UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

or

o **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.
Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	þ
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

On April 30, 2008, the registrant had 12,169,762 shares outstanding of common stock, $.01 par value, which is the registrant's only class of common stock.

DYNEX CAPITAL, INC.
FORM 10-Q

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	March 31, 2008 (Unaudited)	December 31, 2007
ASSETS		
Cash and cash equivalents	$ 37,935	$ 35,352
Other assets	3,770	5,671
	41,705	41,023
Investments:		
Securitized mortgage loans, net	271,537	278,463
Securities	58,280	29,231
Investment in joint venture	13,380	19,267
Other loans and investments	3,549	6,774
	346,746	333,735
	$ 388,451	$ 374,758
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Securitization financing	$ 200,313	$ 204,385
Repurchase agreements	29,556	4,612
Obligation under payment agreement	11,244	16,796
Other liabilities	6,972	7,029
	248,085	232,822
Commitments and Contingencies (Note 13)		
SHAREHOLDERS' EQUITY		
Preferred stock, par value $0.01 per share, 50,000,000 shares authorized, 9.5% Cumulative Convertible Series D, 4,221,539 shares issued and outstanding, ($43,218 aggregate liquidation preference)	41,749	41,749
Common stock, par value $0.01 per share, 100,000,000 shares authorized, 12,169,762 and 12,136,262 shares issued and outstanding, respectively	122	121
Additional paid-in capital	366,731	366,716
Accumulated other comprehensive (loss) income	(4,916)	1,093
Accumulated deficit	(263,320)	(267,743)
	140,366	141,936
	$ 388,451	$ 374,758

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Interest income:		
Securitized mortgage loans	$ 5,602	$ 7,025
Securities	428	324
Cash and cash equivalents	324	739
Other loans and investments	129	127
	6,483	8,215
Interest and related expenses:		
Securitization financing	3,599	4,096
Repurchase agreements	54	1,258
Obligation to joint venture under payment agreement	401	367
Other	8	34
	4,062	5,755
Net interest income	2,421	2,460
(Provision for) recapture of provision for loan losses	(26)	523
Net interest income after provision for loan losses	2,395	2,983
Equity in (loss) income of joint venture	(2,251)	630
Gain (loss) on sale of investments, net	2,093	(6)
Fair value adjustments, net	4,231	–
Other income (expense)	67	(539)
General and administrative expenses	(1,216)	(1,126)
Net income	5,319	1,942
Preferred stock dividends	(1,003)	(1,003)
Net income to common shareholders	$ 4,316	$ 939
Change in net unrealized gain (loss) on :		
Investments classified as available-for-sale	(2,373)	126
Investment in joint venture	(3,636)	829
Comprehensive (loss) income	$ (690)	$ 2,897
Net income per common share:		
Basic	$ 0.36	$ 0.08
Diluted	$ 0.32	$ 0.08

See notes to unaudited condensed consolidated financial statements.

DYNEX CAPITAL, INC.
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

Three-months ended March 31, 2008
(amounts in thousands except share data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total
Balance at December 31, 2007	$ 41,749	$ 121	$ 366,716	$ 1,093	$ (267,743)	$ 141,936
Cumulative effect of adoption of SFAS 159	–	–	–	–	1,323	1,323
Net income	–	–	–	–	5,319	5,319
Other comprehensive income (loss):						
Change in market value of securities and other investments	–	–	–	(3,916)	–	(3,916)
Reclassification adjustment for net gains included in net income	–	–	–	(2,093)	–	(2,093)
Total comprehensive income (loss)						(690)
Dividends on common stock	–	–	–	–	(1,217)	(1,217)
Dividends on preferred stock	–	–	–	–	(1,002)	(1,002)
Grant and vesting of restricted stock	–	1	15	–	–	16
Balance at March 31, 2008	$ 41,749	$ 122	$ 366,731	$ (4,916)	$ (263,320)	$ 140,366

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31, 2008	2007
Operating activities:		
Net income	$ 5,319	$ 1,942
Adjustments to reconcile net income to cash provided by operating activities:		
Equity in (loss) income of joint venture	2,251	(630)
Provision for (recapture of provision for) loan losses	26	(523)
Gain on sale of investments	(2,093)	6
Fair value adjustments, net	(4,231)	–
Amortization and depreciation	(264)	(335)
Net change in other assets and other liabilities	1,912	1,407
Net cash and cash equivalents provided by operating activities	2,920	1,867
Investing activities:		
Principal payments received on securitized mortgage loans	6,825	15,578
Purchase of securities and other investments	(37,730)	(5,591)
Payments received on securities and other loans and investments	2,581	2,811
Proceeds from sales of securities and other investments	8,991	83
Other	85	937
Net cash and cash equivalents (used for) provided by investing activities	(19,248)	13,818
Financing activities:		
Principal payments on securitization financing	(3,814)	(4,657)
Net borrowings (repayments on) repurchase agreement	24,945	(9,100)
Proceeds from sale of common stock	-	37
Dividends paid	(2,220)	(1,002)
Net cash and cash equivalents provided by (used for) financing activities	18,911	(14,722)
Net increase in cash and cash equivalents	2,583	963
Cash and cash equivalents at beginning of period	35,352	56,880
Cash and cash equivalents at end of period	$ 37,935	57,843

See notes to unaudited condensed consolidated financial statements.

March 31, 2008
(amounts in thousands except share and per share data)

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 (together, "Dynex" or the "Company"). All intercompany 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 and variable interest entities in which it is determined to be the primary beneficiary in accordance with Financial Interpretation ("FIN") 46(R). 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 of 1986, as amended (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, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. 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, 2007, filed with the Securities and Exchange Commission (the "SEC").

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. Estimates of fair value for securities are based on market prices provided by certain dealers, when available. When market prices are not available, fair value estimates 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 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 impairments of other investments 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.

The Company also has credit risk on loans in its portfolio as discussed in Note 4. 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 or recapture of provision for loan 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.

New Accounting Standards

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51." SFAS 160 addresses reporting requirements in the financial statements of non-controlling interests to their equity share of subsidiary investments. SFAS 160 applies to reporting periods beginning after December 15, 2008. The Company is currently evaluating the potential impact on adoption of SFAS 160.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)") which revised SFAS No. 141, "Business Combinations." This pronouncement is effective as of January 1, 2009. Under SFAS No. 141, organizations utilized the announcement date as the measurement date for the purchase price of the acquired entity. SFAS 141(R) requires measurement at the date the acquirer obtains control of the acquiree, generally referred to as the acquisition date. SFAS 141(R) will have a significant impact on the accounting for transaction costs, restructuring costs, as well as the initial recognition of contingent assets and liabilities assumed during a business combination. Under SFAS 141(R), adjustments to the acquired entity's deferred tax assets and uncertain tax position balances occurring outside the measurement period are recorded as a component of the income tax expense, rather than goodwill. As the provisions of SFAS 141(R) are applied prospectively, the impact cannot be determined until the transactions occur. The Company is currently evaluating the impact, if any, that SFAS 141(R) may have on the Company's financial statements.

On March 20, 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 provides for enhanced disclosures about how and why an entity uses derivatives and how and where those derivatives and related hedged items are reported in the entity's financial statements. SFAS 161 also requires certain tabular formats for disclosing such information. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. SFAS 161 applies to all entities and all derivative instruments and related hedged items accounted for under SFAS 133. Among other things, SFAS 161 requires disclosures of an entity's objectives and strategies for using derivatives by primary underlying risk and certain disclosures about the potential future collateral or cash requirements as a result of contingent credit-related features. The Company is currently evaluating the impact, if any, that the adoption of SFAS 161 will have on the Company's financial statements.

NOTE 2 — NET INCOME PER COMMON SHARE

Net income per common share is presented on both a basic and diluted per common share basis. Diluted net income per common share assumes the conversion of the convertible preferred stock into common stock, using the if-converted method and stock options, 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 per common share for the three months ended March 31, 2008 and 2007.

	Three Months Ended March 31,			
	2008		2007	
	Income	Weighted-Average Common Shares	Income	Weighted-Average Common Shares
Net income	$ 5,319		$ 1,942	
Preferred stock charge	(1,003)		(1,003)	
Net income to common shareholders	$ 4,316	12,156,887	$ 939	12,133,151
Effect of dilutive items	1,003	4,230,105	–	495
Diluted	$ 5,319	16,386,992	$ 939	12,133,646
Net income per share:				
Basic		$ 0.36		$ 0.08
Diluted		$ 0.32		$ 0.08
Reconciliation of shares included in calculation of earnings per share due to dilutive effect:				
Net effect of dilutive:				
Preferred stock	1,003	4,221,539	–	–
Stock options	–	8,566	–	495
	$ 1,003	4,230,105	$ –	495

NOTE 3 — SECURITIZED MORTGAGE LOANS, NET

The following table summarizes the components of securitized mortgage loans at March 31, 2008 and December 31, 2007.

