was not subject to a foreign government's diplomatic immunity from enforcement or bilateral treaty with the United States of America;

(viii) to the knowledge of Dynex and GLS, (A) no right of rescission, setoff, counterclaim or defense had been asserted by any Property Owner with respect to the Tax Lien, and (B) GLS had not taken any action that would cause any Property Owner to assert a claim (I) against PPTS relating to the Tax Lien or (II) that would adversely affect the value of the Tax Lien as set forth on Schedule A hereto;

(ix) the Tax Lien had not been compromised, adjusted or modified (including by extension of time or payment or the granting of any discounts, allowances or credits).

(x) if the Tax Lien was a Bankruptcy Tax Lien, appropriate and timely proofs of claim had been filed and all other necessary actions to preserve and maintain the claim of the Tax Lien had been taken;

(xi) the Tax Lien did not relate to a Property owned by a Property Owner that was subject to any proceeding under the Bankruptcy Code commenced prior to October 22, 1994; and

(xii) the Tax Lien had not been discharged (in whole or in part) in proceeding under the Bankruptcy Code.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF SELLERS

Section 4.01. Representations and Warranties of Sellers. The Sellers, jointly and severally, make the following representations and warranties on which PPTS is deemed to have relied in acquiring the Transferred Assets. The representations and warranties speak as of the First Closing Date, and shall survive the sale of the Transferred Assets to PPTS.

(a) Power and Authority. Each of Dynex, GLS Capital and GLS Lien Pool One is validly existing as a Virginia corporation under the laws of the Commonwealth of Virginia, with full power and authority to execute and deliver this Agreement and to carry out its terms. Each of GLS Capital and GLS Lien Pool One has full power, authority and legal right to sell and assign the Transferred Assets to PPTS. Each of Dynex, GLS Capital and GLS Lien Pool One shall have duly authorized such sale and assignment to PPTS by all necessary action; and the execution, delivery and performance of this Agreement has been duly authorized by GLS by all necessary action.

(b) Binding Obligation. This Agreement constitutes a legal, valid and binding obligations of Dynex and GLS enforceable in accordance with its terms.

(c) No Violation. The consummation by Dynex and GLS of the transactions contemplated by the Transaction Documents and the fulfillment of the terms hereof and thereof do not in any material way conflict with, result in any material breach of any of the material terms and provisions of, nor constitute (with or without notice or lapse of time) a material default under any material indenture, agreement or other instrument to which Dynex and/or GLS is a party or by which it shall be bound; nor violate any law or any order, rule or regulation applicable to Dynex and/or GLS of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over Dynex and GLS, the violation of which would be material to Dynex and/or GLS.

(d) No Proceedings. There are no material proceedings or investigations pending against Dynex and/or GLS, before any court, regulatory body, administrative agency or other governmental instrumentality having jurisdiction over Dynex and/or GLS: (i) asserting the invalidity of any of the Transaction Documents, (ii) seeking to prevent the consummation of any of the transactions contemplated by any of the Transaction Documents or (iii) seeking any determination or ruling that would materially and adversely affect the validity or enforceability of any of the Transaction Documents.

(e) Consents. Other than the County Amendment and Consent, no material consent, license approval, order, authorization of, or registration, filing with or declaration with any governmental authority is required to be obtained or made by Dynex or GLS and no material consent, license, approval or authorization of any third party is required to be obtained by Dynex or GLS in connection with Dynex's and GLS's execution, delivery and performance of this Agreement or any other Transaction Documents or the consummation of the transactions contemplated hereby and thereby.

(f) Liability under County Agreements. There is no basis for the County to make any claim against GLS for the payment of damages to the County by GLS arising out of any breach by GLS prior to the First Closing Date of its obligations to the County under either the County Agreement 1998 or the County Agreement 2004.

(g) GLS Employees. Neither GLS Capital nor GLS Lien Pool One has, nor has ever had, any employees.

(h) Tax Lien Related Agreements. There are no agreements between GLS Capital or GLS Lien Pool One and any third party relating to the Tax Liens other than the County Agreement 1998, the County Agreement 2004, the Servicing Agreement between GLS Capital and GLS Capital Services, Inc. pursuant to which GLS Capital Services, Inc. services the July 2004 Tax Liens and the oral servicing agreement between GLS Capital and GLS Capital Services, Inc. pursuant to which GLS Capital Services, Inc. services the Pre-2004 Tax Liens.