	March 31, 2008	December 31, 2007
Securitized mortgage loans:		
Commercial mortgage loans	$ 184,040	$ 185,998
Single-family mortgage loans	81,280	86,088
	265,320	272,086
Funds held by trustees, including funds held for defeased loans	7,166	7,225
Accrued interest receivable	1,850	1,940
Unamortized discounts and premiums, net	(54)	(67)
Loans, at amortized cost	274,282	281,184
Allowance for loan losses	(2,745)	(2,721)
	$ 271,537	$ 278,463

All of the securitized mortgage loans are encumbered by securitization financing bonds.

NOTE 4 — ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is included in securitized mortgage loans, net in the accompanying Condensed Consolidated Balance Sheets. The following table summarizes the aggregate activity for the allowance for loan losses for the three months ended March 31, 2008 and 2007.

	Three Months Ended March 31, 2008	2007
Allowance at beginning of period	$ 2,721	$ 4,495
Provision for (recapture of) loan losses	26	(523)
Charge-offs, net of recoveries	(2)	(434)
Allowance at end of period	$ 2,745	$ 3,538

The Company identified $12,148 of impaired commercial loans at March 31, 2008 compared to $13,792 of impaired commercial loans at December 31, 2007, none of which were delinquent.

The following table presents certain information on impaired securitized commercial mortgage loans at December 31, 2007 and March 31, 2008.

	Investment in Impaired Loans	Reserves on Impaired Loans	Investment in Excess of Reserves
December 31, 2007	$ 13,792	$ 2,590	$ 11,202
March 31, 2008	12,148	2,590	9,558

NOTE 5 — SECURITIES

The following table summarizes the amortized cost basis and fair value of the Company's securities, all of which are classified as available-for-sale, and the related average effective interest rates at March 31, 2008 and December 31, 2007.

	March 31, 2008		December 31, 2007	
	Value	Effective Interest Rate	Value	Effective Interest Rate
Securities, available-for-sale at amortized cost:				
Agency mortgage-backed securities	$ 34,545	4.69%	$ 7,410	9.03%
Non-agency mortgage-backed securities	7,374	10.56%	7,684	9.41%
Equity securities	12,423		7,704	
Corporate debt securities	4,722		4,722	
	59,064		27,520	
Gross unrealized gains	865		2,406	
Gross unrealized losses	(1,649)		(695)	
Securities, available-for-sale at fair value	$ 58,280		$ 29,231	

In March 2008, the Company purchased two Fannie Mae certificates for $27,742 and financed the purchase with $24,944 of repurchase agreements. The Company also sold approximately $5,247 of equity securities during the quarter ended March 31, 2008 on which it recognized a gain of approximately $2,088 and purchased approximately $9,988 of equity securities of certain publicly traded mortgage real estate investment trusts.

NOTE 6 — INVESTMENT IN JOINT VENTURE

The Company, through a wholly-owned subsidiary, holds a 49.875% interest in a joint venture, Copperhead Ventures, LLC, primarily between the Company and DBAH Capital, LLC, an affiliate of Deutsche Bank, A. G.

The Company accounts for its investment in the joint venture using the equity method, under which it recognizes its proportionate share of the joint venture's earnings and comprehensive income. The Company's interest in the earnings (loss) and other comprehensive income (loss) of the joint venture for the three months ended March 31, 2008 were $(2,251) and $(3,636), respectively.

The joint venture had total assets at March 31, 2008 of $25,417, which were comprised primarily of $6,262 of cash and cash equivalents, $7,708 of available-for-sale subordinate commercial mortgage-backed-securities, a financial instrument backed by commercial mortgage loans accounted for under SFAS 159 with a fair value of $11,244 and other assets of $203.

NOTE 7 — OTHER LOANS AND INVESTMENTS

The following table summarizes the Company's other loans and investments at March 31, 2008 and December 31, 2007:

	March 31, 2008	December 31, 2007
Single-family mortgage loans	$ 2,323	$ 2,486
Multifamily and commercial mortgage loan participations	917	927
Unamortized discounts on mortgage loans	(275)	(289)
Mortgage loans, net	2,965	3,124
Delinquent property tax receivable securities	482	2,127
Notes receivable and other investments	102	1,523
Other loans and investments	$ 3,549	$ 6,774

On February 5, 2008, the Company's subsidiary, GLS Capital, Inc., received $1,625 for the sale of substantially all of the delinquent property tax receivables it owned in Allegheny County, Pennsylvania.

NOTE 8 –FAIR VALUE MEASURMENTS

On January 1, 2008, the Company adopted the provisions of SFAS No. 157 for all assets that are measured at fair value and its obligation to joint venture under payment agreement liability. Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

Assets and liabilities recorded at fair value in the Condensed Consolidated Balance Sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by SFAS 157 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level 1 fair value generally are equity securities listed in active markets.

Level 2 — Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life. Fair valued assets and liabilities that are generally included in this category are certain agency securities and certain derivatives.

Level 3 — Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Generally, assets and liabilities carried at fair value and included in this category are certain mortgage and asset-backed securities, certain corporate debt securities, certain delinquent property tax receivables and the obligation under payment agreement liability.

The following table presents the Company's assets and liabilities, which are accounted for at fair value, segregated by the hierarchy level of the fair value estimate.

		Fair Value Measurements at March 31, 2008		
	March 31, 2008	**Level 1**	**Level 2**	**Level 3**
Assets				
Agency mortgage-backed securities	$ 34,670	$ –	$ 34,670	$ –
Non-agency mortgage-backed securities	7,402	–	–	7,402
Equity securities	12,186	12,186	–	–
Corporate debt securities	4,022	–	–	4,022
Delinquent property tax receivables	482	–	–	482
Derivative instrument	103	–	103	–
Total assets carried at fair value	$ 58,865	$ 12,186	$ 34,773	$ 11,906
Liabilities				
Obligation under payment agreement	$ 11,244	$ –	$ –	$ 11,244
Total liabilities carried at fair value	$ 11,244	$ –	$ –	$ 11,244

The following is a reconciliation of the beginning and ending balances of the Level 3 fair value estimates.

	Level 3 Fair Values				
	Non-agency mortgage-backed securities	Corporate debt securities	Delinquent property tax receivables	Total assets	Obligation under payment agreement
Balance at January 1, 2008	$ 7,726	$ 4,347	$ 2,127	$ 14,200	$ 15,473
Total realized and unrealized gains (losses)					
Included in earnings	–	–	5	5	4,229
Included in other comprehensive income	(16)	(325)	123	(218)	–
Purchases, sales, issuances and other settlements, net	(308)	–	(1,773)	(2,081)	–
Transfers in and/or out of Level 3	–	–	–	–	–
Balance at March 31, 2008	$ 7,402	$ 4,022	$ 482	$ 11,906	$ 11,244

There were no assets or liabilities which were measured at fair value on a non-recurring basis during the three months ended March 31, 2008.

NOTE 9 – ADOPTION OF SFAS 159

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 permits entities to choose to measure many financial instruments, and certain other items, at fair value (the fair value option). The election to use the fair value option for a financial asset or financial liability is made when the instrument is first recorded, with subsequent changes in fair value recorded in the income statement.

The Company adopted SFAS 159 on January 1, 2008 for its obligation to joint venture under payment agreement. The obligation to joint venture under payment agreement is a liability to remit certain cash flows to an unconsolidated joint venture in which the Company owns 49.875% interest. The right to receive those cash flows is recorded as an asset on the joint ventures balance sheet, which is marked to market as an available-for-sale security. Prior to the adoption of SFAS 159, the instrument was accounted for differently on the Company's books and the joint ventures books. Electing the fair value option by the Company for the obligation under payment agreement will increase the consistency with which the instrument is accounted for and is expected to decrease the volatility in the Company's reported earnings and book value over time.

As a result of the one-time election to account for the obligation to joint venture under payment agreement under the fair value option, the Company reclassified the difference between the recorded basis and the fair value of the obligation under payment agreement as an adjustment to increase beginning accumulated deficit in the amount of $1,323.