(i) County Agreements. The County Agreement 1998 and the County Agreement 2004 have not been modified, supplemented or rescinded and are in full force and effect.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF PPTS

Section 5.01. Representations and Warranties of PPTS. PPTS makes the following representations and warranties on which Dynex and GLS are deemed to have relied in selling the Transferred Assets. The representations and warranties speak as of the First Closing Date, and shall survive the purchase of the Transferred Assets from GLS.

(a) Power and Authority. PPTS is validly existing as a limited liability company under the laws of the State of Delaware, with full power and authority to execute and deliver this Agreement and to carry out its terms. PPTS has full power, authority and legal right to purchase the Transferred Assets from GLS. PPTS shall have duly authorized such purchase from GLS by all necessary action. The execution, delivery and performance of this Agreement has been duly authorized by PPTS by all necessary action.

(b) Binding Obligation. This Agreement constitutes a legal, valid and binding obligation of PPTS enforceable in accordance with its terms.

(c) No Violation. The consummation by PPTS of the transactions contemplated by the Transaction Documents and the fulfillment of the terms hereof and thereof do not, to PPTS's knowledge, in any material way, conflict with, result in any material breach of any of the material terms and provisions of, nor constitute (with or without notice or lapse of time) a material default under any indenture, agreement or other instrument to which PPTS is a party or by which it shall be bound; nor violate any law or any order, rule or regulation applicable to PPTS of any court or of any federal or state regulatory body, administrative agency or other governmental instrumentality having jurisdiction over PPTS.

(d) No Proceedings. To PPTS's knowledge, there are no material proceedings or investigations pending against PPTS, before any court, regulatory body, administrative agency or other governmental instrumentality having jurisdiction over PPTS: (i) asserting the invalidity of any of the Transaction Documents, (ii) seeking to prevent the consummation of any of the transactions contemplated by any of the Transaction Documents or (iii) seeking any determination or ruling that would materially and adversely affect the validity or enforceability of any of the Transaction Documents.

(e) Consents. No consent, license approval, order, authorization of, or registration, filing with or declaration with any governmental authority is required to be obtained or made by PPTS and no consent, license, approval or authorization of any third party is required to be obtained by PPTS in connection with PPTS's execution, delivery and performance of this Agreement or any other Transaction Documents or the consummation of the transactions contemplated hereby and thereby.

ARTICLE VI
COVENANTS

Section 6.01. Covenants. Dynex, GLS Capital and GLS Lien Pool One, jointly and severally, covenant and agree, and PPTS covenants and agrees, to perform or take any and all such actions to effectuate the following from the date hereof until the First Closing Date:

Section 6.02. Carry on in Ordinary Course. Each GLS entity shall carry on its respective business and operations diligently and substantially in the same manner as heretofore conducted, and shall not, except with PPTS's prior written consent: (a) take any action, or suffer any action to be taken, that could cause any of the representations or warranties of Dynex contained herein not to be true and correct in all material respects on and as of the First Closing Date; (b) settle or compromise any lawsuit or claim relating to the Transferred Assets; (c) waive or compromise any of its rights relating to the Transferred Assets; or (d) enter into any agreement to take any of the foregoing actions.

Section 6.03. Other Transactions. Prior to the First Closing, Dynex and GLS shall not, and shall cause Dynex's and/or GLS's managers, officers, stockholders, employees, agents and affiliates not to, directly or indirectly, solicit or initiate the submission of proposals from, or solicit, encourage, entertain or enter into any arrangement, agreement or understanding with, or engage in any negotiations with, or furnish any information to, any Person, other than PPTS or a representative thereof, with respect to the acquisition of all or any part of the business, operations or assets of GLS or any of its securities. Should Dynex, GLS or any of its/their affiliates, during such period, receive any offer or inquiry relating to such acquisition, or obtain information that such an offer is likely to be made, they will provide PPTS with immediate written notice thereof.

Section 6.04. Consents. Dynex and GLS shall use their best efforts to obtain in writing, prior to the First Closing Date, all consents, approvals, waivers, authorizations and orders necessary or reasonably required in order to permit Dynex and GLS to effectuate this Agreement and to consummate the transactions contemplated hereby ("GLS Consents"). All GLS Consents will be in writing and copies thereof will be delivered to PPTS promptly after Dynex's or GLS's receipt thereof but no later than immediately prior to First Closing Date. PPTS shall use its best efforts to obtain in writing, prior to the First Closing Date, all consents, approvals, waivers, authorizations and orders necessary or reasonably required in order to permit PPTS to effectuate this Agreement and to consummate the transactions contemplated hereby ("PPTS Consents"). All PPTS Consents will be in writing and copies thereof will be delivered to Dynex and GLS promptly after PPTS's receipt thereof but no later than immediately prior to First Closing Date.

Section 6.05. Public Announcements. PPTS, Dynex and GLS agree that they will consult with each other before issuing any press releases or otherwise making any public statements with respect to this Agreement or the transactions contemplated hereby and any press release or any public statement shall be subject to mutual agreement of the parties, except as may be required by the disclosure obligations of PPTS, Dynex and/or GLS under applicable securities laws.

Section 6.06. Best Efforts to Close. Each of the parties hereto shall use its best efforts to satisfy, to cause to be satisfied, all conditions to its obligations to close the transactions contemplated hereby that are within the control of such party. If all of the conditions to a party's obligation to close hereunder shall have been satisfied, such party shall diligently proceed to close.

ARTICLE VII
CONDITIONS TO CLOSING

Section 7.01. Conditions of PPTS's Obligation to Close. The obligation of PPTS to close under this Agreement is subject to the satisfaction of the following conditions any of which may be waived by PPTS in writing at or prior to the First Closing Date:

(a) Agreements and Conditions. On or before the First Closing Date, GLS and Dynex shall have complied with and duly performed in all material respects all agreements, covenants and conditions on their part to be complied with and performed pursuant to or in connection with this Agreement on or before the First Closing Date.

(b) Representations and Warranties. The representations and warranties of Dynex and GLS contained in this Agreement, or otherwise made in connection with the transactions contemplated hereby, shall be true and correct in all material respects on and as of the First Closing Date (as modified, amended or supplemented or deemed to be modified, amended or supplemented, if at all) with the same force and effect as though such representations and warranties had been made on and as of the First Closing Date.

(c) Certificate. PPTS shall have received a certificate dated the First Closing Date and executed by an authorized officer of Dynex to the effect that the conditions expressed in Sections 7.01(a) and (b) have been fulfilled.

(d) County Amendment and Consent. The County Amendment and Consent shall have been duly authorized, executed and delivered to PPTS by the County.

(e) Termination of Servicing Agreement. GLS shall have taken all actions necessary to terminate the oral servicing agreement between GLS Capital and GLS Capital Services, Inc. pursuant to which GLS Capital Services, Inc. services the Pre-2004 Tax Liens.

(f) Transfer Documents. PPTS shall have received such bills of sale, deeds of transfer, assignments and other documents in form and substance satisfactory to PPTS conveying the Transferred Assets to PPTS.

(g) Opinion of Counsel. Dynex and GLS shall have furnished PPTS with a favorable opinion of Williams Mullen, counsel for Dynex and GLS, dated as of the First Closing Date, in form and substance satisfactory to PPTS.

(h) Closing Deliveries. PPTS shall have received at or prior to the First Closing Date all documents set forth in this Section 7.01 and such other documents, instruments, or certificates as PPTS may reasonably request, including, without limitation, a certificate signed by the Secretary of Dynex certifying, among other things, as to the authenticity of the resolutions authorizing the transactions contemplated by this Agreement and the incumbency and signatories of the officers of Dynex authorized to act on behalf of Dynex in connection with the transactions contemplated hereby.

Section 7.02. Conditions of GLS's and Dynex's Obligations to Close. The obligations of GLS and Dynex to close under this Agreement are subject to the following conditions any of which may be waived by GLS and Dynex in writing at or prior to First Closing Date:

(a) Agreements and Conditions. On or before the First Closing Date, PPTS shall have complied with and duly performed in all material respects all agreements, covenants and conditions on their respective parts to be complied with and performed pursuant to or in connection with this Agreement on or before the First Closing Date.

(b) Representations and Warranties. The representations and warranties of PPTS contained in this Agreement, shall be true and correct in all material respects on and as of the First Closing Date (as modified, amended or supplemented or deemed to be modified, amended or supplemented, if at all) with the same force and effect as though such representations and warranties had been made on and as of the First Closing Date.