NOTE 10 – SECURITIZATION FINANCING

The Company, through limited-purpose finance subsidiaries, has issued bonds pursuant to indentures in the form of non-recourse securitization financing. Each series of securitization financing may consist of various classes of bonds, either at fixed or variable rates of interest and having varying repayment terms. The Company, on occasion, may retain bonds at issuance, or redeem bonds and hold such bonds outstanding for possible future issuance. Payments received on securitized mortgage loans and any reinvestment income earned thereon are used to make payments on the bonds.

The obligations under the securitization financings are payable solely from the securitized mortgage loans and are otherwise non-recourse to the Company. The stated maturity date for each class of bonds is generally calculated based on the final scheduled payment date of the underlying collateral pledged. The actual maturity of each class will be directly affected by the rate of principal prepayments on the related collateral. Each series is also subject to redemption at the Company's option according to specific terms of the respective indentures. As a result, the actual maturity of any class of a series of securitization financing is likely to occur earlier than its stated maturity.

The components of non-recourse securitization financing along with certain other information at March 31, 2008 and December 31, 2007 are summarized as follows.

	March 31, 2008		December 31, 2007	
	Bonds Outstanding	Range of Interest Rates	Bonds Outstanding	Range of Interest Rates
Fixed-rate classes	$ 165,381	6.6% - 8.8%	$ 167,398	6.6% - 8.8%
Variable rate class	32,703	3.4%	34,500	5.1%
Accrued interest payable	1,160		1,186	
Deferred costs	(1,680)		(1,851)	
Unamortized net bond premium	2,749		3,152	
	$ 200,313		$ 204,385	
Range of stated maturities	2024-2027		2024-2027	
Estimated weighted average life	3.2 years		3.3 years	
Number of series	3		3	

At March 31, 2008, the weighted-average effective rate of the coupon on the bonds outstanding was 6.3%. The average effective rate on the bonds was 7.1% and 7.2% for the three months ended March 31, 2008 and the year ended December 31, 2007, respectively.

NOTE 11 – REPURCHASE AGREEMENTS

The Company uses repurchase agreements, which are recourse to the Company, to finance certain of its investments. The Company had repurchase agreements of $29,556 and $4,612, which were collateralized by securities with a fair value of $65,522 and $42,975 at March 31, 2008 and December 31, 2007, respectively.

The repurchase agreements reprice monthly with interest rates based on a spread to one-month LIBOR. As of March 31, 2008, the repurchase agreements had a weighted average interest rate of 2.91%.

NOTE 12 – PREFERRED AND COMMON STOCK

The Company is authorized to issue up to 50,000,000 shares of preferred stock. For all series issued, dividends are cumulative from the date of issue and are payable quarterly in arrears. The dividend per share is equal to the greater of (i) the per quarter base rate of $0.2375 for Series D, or (ii) the quarterly dividend declared on the Company's common stock. One share of Series D Preferred Stock is convertible at any time at the option of the holder into one share of common stock. The series is redeemable by the Company at any time, in whole or in part, (i) at a rate of one share of preferred stock for one share of common stock, plus accrued and unpaid dividends, provided that for 20 trading days within any period of 30 consecutive trading days, the closing price of the common stock equals or exceeds the issue price, or (ii) for cash at the issue price, plus any accrued and unpaid dividends.

In the event of liquidation, the holders of this series of preferred stock will be entitled to receive out of the Company's assets, prior to any such distribution to the common shareholders, the issue price per share in cash, plus any accrued and unpaid dividends. If the Company fails to pay dividends for two consecutive quarters or if the

Company fails to maintain consolidated shareholders' equity of at least 200% of the aggregate issue price of the Series D preferred stock, then these shares automatically convert into a new series of 9.50% senior notes. The Company paid dividends of $0.95 per share of Series D Preferred Stock for each of the years ended December 31, 2007, 2006 and 2005.

The following table presents the changes in the number of preferred and common shares outstanding:

	Shares	
	Preferred Series D	**Common**
December 31, 2007	4,221,539	12,136,262
Restricted shares granted	-	33,500
March 31, 2008	4,221,539	12,169,762

On February 5, 2008, the Company's Board of Directors declared a dividend of $0.10 per common share to shareholders of record on February 15, 2008, which was paid on February 29, 2008 in the amount of $1,217. On March 19, 2008, the Company's Board of Directors declared a dividend of $0.2375 per share of Series D Preferred Stock to shareholders of record on March 31, 2008, which was paid in the amount of $1,003 on April 30, 2008.

NOTE 13 — COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries may be involved in certain litigation matters arising in the ordinary course of business from time to time. Although the ultimate outcome of these matters cannot be ascertained at this time, and the results of legal proceedings cannot be predicted with certainty, the Company believes, based on current knowledge, that the resolution of these matters will not have a material adverse effect on the Company's financial position or results of operations.

Information on litigation arising out of the ordinary course of business is described below.

One of the Company's subsidiaries, GLS Capital, Inc. (GLS), and the County of Allegheny, Pennsylvania (Allegheny County), are defendants in a class action lawsuit filed in 1997 in the Court of Common Pleas of Allegheny County, Pennsylvania (the Court of Common Pleas). Plaintiffs allege that GLS illegally charged the taxpayers of Allegheny County certain attorney fees, costs and expenses and interest, in the collection of delinquent property tax receivables owned by GLS which were purchased from Allegheny County. In 2007, the Court of Common Pleas stayed this action pending the outcome of other litigation before the Pennsylvania Supreme Court in which GLS is not directly involved but has filed an Amicus brief in support of the defendants. Several of the allegations in that lawsuit are similar to those being made against GLS in this litigation. Plaintiffs have not enumerated their damages in this matter, and the Company believes that the ultimate outcome of this litigation will not have a material impact on its financial condition, but may have a material impact on its reported results for the particular period presented.

Dynex Capital, Inc. and Dynex Commercial, Inc. (DCI), a former affiliate of the Company and now known as DCI Commercial, Inc., are appellees (or respondents) in the Court of Appeals for the Fifth Judicial District of Texas at Dallas, related to the matter of Basic Capital Management et al. (collectively, BCM or the Plaintiffs) versus Dynex Commercial, Inc. et al. The Court of Appeals heard oral arguments in this matter in April 2006. The appeal sought to overturn the trial court's judgment in the Company's and DCI's favor which denied recovery to Plaintiffs. Plaintiffs sought a reversal of the trial court's judgment, and sought rendition of judgment against the Company for alleged breach of loan agreements for tenant improvements in the amount of $253. They also sought reversal of the trial court's judgment and rendition of judgment against DCI in favor of BCM under two mutually exclusive damage models, for $2,200 and $25,600, respectively, related to the alleged breach by DCI of a $160,000 "master" loan commitment. Plaintiffs also sought reversal and rendition of a judgment in their favor for attorneys' fees in the amount of $2,100. Alternatively, Plaintiffs sought a new trial. On February 22, 2008, the Court of Appeals ruled in favor of the Company and DCI, upholding the trial court's judgment. On May 7, 2008, Plaintiffs filed an appeal with the Supreme Court of Texas. Even if Plaintiffs were to be successful on appeal, DCI is a former affiliate of the Company, and the Company believes that it would have no obligation for amounts, if any, awarded to the Plaintiffs as a result of the actions of DCI.

The Company and MERIT Securities Corporation, a subsidiary, are defendants in a putative class action complaint alleging violations of the federal securities laws in the United States District Court for the Southern District of New York (District Court) by the Teamsters Local 445 Freight Division Pension Fund (Teamsters). The complaint was filed on February 7, 2005, and purports to be a class action on behalf of purchasers between February 2000 and May 2004 of MERIT Series 12 and MERIT Series 13 securitization financing bonds (the Bonds), which are collateralized by manufactured housing loans. The complaint seeks unspecified damages and alleges, among other things, misrepresentations in connection with the issuance of and subsequent reporting on the Bonds. The complaint initially named the Company's former president and its current Chief Operating Officer as defendants. On February 10, 2006, the District Court dismissed the claims against the Company's former president and its current Chief Operating Officer, but did not dismiss the claims against the Company or MERIT. The Company and MERIT petitioned for an interlocutory appeal with the United States Court of Appeals for the Second Circuit (Second Circuit). The Second Circuit granted the Company's petition on September 15, 2006 and heard oral argument on the appeal on January 30, 2008. The Company has evaluated the allegations made in the complaint, believes them to be without merit 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 its consolidated balance sheet but could materially affect its consolidated results of operations in a given year or period.