(c) Closing Certificate. Dynex shall have received a certificate, dated the First Closing Date and executed by an authorized officer of PPTS, to the effect that the conditions contained in Sections 7.02(a) and 7.02(b) have been fulfilled.

(d) Closing Deliveries. Dynex and GLS shall have received at or prior to the First Closing Date all documents set forth in this Section 7.02 and such other documents, instruments, or certificates as Dynex and GLS may reasonably request, including, without limitation, a certificate signed by an authorized representative of PPTS attesting to the authenticity of the resolutions authorizing the transactions contemplated by this Agreement.

(e) Opinion of Counsel. PPTS shall have furnished Dynex with a favorable opinion of Kirkpatrick & Lockhart LLP, counsel for PPTS, dated as of the First Closing Date, in form and substance satisfactory to Dynex.

ARTICLE VIII
FURTHER ASSURANCES

Section 8.01. Further Assurances. From time to time after the First Closing Date, and without further consideration, GLS and/or Dynex shall execute and deliver such other instruments of conveyance, assignment, transfer and delivery and take such other actions as PPTS may reasonably request in order more effectively to transfer to PPTS and to place PPTS in possession or control of all of the rights, properties, assets and businesses intended to be transferred hereunder, to assist in the collection of any and all such rights, properties and assets, and to enable PPTS to exercise and to enjoy all of the rights and benefits of GLS and Dynex with respect thereto.

ARTICLE IX
INDEMNIFICATION

Section 9.01. Survival of Representations. The representations and warranties of PPTS and the Sellers in this Agreement or in any document delivered pursuant hereto shall survive the First Closing Date for a period of twelve months and shall then terminate under this Agreement; provided, however, that any such representation and warranty shall survive the time it would otherwise terminate if it was fraudulent or made in bad faith, in which case they shall survive until the applicable statute of limitations.

Section 9.02. Indemnitors; Indemnified Persons. For purposes of this

Section 9, each party that, pursuant to this Section 9, shall agree to indemnify any other person or entity shall be referred to, as applicable, as the "Indemnitor," and each such person and entity who is entitled to be indemnified by any Indemnitor shall be referred to as the "Indemnified Person" with respect to such Indemnitor.

Section 9.03. Indemnity of PPTS. During the period in which any representation and warranty shall survive, the Sellers, jointly and severally, hereby agree to defend, indemnify, hold harmless and reimburse PPTS and its directors, members, officers, agents and employees from and against any and all claims, liabilities, losses, damages and expenses incurred by such Indemnified Persons (including reasonable attorneys' fees and disbursements) that shall be caused by or related to or shall arise out of: (a) any material breach (or alleged breach in connection with a claim asserted by a third party) of any representation or warranty of Dynex and/or GLS contained in this Agreement or in any certificate delivered by Dynex and/or GLS pursuant hereto; and (b) any material breach of any covenant or agreement of Dynex and/or GLS contained in this Agreement; and shall reimburse such Indemnified Persons for all costs and expenses (including reasonable attorneys' fees and disbursements), as they shall be incurred in connection with paying, investigating, preparing for or defending any action, claim, investigation, inquiry or other proceeding, whether or not in connection with pending or threatened litigation, that shall be caused by or related to or shall arise out of such breach (or alleged breach in connection with a claim asserted by a third party), whether or not any such Indemnified Person shall be named as a party thereto and whether or not any liability shall result therefrom. The Sellers further agree that it shall not, without the prior written consent of PPTS, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent shall include an unconditional release of each Indemnified Person under this Section 9.03 from all liability arising out of such claim, action, suit or proceeding.

Section 9.04. Indemnity of GLS and Dynex. During the period in which any representation and warranty shall survive, PPTS hereby agree to defend, indemnify, hold harmless and reimburse GLS and Dynex and their respective directors, officers, agents and employees from and against any and all claims, liabilities, losses, damages and expenses incurred by them (including reasonable attorneys' fees and disbursements) that shall be caused by or related to or shall arise out of any material breach (or alleged breach in connection with a claim asserted by a third party) of any representation or warranty of PPTS contained in this Agreement or in any certificate delivered by PPTS pursuant hereto; and shall reimburse such Indemnified Persons for all costs and expenses (including reasonable attorneys' fees and disbursements), as they shall be incurred, in connection with paying, investigating, preparing for or defending any action, claim, investigation, inquiry or other proceeding, whether or not in connection with pending or threatened litigation, that shall be caused by or related to or shall arise out of such breach (or alleged breach in connection with a claim asserted by a third party), whether or not such Indemnified Persons shall be named as a party thereto and whether or not any liability shall result therefrom. PPTS further agrees that it shall not, without the prior written consent of Dynex, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent shall include an unconditional release of each Indemnified Person under this Section 9.04 from all liability arising out of such claim, action, suit or proceeding.

Section 9.05. Procedures for Indemnification; Defense. Promptly after receipt by an Indemnified Person of notice of the commencement of any action or proceeding with respect to which indemnification may be sought hereunder (a "Claim"), such Indemnified Person shall notify the Indemnitor of the commencement of such Claim (a "Claim Notice") and supply any other information in the control of the Indemnified Person regarding the Claim to the Indemnitor, but failure to so notify and supply the Indemnitor shall not relieve the Indemnitor from any liability that the Indemnitor may have hereunder or otherwise, unless the Indemnitor shall be materially prejudiced by such failure. If the Indemnitor shall so elect, the Indemnitor shall assume the defense of such Claim, including the employment of counsel reasonably satisfactory to such Indemnified Person, and shall pay the fees and disbursements of such counsel. In the event, however, that such Indemnified Person shall reasonably determine in its judgment that having common counsel would present such counsel with a conflict of interest or alternative defenses shall be available to an Indemnified Person or if the Indemnitor shall fail to assume the defense of the action or proceeding in a timely manner, then such Indemnified Person may employ separate counsel to represent or defend it in any such Claim and the Indemnitor shall pay the reasonable fees and disbursements of such counsel; provided, however, that the Indemnitor shall not be required to pay the fees and disbursements of more than one separate counsel for all Indemnified Persons in any jurisdiction in any single Claim. In any Claim the defense of which the Indemnitor shall assume, the Indemnified Person shall have the right to participate in (but not control) such litigation and to retain its own counsel at such Indemnified Person's own expense except as otherwise provided above in this Section 9.05, so long as such participation does not interfere with the Indemnitor's control of such litigation.

Section 9.06. Limitation on Indemnification. Notwithstanding any provision of this Section 9 to the contrary, no Indemnified Person shall be entitled to assert any claim for indemnification in respect of claims for any breach covered under each of Sections 9.03 and 9.04 hereof until such time as claims for indemnification thereunder shall exceed $100,000 in the aggregate (the "Deductible"), in which case the entire amount of such claims, including the amount of the Deductible, shall be subject to indemnification hereunder; provided, however, that the dollar amount of such indemnification obligations shall not exceed $10,000,000 in the aggregate (the "Claims Limitation"), except to the extent of claims arising from an Indemnitor's providing information to PPTS, Dynex or GLS, as the case may be, in connection herewith, or making representations or warranties hereunder, that, in either case, were fraudulent or made in bad faith, in which event the Deductible shall not apply and the Claims Limitation shall be the Aggregate Purchase Price. In addition, the indemnification amount applicable to a breach of a representation and warranty set forth in Article III hereto shall be limited to the effective purchase price paid by PPTS for the Tax Liens affected by such breach.

Section 9.07. Method of Indemnification. (a) If the Indemnitor fails to give a notice disputing the validity or amount of a Claim (a "Claim Response") within twenty (20) Business Days following receipt of a Claim Notice, then the Claim shall be deemed to be accepted and the Indemnified Person may pursue whatever legal remedies may be available to recover the losses as to which the Indemnified Person is seeking indemnification, including without limitation, by recovering the amounts of such Claims from any amounts in the Escrow Account. In the event that the Indemnified Person submits one or more Claims and the amount and payment of any such Claim is agreed to by the parties (or deemed to be accepted pursuant to the immediately preceding sentence) prior to the Final Escrow Disbursement Date, the Parties shall instruct the Escrow Agent from time to time to disburse the amount of such Claims from the Escrow Account to the Indemnified Person.