NOTE 14 — STOCK BASED COMPENSATION

Pursuant to Dynex's 2004 Stock Incentive Plan, as approved by the shareholders at Dynex's 2005 annual shareholders' meeting (the "Stock Incentive Plan"), Dynex may grant to eligible officers, directors and employees stock options, stock appreciation rights ("SARs") and restricted stock awards. An aggregate of 1,500,000 shares of common stock is available for distribution pursuant to the Stock Incentive Plan. Dynex may also grant dividend equivalent rights ("DERs") in connection with the grant of options or SARs.

On February 4, 2008, Dynex granted 33,500 shares of restricted common stock to certain of its employees and officers under the Stock Incentive Plan. Of the restricted stock granted, 3,500 shares vest equally each quarter of 2008. The remaining 30,000 shares of restricted stock vest 25% per year (on the grant date) over the next four years The weighted-average grant-date fair value of the restricted stock grants was $8.80 per share for a total compensation cost of $294, which will be recognized in expense evenly over the vesting period.

The following table presents a summary of the SAR activity for the Stock Incentive Plan:

	Three Months Ended March 31, 2008	
	Number of Shares	Weighted-Average Exercise Price
SARs outstanding at beginning of period	278,146	$ 7.27
SARs granted	–	–
SARs forfeited or redeemed	–	–
SARs exercised	–	–
SARs outstanding at end of period	278,146	$ 7.27
SARs vested and exercisable	149,073	$ 7.41

The following table presents a summary of the option activity for the Stock Incentive Plan:

	Three Months Ended March 31, 2008	
	Number of Shares	Weighted-Average Exercise Price
Options outstanding at beginning of period	95,000	$ 8.28
Options granted	–	–
Options forfeited or redeemed	–	–
Options exercised	–	–
Options outstanding at end of period	95,000	$ 8.28
Options vested and exercisable	95,000	$ 8.28

As required by SFAS No. 123(R), "Share Based Payments," stock options, which are settleable only in shares of common stock, have been treated as equity awards, with their fair value measured at the grant date, and SARs, which are settleable in cash, have been treated as liability awards, with their fair value measured at the grant date and remeasured at the end of each reporting period. The fair value of SARs was estimated at March 31, 2008 using the Black-Scholes option valuation model based upon the assumptions in the table below.

Dynex recognized a stock based compensation benefit of $67 and expense of $72 for the three months ended March 31, 2008 and 2007, respectively, related to the restricted stock and SARs. The total compensation cost related to non-vested awards was $519 and $407 at March 31, 2008 and December 31, 2007, respectively, and will be recognized as the awards vest.

The following table describes the weighted average of assumptions used for calculating the fair value of SARs outstanding at March 31, 2008.

	SARs Fair Value March 31, 2008
Expected volatility	16.91%-20.01%
Weighted-average volatility	17.48%
Expected dividends	4.26%
Expected term (in months)	48
Risk-free rate	3.21%

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, 2008 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 specialty finance company organized as a real estate investment trust (REIT) that invests in loans and securities consisting principally of single-family residential and commercial mortgage loans. The Company finances these loans and securities through a combination of non-recourse securitization financing, repurchase agreements, and equity. Dynex employs financing in order to increase the overall yield on its invested capital.

In February 2008, the Company's Board of Directors authorized the investment of a significant portion of its capital in residential mortgage backed securities ("RMBS") issued or guaranteed by a federally chartered corporation, such as Fannie Mae or Freddie Mac, or an agency of the U.S. government, such as Ginnie Mae (commonly referred to as Agency RMBS). While the Company has occasionally invested in Agency RMBS in the past, the Company believes that risk-adjusted returns for investing in Agency RMBS are currently compelling given current yields available and the favorable terms and costs to finance the Agency RMBS. The Company expects to use repurchase agreement leverage in order to enhance the overall returns on its invested capital. The leverage ratio on these and other investments may vary depending on market and economic conditions. The Company also expects to employ derivatives in order to manage its interest rate risk.

The Company purchased approximately $27.7 million of Agency RMBS during the quarter and $41.2 million more in April 2008. The Company's Agency RMBS are currently financed with repurchase agreement financing and equity. The Company expects to significantly increase its holdings of Agency RMBS using its existing capital and may attempt to raise additional equity capital to deploy in this strategy.

As a REIT, the Company is required to distribute to shareholders as dividends at least 90% of its taxable income, which is the Company's income as calculated for tax, after consideration of any tax net operating loss (NOL) carryforwards. However, unlike other mortgage REITs, the Company may be able to limit its REIT income distributions by utilizing its NOL carryforwards, which were approximately $150 million at December 31, 2007, although the Company has not finalized its 2007 federal income tax return. As a result, the Company has the option of being able to invest its capital and compound the returns on an essentially tax-free basis instead of distributing its earnings to its shareholders. The Company will balance the desire to retain its capital and compound its returns with dividend distributions to shareholders.

The Board of Directors of the Company declared a dividend of $0.10 per common share for the first quarter of 2008, and a dividend of $0.15 per common share for the second quarter of 2008. The Company also expects to pay a dividend in the third and fourth quarters of 2008.

During the first quarter of 2008, the Company sold approximately $5.2 million of equity securities for a gain of approximately $2.1 million and purchased approximately $10.0 million of equity securities later in the same quarter.

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 and variable interest entities in which it is determeinced to be the primary beneficiary in accordance with Financial Interpretation ("FIN") 46(R). 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 the Company 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.

Securitization. The Company has securitized loans and securities in a securitization financing transaction by transferring financial assets to a wholly owned trust, and the trust issues non-recourse bonds pursuant to an indenture. Generally, the Company retains some form of control over the transferred assets, and/or the trust is not deemed to be a qualified special purpose entity. In instances where the trust is deemed not to be a qualified special purpose entity, the trust is included in the Company's consolidated financial statements. A transfer of financial assets in which the Company surrenders control over those assets is accounted for as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. For accounting and tax purposes, the loans and securities financed through the issuance of bonds in a securitization financing transaction are treated as the Company's assets, and the associated bonds issued are treated as its debt as securitization financing. The Company may retain certain of the bonds issued by the trust and will generally transfer collateral in excess of the bonds issued. This excess is typically referred to as over-collateralization. Each securitization trust generally provides the Company with the right to redeem, at its option, the remaining outstanding bonds prior to their maturity date.

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, an impairment charge is recorded 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 impairments of other investments 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. Single-family loans are considered impaired when they are 60-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 the attributes of the respective loan, or the attributes of the underlying real estate which secures the loan, commercial loans with a debt service 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.

(amounts in thousands except per share data)	March 31, 2008	December 31, 2007
Investments:		
Securitized mortgage loans, net	$ 271,537	$ 278,463
Securities	58,280	29,231
Investment in joint venture	13,380	19,267
Other loans and investments	3,549	6,774
Securitization financing	200,313	204,385
Repurchase agreements	29,556	4,612
Obligation under payment agreement	11,244	16,796
Shareholders' equity	140,366	141,936
Common book value per share	$ 8.07	$ 8.22

Securitized Mortgage Loans, Net

Securitized mortgage loans are comprised of loans secured by first deeds of trust on single-family residential and commercial properties. The following table presents the Company's net basis in these loans at amortized cost, which includes accrued interest receivable, discounts, premiums, deferred costs and reserves for loan losses, by the type of property collateralizing the loan.

(amounts in thousands)	March 31, 2008	December 31, 2007
Securitized mortgage loans, net:		
Commercial	$ 188,638	$ 190,570
Single-family	82,899	87,893
	271,537	278,463

Securitized commercial mortgage loans includes the loans pledged to two securitization trusts, which were issued in 1993 and 1997, and which have outstanding principal balances of $34.0 million and $150.0 million, respectively, at March 31, 2008. The decrease in these loans was primarily related to scheduled principal payments of $2.0 million received during the quarter.

Securitized single-family mortgage loans includes loans pledged to one securitization trust, which was issued in 2002 using loans that were principally originated between 1992 and 1997. The decrease in the single-family mortgage loans is primarily related to principal payments on the loans of $4.8 million, $4.0 million of which was unscheduled.

Securities

Our securities, which are classified as available-for-sale and carried at their fair value, are comprised of the following.

(amounts in thousands)	March 31, 2008	December 31, 2007
Securities:		
Non-agency RMBS	$ 7,402	$ 7,726
Agency RMBS	34,670	7,456
Equity securities	12,186	9,701
Corporate debt securities	4,022	4,347
	$ 58,280	$ 29,230

Non-agency RMBS declined approximately $0.3 million to $7.4 million at March 31, 2008. The decrease was primarily related to the principal payments received on these securities during the year.
Agency RMBS increased by $27.2 million to $34.7 million at March 31, 2008. This increase was primarily the result of the purchase of $27.7 million of Agency RMBS during the first quarter of 2008, which was partially offset by the receipt of $0.6 million of principal on the Agency RMBS during the quarter.