(b) In the event that any Claim submitted prior to the Final Escrow Disbursement Date is subject to a Claim Response, such Claim shall become an "Unresolved Claim." The Parties shall immediately notify the Escrow Agent of the amount of such Unresolved Claim and shall instruct the Escrow Agent to reserve in the Escrow Account the amount of such Unresolved Claim and to retain such amount in the Escrow Account until such Unresolved Claim is resolved. The parties shall attempt in good faith to mutually agree upon the validity and amount of any Claim subject to a Dispute Notice pursuant to discussions between senior representatives of the parties who have authority to settle the same. Such discussions shall commence between the parties not more than ten (10) Business Days following delivery of the Claim Response and shall not last for more than ten (10) Business Days following the date of commencement of such discussions. In the event that the parties mutually agree upon the amount of the Claim pursuant to such discussions, the Indemnitor shall promptly pay the Indemnified Person the agreed amount, which may be effected by the parties delivering instructions to the Escrow Agent to disburse to the Indemnified Person an appropriate amount from the Escrow Account. If the matter is not resolved directly through negotiation within thirty (30) calendar days after the commencement of the negotiations, the parties shall be free to resort to such other procedures or remedies as may be available at law or in equity. In the event that the court or arbitration tribunal, pursuant to a final non-appealable order, upholds all or a portion of the Claim, the Indemnitor shall be obliged to pay the amount of such Claim as is directed by the Court or arbitration tribunal which may be effected, if applicable, by the parties delivering instructions to the Escrow Agent to disburse to the Indemnified Person the applicable amount from the Escrow Account. In the event that the parties agree that a portion of a Claim is invalid or the court makes such a finding, the parties shall so notify the Escrow Agent and shall direct the Escrow Agent to unreserve an appropriate amount from the Escrow Account, and, if the Final Escrow Disbursement Date has passed, to release such amount to GLS Capital, provided, however, that if any Claim that has been agreed to by the parties or otherwise accepted, remains unsatisfied, such amount shall, to the extent necessary, be disbursed to the Indemnified Person. In the event that the validity of a Claim is referred to a court or arbitration tribunal, the losing party in such litigation shall pay all expenses connected with such litigation.

Section 9.08. Defective Tax Liens. Notwithstanding the foregoing, PPTS first shall pursue all procedures and remedies as may be available at law or in equity against the County to recover any unrealized value of a Tax Lien purchased hereunder (the "Defective Tax Lien Loss"), whether or not there has been a breach of any representation or warranty set forth in Article III hereof; and then, to the extent such Defective Tax Lien Loss is not recovered from the County, PPTS may seek indemnification from Dynex pursuant to Section 9.03 hereof. The survival of the applicable representations and warranties in Article III hereof shall be tolled for any particular Defective Tax Lien Loss during the period in which PPTS seeks recovery from the County for such loss.

ARTICLE X
NON-COMPETITION; CONFIDENTIALITY

Section 10.01. Non-Competition. During the two (2) year period following the First Closing Date, GLS and Dynex shall not, except for the ownership of tax liens and the tax lien operations currently existing in the Commonwealth of Pennsylvania and the States of Massachusetts and New Jersey, directly or indirectly: (a) engage in any business or activity that competes with PPTS in the tax lien business in the United States; (b) enter the employ of any person or entity engaged in any business or activity that competes with the PPTS in the tax lien business or render any consulting or other services to any person or entity for use in or with the effect of competing with PPTS in the tax lien business; or (c) have an interest in any business or activity that competes with PPTS in the tax lien business, in any capacity, including, without limitation, as an investor, partner, stockholder, officer, director, principal, agent, employee, or creditor.

Section 10.02. Non-Solicitation. During the five (5) year period following the First Closing Date, Dynex and GLS shall not, directly or indirectly, hire, offer to hire, divert, entice away, solicit or in any other manner persuade or attempt to persuade (a "Solicitation") any person who is, or was, at any time within the twelve (12) months prior to such Solicitation, an officer, director, employee, agent, licensor, licensee, customer, or supplier of PPTS's tax lien business to discontinue, cease or alter his, her or its relationship therewith.

Section 10.03. Non-Disruption. During the five (5) year period following the First Closing Date, Dynex and GLS shall not, directly or indirectly, interfere with, disrupt or attempt to disrupt any present or prospective relationship, contractual or otherwise, between PPTS or any of its affiliates, on the one hand, and any of its employees, on the other hand.