Equity securities increased approximately $2.5 million to $12.2 million and include preferred stock and common stock issued by publicly-traded mortgage REITs. The Company purchased approximately $10.0 million of equity securities during the first quarter and sold approximately $5.2 million of equity securities on which the Company recognized a net gain of $2.1 million.

Investment in Joint Venture

Investment in joint venture declined as a result of the Company's interest in the net loss and other comprehensive loss of the joint venture due primarily to adjustments to fair value of the CMBS securities owned by the joint venture as previously discussed. The Company wrote-down the carrying value of the investment in joint venture by an additional $3.6 million reflecting temporary declines in fair value of securities owned by the joint venture due to widening credit spreads in CMBS since the end of the December. During the first quarter of 2008, the Company also recorded an adjustment of $4.2 million which is included in other income for the obligation under payment agreement due to the joint venture, reflecting the fair value change during the quarter of this obligation.

Other Loans and Investments

Other loans and investments declined approximately $3.2 million to $3.5 million at March 31, 2008. The balance at March 31, 2008 is comprised primarily of $3.0 million of seasoned residential and commercial mortgage loans and $0.5 million related to the Company's remaining investment in delinquent property tax receivables. The decline is primarily related to the sale of the majority of the Company's tax lien receivables to Allegheny County, Pennsylvania for $1.6 million during the quarter and the collection of a $1.4 million note receivable that was outstanding at December 31, 2007.

Securitization Financing

Securitization financing are bonds issued by a securitization trust, which the Company sponsored and is consolidated in its financial statements. These bonds are secured only by the securitized mortgage loans pledged to the trust and are otherwise non-recourse to the Company. Principal and interest on the bonds are paid from the cash flows generated by the loans collateralizing the bonds. The following table presents the Company's net basis, which includes accrued interest, discounts, premiums and deferred costs in securitization financing.

(amounts in thousands)	**March 31, 2008**	**December 31, 2007**
Securitization financing bonds:		
Fixed, secured by commercial mortgage loans	$ 168,308	$ 170,623
Variable, secured by single-family mortgage loans	32,005	33,762
	$ 200,313	$ 204,385

The fixed rate bonds finance the Company's securitized commercial mortgage loans, which are also fixed rate. The $2.3 million decrease is primarily related to principal payments on the bonds during the three months ended March 31, 2008 of $2.0 million. There was also $0.3 million of net amortization of bond premiums and deferred costs. Approximately $29.2 million of these bonds are callable by the Compoany in June of 2008. Those bonds have premiums and deferred costs associated with them, representing a net credit of approximately $1.3 million, which are being amortized over the life of the bonds. If the Company chooses to call those bonds in 2008, any unamortized premium and deferred costs would be written-off and recognized as a gain at that time.

The Company's single-family securitized mortgage loans are financed by variable rate securitization financing bonds. The $1.8 million decline in the balance to $32.0 million at March 31, 2008 is primarily related to principal payments on the bonds of $1.8 million, which was partially offset by $0.1 million of bond discount amortization. The Company redeemed all of the bonds issued by this securitization trust in 2005, financed the redemption with repurchase agreements and its own capital, and held the bonds for potential reissue The Company still holds a senior bond issued by this trust, which had a par value of $41.3 million at March 31, 2008 and is partially financed with repurchase agreements. As the securitization trust which issued this bond is consolidated in the Company's financial statements, this bond is eliminated in its consolidated financial statements.

Repurchase Agreements

Repurchase agreements increased $24.9 million to $29.6 million at March 31, 2008. This increase related to the purchase of Agency RMBS, discussed above, which the Company financed with $24.9 million of repurchase agreements and had a fair value of $27.7 million at March 31, 2008.

Obligation Under Payment Agreement

On January 1, 2008, the Company adopted the provisions of SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits entities to choose to measure financial instruments at fair value. The effect of the adoption of SFAS 159 was to decrease beginning accumulated deficit by $1.3 million. During the first quarter of 2008, the Company recorded an additional adjustment of $4.2 million, which is included in fair value adjustments, reflecting the change in fair value during the quarter of the obligation to the joint venture under payment agreement.

Shareholders' Equity

Shareholders' equity decreased by $1.6 million to $140.4 million. This decrease was primarily related to a $6.0 million decline in accumulated other comprehensive income, related to an increase in the unrealized losses on certain of the Company's available for sale investments, securities and investment in joint venture. The Company also paid $1.0 million of preferred dividends and $1.2 million of common dividends during the quarter. These decreases were partially offset by net income during the quarter of $5.3 million and a $1.3 million increase in accumulated deficit for the cumulative effect of initially adopting SFAS 159 on January 1, 2008 related to the Company's obligation to joint venture under payment agreement.

Supplemental Discussion of Investments

The Company evaluates and manages its investment portfolio in large part based on its net capital invested in that particular investment. Net capital invested is generally defined as the cost basis of the investment net of the associated financing for that investment. For securitized mortgage loans, because the securitization financing is recourse only to the mortgage loans pledged and is, therefore, not a general obligation of the Company, the risk on the Company's investment in securitized mortgage loans from an economic point of view is limited to its net retained investment in the securitization trust.

Below is the net basis of the Company's investments as of March 31, 2008. Included in the table is an estimate of the fair value of each net investment. The fair value of the net investment in securitized mortgage loans is based on the present value of the projected cash flow from the collateral, adjusted for the impact and assumed level of future prepayments and credit losses, less the projected principal and interest due on the securitization financing bonds owned by third parties. The fair value of securities is based on quotes obtained from third-party dealers or is calculated by discounting estimated future cash flows at market rates. For securities and other investments, the Company may employ leverage to enhance its overall returns on the net capital invested in these particular assets.

(amounts in thousands)	March 31, 2008 Amortized cost basis	Financing[4]	Net investment	Fair value of net investment
Securitized mortgage loans: [1]				
Single-family mortgage loans	$ 83,054	$ 36,618	$ 46,436	$ 40,487
Commercial mortgage loans	191,228	168,308	22,920	15,338
Allowance for loan losses	(2,745)	–	(2,745)	–
	271,537	204,926	66,611	55,825
Securities: [2]				
Investment grade single-family	41,645	24,944	16,701	16,739
Non-investment grade single-family	274	–	274	340
Equity and other	17,145	–	17,145	16,257
Net unrealized loss	(784)	–	(784)	–
	58,280	24,944	33,336	33,336
Investment in joint venture[3]	13,380	–	13,380	13,049
Obligation to joint venture under payment agreement[1]	–	11,244	(11,244)	(11,244)
Other loans and investments[2]	3,549	–	3,549	4,251
Total	$ 346,746	$ 241,114	$ 105,632	$ 95,217

(1) *Fair values for securitized mortgage loans and the obligation to joint venture under payment agreement are based on discounted cash flows using assumptions set forth in the table below, inclusive of amounts invested in redeemed securitization financing bonds.*

(2) *Fair values are based on dealer quotes, if available, and closing prices from a national exchange where applicable. Approximately $22 million of fair value of securities were based on available dealer quotes or closing prices from a national exchange. Where dealer quotes are not available, fair values are calculated as the net present value of expected future cash flows, discounted at a weighted average discount rate of 7.5% for investment grade securities and 35.3% for non-investment grade securities.*

(3) *Fair value for investment in joint venture represents the Company's share of the fair value of the joint venture's assets valued using methodologies and assumptions consistent with Note 1 above.*

(4) *Financing includes securitization financing issued to third parties and repurchase agreements.*

The following table summarizes the assumptions used in estimating fair value for the Company's net investment in securitized finance receivables and the cash flow related to those net investments during 2008.

Loan type	Fair Value Assumptions: Weighted-average prepayment speeds	Losses	Weighted-average discount rate[6]	Projected cash flow termination date	(amounts in thousands) YTD 2008 Cash Flows [1]
Single-family mortgage loans	20% CPR	0.2% annually	20%	Anticipated final maturity 2024	$ 848
Commercial mortgage loans[2]	[3]	0.8% annually	[4]	[5]	$ 517

(1) *Represents the excess of the cash flows received on the collateral pledged over the cash flow required to service the related securitization financing.*

(2) *Includes loans pledged to two different securitization trusts.*

(3) Assumed constant prepayment rate (CPR) speeds generally are governed by underlying pool characteristics, prepayment lock-out provisions, and yield maintenance provisions. Loans currently delinquent in excess of 30 days are assumed to be liquidated in six months at a loss amount that is calculated for each loan based on its specific facts.

(4) Weighed-average discount rates for the two securitization trusts were 16.0% and 22.1%, respectively.

(5) Cash flow termination dates are modeled based on the repayment dates of the loans or optional redemption dates of the underlying securitization financing bonds.

(6) Represents management's estimate of the market discount rate that would be used by a third party in valuing these or similar assets.

The following table presents the Net Basis of Investments included in the first table above by their rating classification. Investments in the unrated and non-investment grade classification primarily include other loans that have not been given a rating but that are substantially seasoned and performing loans. Securitization over-collateralization generally includes the excess of the securitized mortgage loan collateral pledged over the outstanding bonds issued by the securitization trust.

(amounts in thousands)	**March 31, 2008**
Cash and cash equivalents	$ 37,935
Investments:	
AAA rated and agency MBS fixed income securities	52,783
AA and A rated fixed income securities	451
Unrated and non-investment grade	20,327
Securitization over-collateralization	18,691
Investment in joint venture	13,380
	$ 105,632

Supplemental Discussion of Common Equity Book Value

Management believes that the Company's shareholders, as well as shareholders of other companies in the mortgage REIT industry, consider book value per common share an important measure. The Company's reported book value per common share is based on the carrying value of its assets and liabilities as recorded in the consolidated financial statements in accordance with generally accepted accounting principles. A substantial portion of the Company's assets are carried on a historical, or amortized, cost basis and not at estimated fair value. The first table included in the "Supplemental Discussion of Investments" section above compares the amortized cost basis of investments to their estimated fair value based on assumptions set forth in the second table.

Management believes that book value per common share, adjusted to reflect the carrying value of investments at their fair value (hereinafter referred to as "Adjusted Common Equity Book Value"), is also a meaningful measure for the Company's shareholders, representing effectively the Company's estimated going-concern value. The following table calculates Adjusted Common Equity Book Value and Adjusted Common Equity Book Value per share using the estimated fair value information contained in the "Estimated Fair Value of Net Investment" table above. The amounts set forth in the table in the Adjusted Common Equity Book Value column include all of the Company's assets and liabilities at their estimated fair values, and exclude any value attributable to the Company's tax net operating loss carryforwards and other matters that might impact the Company's value.

(amounts in thousands, except per share information)	March 31, 2008 Book Value	Adjusted Book Value
Total investment assets (per table above)	$ 105,632	$ 95,217
Cash and cash equivalents	37,935	37,935
Other assets and liabilities, net	(3,201)	(3,201)
	140,366	129,951
Less: Preferred stock redemption value	(42,215)	(42,215)
Common equity book value and adjusted book value	$ 98,151	$ 87,736
Common equity book value per share and adjusted book value per share	$ 8.07	$ 7.21

Discussion of Credit Risk

A major risk in the Company's investment portfolio today is credit risk (i.e., the risk that the Company will not receive all amounts contractually due it on an investment as a result of a default by the borrower and the resulting deficiency in proceeds from the liquidation of the collateral securing the obligation). In many instances, the Company retained the "first-loss" credit risk on pools of loans and securities that it securitized. In addition to the retained interests in certain securitizations, the Company also has credit risk on approximately $3.5 million of unrated or non-investment grade mortgage securities and loans.

The following table summarizes the Company's credit exposure in securitized mortgage loans and subordinate mortgage securities. The Company's net credit exposure increased from 2007 to 2008 primarily due to amortization of premiums and the reduction in the balance of the Company's allowance for loan losses of $0.8 million as a result of improved performance of the Company's securitized commercial mortgage loan portfolio.

Credit Reserves and Actual Credit Losses

(amounts in millions)	Credit Exposure (1)	Credit Exposure, Net of Allowance (2)	Actual Credit Losses	Credit Exposure, Net of Allowance to Outstanding Loan Balance (3)
2007, Quarter 1	$ 25.8	$ 22.2	$ 0.4	6.45%
2007, Quarter 2	26.5	23.0	0.0	6.95
2007, Quarter 3	26.9	24.3	0.1	7.91
2007, Quarter 4	27.5	24.8	0.0	8.58
2008, Quarter 1	27.9	25.2	0.0	8.91

(1) *Represents the overcollateralization pledged to a securitization trust and subordinate securities the Company owns, net of any premiums and discounts.*
(2) *Represents credit exposure, net of allowance for loan losses.*
(3) *Represents credit exposure net of allowance divided by current unpaid principal balance of loans in the securitization trust*

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. Delinquencies as a percentage of all outstanding securitized mortgage loans decreased to 2.6% at March 31, 2008 from 3.1% at March 31, 2007. At March 31, 2008, management believes the level of credit reserves is appropriate for currently existing losses. The following tables summarize single-family mortgage loan and commercial mortgage loan delinquencies as a percentage of the outstanding commercial securitized mortgage loans or single-family balance for those securitizations in which the Company has retained a portion of the direct credit risk.

Loans secured by low-income housing tax credit (LIHTC) properties account for 88% of the Company's securitized commercial loan portfolio. Section 42 of the Code provides tax credits to investors in projects to construct or substantially rehabilitate properties that provide housing for qualifying low income families. Failure to comply with certain income and rental restrictions required by Section 42 or default on a loan financing a Section 42 property during the compliance period can result in the recapture of previously received tax credits. The potential cost of tax credit recapture provides an incentive to the property owner to support the property during the compliance period. The following table shows the weighted average remaining compliance period of the Company's portfolio of LIHTC commercial loans at March 31, 2008 as a percent of the total LIHTC commercial loan portfolio.

Months remaining to end of compliance period	**As a Percent of Unpaid Principal Balance**
Compliance period already exceeded	28.5%
Zero through twelve months remaining	4.5
Thirteen through thirty six months remaining	53.6
Thirty seven through sixty months remaining	13.4
	100.0%

There were no delinquent commercial mortgage loans at March 31, 2008 or December 31, 2007.

Single-family mortgage loan delinquencies decreased by $0.5 million to $7.4 million at March 31, 2008 from $7.9 million at December 31, 2007. Serious delinquencies, defined as 60+ day delinquencies, increased from $2.9 million to $3.3 million for the same period. The Company's single-family loan portfolio, which had an aggregate unpaid principal balance of $89.7 million at March 31, 2008, was originated primarily between 1992 and 1997 and continues to perform and pay-down as expected and with minimal losses. Approximately $1.2 million of the 60+ day delinquent loans are credit enhanced with mortgage pool insurance, and the Company does not expect any realized losses on these loans. For loans without mortgage pool insurance, the Company expects losses to be minimal given the seasoning of the underlying loans. During 2007 and 2006, the Company incurred less than $0.1 million of actual losses in each of those years.

Single-Family Loan Delinquency Statistics

(amounts in thousands)	**30 to 59 days delinquent**	**60 to 89 days delinquent**	**90 days and over delinquent [1]**	**Total**
2007, Quarter 1	$ 5,389	$ 937	$ 4,273	$ 10,599
2007, Quarter 2	4,180	874	3,157	8,211
2007, Quarter 3	2,381	551	3,058	5,990
2007, Quarter 4	5,003	562	2,342	7,907
2008, Quarter 1	4,092	761	2,543	7,396

[1] *Includes foreclosures and real estate owned.*

RESULTS OF OPERATIONS

(amounts in thousands except per share information)	Three Months Ended March 31, 2008	2007
Net interest income	$ 2,421	$ 2,460
(Provision for) recapture of provision for loan losses	(26)	523
Net interest income after recapture of loan losses	2,395	2,983
Gain (loss) on sales of investments	2,093	(6)
Equity in (loss) earnings of joint venture	(2,251)	630
Fair value adjustments, net	4,231	–
Other income (expense)	67	(539)
General and administrative expenses	(1,216)	(1,126)
Net income	5,319	1,942
Preferred stock charge	(1,003)	(1,003)
Net income to common shareholders	4,316	939
Net income per common share:		
Basic	$ 0.36	$ 0.08
Diluted	$ 0.32	$ 0.08

<u>Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007</u>

<u>Interest Income</u>

Interest income includes interest earned on the investment portfolio and also reflects the amortization of any related discounts, premiums and deferred costs. The following tables present the significant components of the Company's interest income.