Section 10.04. Confidentiality. (a) "Confidential Information" means any and all information (oral or written) relating to the business, including, but not limited to, information relating to trade secrets, proprietary information, software, software codes and other materials, data processing reports, analyses, except such information that is (i) generally known in the industry or in the public domain (such information not being deemed to be in the public domain merely because it is embraced by more general information that is in the public domain), other than as a result of a breach of the provisions hereof or (ii) obtained through a lawful disclosure from an unrelated third party.

(b) PPTS shall not (until after the First Closing Date) directly or indirectly use, communicate, disclose or disseminate any Confidential Information (other than information that is known to PPTS prior to disclosure and that is not subject to confidentiality) in any manner whatsoever (except to their financial or legal advisors and as may be required under legal process by subpoena or other court order; provided, however, that PPTS will take reasonable steps to give Dynex and GLS sufficient prior written notice in order to contest such requirement or order).

(c) Dynex and GLS acknowledge and agree that all Confidential Information is the exclusive property of Dynex and GLS and, after the First Closing Date, of PPTS. Dynex and GLS shall not at any time, directly or indirectly, use, communicate, disclose or disseminate any Confidential Information in any manner whatsoever (except to its or their financial or legal advisors and as may be required under legal process by subpoena or other court order; provided, however, that Dynex or GLS will take reasonable steps to give PPTS sufficient prior written notice in order to contest such requirement or order).

Section 10.05. Remedies upon Breach. (a) Dynex and GLS acknowledge and agree that: (i) PPTS shall be irreparably injured in the event of a breach by Dynex or GLS of any of the obligations under this Section 10; (ii) monetary damages shall not be an adequate remedy for such breach; (iii) PPTS shall be entitled to injunctive relief, in addition to any other remedy that it may have, in the event of any such breach; and (iv) the existence of any claims that Dynex or GLS may have against PPTS, whether under this Agreement or otherwise, shall not be a defense to the enforcement by PPTS of any of its rights under this Agreement.

(b) PPTS acknowledges and agrees that: (i) Dynex and GLS shall be irreparably injured in the event of a breach by PPTS of any of the obligations under Section 10; (ii) monetary damages shall not be an adequate remedy for any such breach; (iii) Dynex and GLS shall be entitled to injunctive relief, in addition to any other remedy which it may have, in the event of any such breach; and (iv) the existence of any claims which PPTS may have against Dynex and GLS, whether under this Agreement or otherwise, shall not be a defense to the enforcement by Dynex and GLS of any of its rights under this Agreement.

ARTICLE XI
TERMINATION

Section 11.01. Termination. Subject to the provisions of Section 11.02 hereof, this Agreement may be terminated at any time prior to the First Closing Date by any of the following:

(a) By the mutual written agreement of PPTS, Dynex and GLS; or

(b) By either PPTS, Dynex and/or GLS, if the First Closing shall not have occurred by October 31, 2004, upon written notice by such terminating party;

Section 11.02. Effects of Termination. If this Agreement shall be terminated as provided in Section 11.01 hereof, then this Agreement shall forthwith become void and there shall be no liability or obligation on the part of the parties hereto (or any of their respective stockholders, officers, directors, employees, legal beneficiaries, successors or affiliates); provided, that no party shall be relieved of any losses occurring or sustained as a result of a breach of any of such party's representations, warranties, covenants or agreements contained herein. Notwithstanding any termination of this Agreement, the provisions of Section 6.05 (Public Announcements) and this Section 11 shall survive.

ARTICLE XII
MISCELLANEOUS

Section 12.01. Amendment. This Agreement may be amended only by a writing executed by Dynex, GLS and PPTS.

Section 12.02. Protection of Title; Misdirected Payments. (a) GLS shall take all reasonable actions as may be required by law fully to preserve, maintain, defend, protect and confirm the interest of PPTS in the Existing Tax Liens transferred hereunder and in the proceeds thereof.

(b) On or before the First Closing Date, GLS shall mark its appropriate records so that, from and after the time of sale under this Agreement of the Tax Liens transferred on the First Closing Date, records of GLS shall indicate that such Tax Liens have been sold. Such records of GLS may be in the form of a computer tape, microfiche or other electronic or computer device.

(c) All Collections received by GLS on or after the First Closing Date, after being identified as such by GLS, shall be transferred to PPTS. PPTS will promptly remit or cause to be remitted to GLS any amounts received by PPTS which do not constitute Collections.