(amounts in thousands)	**Three Months Ended March 31, 2008**	**2007**
Interest income:		
Securitized mortgage loans	$ 5,602	$ 7,025
Securities	428	324
Cash and cash equivalents	324	739
Other loans and investments	129	127
	$ 6,483	$ 8,215

The change in interest income on securitized mortgage loans and securities is examined in the discussion and tables that follow.

Interest income on cash and cash equivalents decreased $0.4 million in 2008 compared to 2007. This decrease is primarily the result of an $13.9 million decrease in the average balance of cash and cash equivalents outstanding during 2008 compared to 2007 and a decrease in short-term interest rates. The yield on cash decreased from 5.2% for the three months ended March 31, 2007 to 3.0% for the same period in 2008.

Interest Income – Securitized Mortgage Loans

The following table summarizes the detail of the interest income earned on securitized mortgage loans.

	Three Months Ended March 31,					
	2008			2007		
(amounts in thousands)	**Interest Income**	**Net Amortization**	**Total Interest Income**	**Interest Income**	**Net Amortization**	**Total Interest Income**
Securitized mortgage loans:						
Commercial	$ 3,985	$ 100	$ 4,085	$ 4,868	$ 87	$ 4,955
Single-family	1,604	(87)	1,517	2,205	(135)	2,070
Total mortgage loans	$ 5,589	$ 13	$ 5,602	$ 7,073	$ (48)	$ 7,025

The majority of the decrease of $0.9 million in interest income on commercial mortgage loans is primarily related to the decline in the average balance of the commercial mortgage loans outstanding during the first quarter of 2008, which decreased approximately $38.4 million (54%) from the balance for the same period in 2007.

Interest income on securitized single-family mortgage loans declined $0.6 million to $1.5 million for the three months ended March 31, 2008. The decline in interest income on single-family loans was primarily related to the decrease in the average balance of the loans outstanding from the first quarter of 2007, which declined approximately $27.4 million, or approximately 24%, to $85.7 million for the first quarter of 2008. The decline in interest income on single-family mortgage loans was also negatively impacted by a decrease in the average yield on the Company's single-family loan portfolio, approximately 87% of which were variable rate at March 31, 2008.

Interest Income – Securities

The following table presents the components of interest income on securities.

	Three Months Ended March 31,	
(amounts in thousands)	**2008**	**2007**
Non-agency RMBS	$ 176	$ 262
Agency RMBS	104	62
Corporate debt securities and other interest-bearing securities	148	–
	$ 428	$ 324

Although the balance of securities increased significantly from March 31, 2007 to March 31, 2008, interest income only increased by approximately $0.1 million for the three months ended March 31, 2008 compared to the corresponding period in 2007. This small increase income was due to the increase in the balance of securities occurring late in March 2008.

Interest Expense

Interest expense includes the interest paid and accrued on the Company's financings as well as the amortization of any related discounts, premiums and deferred costs. The following tables present the significant components of interest expense.

	Three Months Ended March 31,	
(amounts in thousands)	**2008**	**2007**
Interest expense:		
Securitization financing	$ 3,599	$ 4,096
Repurchase agreements	54	1,258
Obligation under payment agreement	401	367
Other	8	34
	$ 4,062	$ 5,755

Interest Expense – Securitization Financing

The following table summarizes the detail of the interest expense recorded on securitization financing bonds.

	Three Months Ended March 31,					
	2008			2007		
(amounts in thousands)	**Interest Expense**	**Net Amortization**	**Total Interest Expense**	**Interest Expense**	**Net Amortization**	**Total Interest Expense**
Securitization financing:						
Commercial	$ 3,441	$ (325)	$ 3,116	$ 4,273	$ (286)	$ 3,987
Single-family	338	52	390	–	–	–
Other bond related costs	93	–	93	109	–	109
Total mortgage loans	$ 3,872	$ (273)	$ 3,599	$ 4,382	$ (286)	$ 4,096

Interest expense on commercial securitization financing decreased from $4.0 million for 2007 to $3.1 million for 2008. The majority of this $0.9 million decrease is related to the $40.1 million (19%) decrease in the weighted average balance of securitization financing, from $208.4 million in 2007 to $168.3 million in 2008.

The interest expense on single-family securitization financing is related to a securitization bond that the Company redeemed in 2005 and reissued in the fourth quarter of 2007. The net amortization of other bond related costs is attributable mainly to the $0.8 million discount at which the bond was reissued.

Interest Expense – Repurchase Agreements

The decline in interest expense related to repurchase agreements is due primarily to the drop in the average balance of repurchase agreement financing outstanding from $92.7 million for the three months ended March 31, 2007 to $5.7 million for the same period in 2008. The average rate on the outstanding repurchase agreements also declined from 5.43% for 2007 to 3.72% for 2008.

Gain (loss) on Sales of Investments

During the three months ended March 31, 2008, the Company sold $5.2 million of equity securities of other real estate investment trusts and realized a net gain of $2.1 million.

(Provision for) Recapture of Provision for Loan Losses

During the three months ended March 31, 2007, the Company recaptured approximately $0.5 million of reserves the Company had previously provided for estimated losses on its securitized mortgage loan portfolio. During the three months ended March 31, 2008, the Company provided less than $0.1 million for estimated losses on its portfolio of single family loans.

Equity in (Loss) Earnings of Joint Venture

The Company's interest in the operations of its joint venture changed from income of $0.6 million to a loss of $2.3 million for the three months ended March 31, 2007 and 2008, respectively. In 2008, the joint venture experienced a decline in the values of certain of its investments of $4.7 million, due primarily to the widening of spreads on subordinate CMBS during the first quarter of 2008.

Fair Value Adjustments, Net

The $4.2 million fair value adjustment is primarily related to a decline in the fair value of the Company's obligation under payment agreement, for which the Company adopted SFAS 159 on January 1, 2008, as described above.

General and Administrative Expenses

General and administrative expenses increased by less than $0.1 million from $1.1 million to $1.2 million for the three months ended March 31, 2007 and 2008, respectively. General and administrative expenses increased during 2008 primarily due to legal fees and consulting fees. The consulting fees primarily relate to the Company's implementation of its strategy of buying Agency RMBS.

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

(amounts in thousands)	2008 Average Balance	2008 Effective Rate	2007 Average Balance	2007 Effective Rate
	Three Months Ended March 31,			
Interest-earning assets:[1]				
Securitized mortgage loans[2][3][5]	$ 276,399	8.08%	$ 342,238	8.17%
Securities	21,131	8.10%	13,295	9.76%
Other loans and investments	3,603	16.22%	3,739	14.68%
Total interest-earning assets	$ 301,133	8.18%	$ 359,272	8.30%
Interest-bearing liabilities:				
Securitization financing[3][4][5]	$ 201,443	7.09%	$ 208,434	7.59%
Repurchase agreements	5,708	3.72%	92,705	5.43%
Total interest-bearing liabilities	$ 207,151	7.00%	$ 301,139	6.92%
Net interest spread [4]		1.18%		1.37%
Net yield on average interest-earning assets[3][4][5]		3.36%		2.49%
Cash and cash equivalents	$ 42,652	3.03%	$ 56,595	5.22%
Net yield on average interest-earning assets, including cash and cash equivalents		3.32%		2.87%

(1) Average balances exclude unrealized gains and losses on available for sale securities

(2) Average balances exclude funds held by trustees except defeased funds held by trustees.

(3) Certain income and expense items of a one-time nature are not annualized for the calculation of effective rates. Examples of such one-time items include retrospective adjustments of discount and premium amortization arising from adjustments of effective interest rates. Also certain prepayment penalties and income support payments received on the Company's commercial mortgage loan portfolio are not annualized.

(4) Effective rates are calculated excluding non-interest related securitization financing expenses.

(5) Net yield on average interest-earning assets reflects the annualized net interest income excluding non-interest related securitization financing expense divided by average interest-earning assets for the period.

2008 Compared to 2007

The net interest spread for the three months ended March 31, 2008 decreased 19 basis points to 1.18% from 1.37% for the three months ended March 31, 2007. The decrease in the net interest spread is primarily related to decrease in the average rate on the Company's securitized single-family mortgage loans, which are predominately variable rate, and a decrease in the average balance of lower yielding repurchase agreements which caused an increase in the average yield on interest-bearing liabilities.