Section 12.03. Notices. All demands, notices and communications upon or to Dynex, GLS or PPTS, under this Agreement shall be in writing, personally delivered or mailed by certified or registered mail, return receipt requested, and shall be deemed to have been duly given upon receipt:

If to Dynex, GLS Capital and/or GLS Lien Pool One, to

c/o Dynex Capital, Inc.
4551 Cox Road, Suite 300
Glen Allen, VA 23060
Attention: Steve Benedetti, Executive Vice President and CFO
(Tel) (804) 217-5837
(Fax) (804) 217-5860

With a copy (which shall not constitute notice) to:

Williams Mullen
1021 East Cary Street
Richmond, VA 23218
Attention: Brian Ball, Esq.
(Tel) (804) 783-6426
(Fax) (804) 783-6507

If to PPTS, to

Plymouth Park Tax Services, LLC
c/o Bear Stearns Mortgage & Co. Inc.
383 Madison Avenue, New York, NY 10179
Attention: John Garzone, President
(Tel) 212-272-3853 (Fax) 212-272-5736

With a copy (which shall not constitute notice) to:

Xspand, Inc.
35 Airport Road, Suite 150
Morristown, NJ 07960
Attention: Kurt Shadle, Executive Vice President
(Tel) 973-644-3719
(Fax) 973-267-4077

or to such other Person or address as any party shall specify by notice in writing to the other parties.

Section 12.04. Fees and Expenses. Each of Dynex, GLS Capital, GLS Lien Pool One and PPTS shall respectively pay all fees and expenses incurred by it or on its behalf, in connection with the negotiation, execution and delivery of this Agreement (and the agreements contemplated hereby) and the consummation of the transactions contemplated hereby and thereby.

Section 12.05. Assignment. Notwithstanding anything to the contrary contained herein, this Agreement or any of the rights, interests or obligations hereunder may not be assigned by any of the parties hereto by operation of law or otherwise, without the prior written consent of the other parties hereto, and any such purported assignment without such consent shall be null and void.

Section 12.06. Limitations on Rights of Others. The provisions of this Agreement are solely for the benefit of Dynex, GLS and PPTS and nothing in this Agreement, whether express or implied, shall be construed to give to any other Person any legal or equitable right, remedy or claim in PPTS or under or in respect of this Agreement or any covenants, conditions or provisions contained herein.

Section 12.07. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

Section 12.08. Separate Counterparts. This Agreement may be executed by the parties hereto by facsimile signature and in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 12.09. Headings. The headings of the various Articles and Sections herein are for convenience of reference only and shall not define or limit any of the terms or provisions hereof.

Section 12.10. Governing Law. This Agreement shall be construed in accordance with the laws of the State of New York, without reference to its conflict of law provisions, and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

Section 12.11. Sophisticated Parties. This Agreement is between financially sophisticated and knowledgeable parties and is entered into by such parties in reliance upon the economic and legal bargains contained herein, the language used in this Agreement has been negotiated by the parties hereto and their representatives and shall be interpreted and construed in a fair and impartial manner without regard to such facts as the party who prepared, or caused the preparation of, this Agreement or the relative bargaining power of the parties.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective officers as of the day and year first above written.

DYNEX CAPITAL, INC.

By: ___________________________________
Name:
Title:

GLS CAPITAL - CUYAHOGA, INC.

By: ___________________________________
Name:
Title:

GLS - CUYAHOGA LIEN POOL ONE, INC.

By: ___________________________________
Name:
Title:

PLYMOUTH PARK TAX SERVICES, LLC

By: ___________________________________
Name: John M. Garzone
Title: President

SCHEDULE A

EXISTING TAX LIENS

[TO BE UPDATED PRIOR TO FIRST CLOSING DATE]

SCHEDULE B

COUNTY CREDITS
(as of August 30, 2004)

EXHIBIT A

ESCROW AGREEMENT

==

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302

I, Stephen J. Benedetti, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dynex Capital, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and,

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 20, 2005

By: /s/ Stephen J. Benedetti

Stephen J. Benedetti,
Principal Executive Officer and
Chief Financial Officer

==

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906

In connection with the Quarterly Report of Dynex Capital, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen J. Benedetti, the Principal Executive Officer and the Chief Financial Officer of the Company, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 20, 2005

By: /s/ Stephen J. Benedetti

Stephen J. Benedetti
Principal Executive Officer and
Chief Financial Officer