The overall yield on interest-earning assets, which exclude cash and cash equivalents, decreased to 8.18% for the three months ended March 31, 2008 from 8.30% for the same period in 2007 primarily as a result of the receipt in 2007 of delinquent interest on a commercial mortgage loan which had previously been on non-accrual status and the overall decrease of yields for new securities purchased due to the declining rate environment. Yields on securitized mortgage loans decreased from the resets of variable-rate securitized single-family mortgage loans. These resets resulted in the decrease in yield of 25 basis points to 7.06% for the three months ended March 31, 2008 versus the same period in 2007.

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

	Three Months Ended March 31, 2008 versus 2007		
(amounts in thousands)	Rate	Volume	Total
Securitized mortgage loans	$ (87)	$ (1,334)	$ (1,421)
Securities	(63)	167	104
Other loans and investments	5	(3)	2
Total interest income	(145)	(1,170)	(1,315)
Securitization financing	(351)	(131)	(482)
Repurchase agreements	(157)	(1,047)	(1,204)
Total interest expense	(508)	(1,178)	(1,686)
Net interest income	$ 363	$ 8	$ 371

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 costs, other interest expense and provision for credit losses.

From March 31, 2007 to March 31, 2008, average interest-earning assets declined $58.1 million, or approximately 16%. The decline in interest earning-assets resulted primarily from scheduled and unscheduled payments on the Company's securitized mortgage loans, principally adjustable-rate single-family mortgage loans.

RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51." SFAS 160 addresses reporting requirements in the financial statements of non-controlling interests to their equity share of subsidiary investments. SFAS 160 applies to reporting periods beginning after December 15, 2008. The Company is currently evaluating the potential impact on adoption of SFAS 160.

In December 2007, the FASB issued SFAS No. 141(R), "Business Combinations" ("SFAS 141(R)") which revised SFAS No. 141, "Business Combinations." This pronouncement is effective as of January 1, 2009. Under SFAS No. 141, organizations utilized the announcement date as the measurement date for the purchase price of the acquired entity. SFAS 141(R) requires measurement at the date the acquirer obtains control of the acquiree, generally referred to as the acquisition date. SFAS 141(R) will have a significant impact on the accounting for transaction costs, restructuring costs, as well as the initial recognition of contingent assets and liabilities assumed during a business combination. Under SFAS 141(R), adjustments to the acquired entity's deferred tax assets and uncertain tax position balances occurring outside the measurement period are recorded as a component of the income tax expense, rather than goodwill. As the provisions of SFAS 141(R) are applied prospectively, the impact cannot be determined until the transactions occur. The Company is currently evaluating the impact, if any, that SFAS 141(R) may have on the Company's financial statements.

On March 20, 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 provides for enhanced disclosures about how and why an entity uses derivatives and how and where those derivatives and related hedged items are reported in the entity's financial statements. SFAS 161 also requires certain tabular formats for disclosing such information. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. SFAS 161 applies to all entities and all derivative instruments and related hedged items accounted for under SFAS 133. Among other things, SFAS 161 requires disclosures of an entity's objectives and strategies for using derivatives by primary underlying risk and certain disclosures about the potential future collateral or cash requirementsas a result of contingent credit-related features. The Company is currently evaluating the impact, if any, that the adoption of SFAS 161 will have on the Company's financial statements.

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically financed its investments and operations from a variety of sources, including a mix of collateral-based short-term financing sources such as repurchase agreements, collateral-based long-term financing sources such as securitization financing, equity capital, and net earnings. The Company's primary source of funding for its operations today is the cash flow generated from the Company's existing investment portfolio assets, which includes net interest income and principal payments and prepayments on these investments. The Company believes that it has sufficient liquidity and capital resources to continue to service all of its outstanding recourse obligations, pay operating costs and fund dividends on its capital stock.

Management believes that the Company's investment portfolio cash flows should be adequate over the next twelve months to fund the Company's operating needs and to pay its Series D Preferred Stock dividends.

Assuming that short-term interest rates decline over the remainder of 2008, the Company anticipates that the cash flow from its investment portfolio will continue to decline through the end of the year as its investment in cash and cash equivalents earns lower returns, absent meaningful reinvestment of capital. The Company anticipates, however, that it will have sufficient cash flow from the investment portfolio to meet all of its current obligations on both a short-term and long-term basis.

At March 31, 2008, the Company had cash and cash equivalents of $37.9 million. Management believes the Company has ample liquidity and capital resources to fund its business.

The Company believes that investment opportunities for its capital may be more readily available in the foreseeable future as disruptions in the fixed income markets, particularly in the residential mortgage market, have caused a decline in prices on most residential mortgage securities. These disruptions have caused volatility in asset prices, causing such asset prices to decline, correspondingly increasing yields. Equity prices on companies which originate or invest in these securities have also declined. As a result, the Company has evaluated several potential investment opportunities for residential mortgage securities, but to date, has not made meaningful investments on its capital. The timing of any reinvestment will depend on the investment opportunity available and whether, in the opinion of management and the Board of Directors, such investment represents an acceptable risk-adjusted return opportunity for the Company's capital.

The Company currently utilizes a combination of equity, securitization financing and repurchase agreement financing to finance its investment portfolio. Securitization financing is recourse only to the assets pledged as collateral to support the financing and is not otherwise recourse to the Company. At March 31, 2008, the Company had $200.3 million of non-recourse securitization financing outstanding, $168.3 million of which carries a fixed rate of interest. The maturity of each class of 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.

Repurchase agreement financing is recourse to the assets pledged and to the Company and requires the Company to post margin (i.e., collateral deposits in excess of the repurchase agreement financing). The repurchase agreement counterparty at any time can request that the Company post additional margin or repay all financing balances. Repurchase agreement financing is not committed financing to the Company, and it generally renews or rolls every 30-days. The amounts advanced to the Company by the repurchase agreement counterparty are determined largely based on the fair value of the asset pledged to the counterparty, subject to their willingness to provide financing.

Off-Balance Sheet Arrangements. As of March 31, 2008, there have been no material changes to the off-balance sheet arrangements disclosed in "Management's Discussion and Analysis" in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Contractual Obligations. As of March 31, 2008, there have been no material changes outside the ordinary course of business to the contractual obligations disclosed in "Management's Discussion and Analysis" in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

FORWARD-LOOKING STATEMENTS

Certain written statements in this Form 10-Q 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 (the "Exchange Act"). All statements contained in this Item as well as those discussed elsewhere in this report addressing the results of operations, operating performance, events, or developments that management expects or anticipates 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:

Reinvestment. Asset yields today are generally lower than those assets sold or repaid, due to lower overall interest rates and more competition for these assets. In recent years, the Company has generally been unable to find investments which have acceptable risk adjusted yields. As a result, the Company's net interest income has been declining, and may continue to decline in the future, resulting in lower earnings per share over time. In order to maintain its investment portfolio size and its earnings, the Company needs to reinvest a portion of the cash flows it receives into new interesting earning assets. If the Company is unable to find suitable reinvestment opportunities, the net interest income on its investment portfolio and investment cash flows could be negatively impacted.

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 its investments and the over-collateralization associated with its securitization transactions.

Investment Portfolio Cash Flow. Cash flows from the investment portfolio fund the Company's operations, the dividends, and repayments of outstanding debt, and are subject to fluctuation due to changes in interest rates, repayment rates and default rates and related losses, particularly given the high degree of internal structural leverage inherent in securitized investments. Based on the performance of the underlying assets within the securitization structure, cash flows which may have otherwise been paid to the Company as a result of its ownership interest may be retained within the securitization structure. 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 it will meet its reinvestment and return hurdles.

Defaults. Defaults by borrowers on loans the Company securitized may have an adverse impact on its financial performance, if actual credit losses differ materially from its estimates 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 estimate as a result of economic conditions. 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. Such impact may include higher provisions for loan losses and reduced interest income if the loan is placed on non-accrual.

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. Approximately $209 million of the Company's investments, including loans and securities currently pledged as securitized mortgage loans and securities, carry a fixed-rate of interest either for the life of the loan or security or for a period of longer than 12 months in the case of an instrument such as an agency RMBS that has an initial fixed period of interest before its interest rate adjusts. We currently finance these fixed and variable-rate assets through $168 million of fixed rate securitization financing, $32 million of variable rate securitization financing and $30 million of variable rate repurchase agreements. For the portion of the fixed rate loans and securities, which are financed with variable rate instruments, the net interest spread for these investments could decrease during a period of rapidly rising short-term interest rates. In addition, certain variable rate instruments may have interest rates which reset on a delayed basis and have periodic interest rate caps whereas the related borrowing has no delayed resets or such interest rate caps. In a period of rising interest rates, the net interest spread on these investments may decrease.

Third-party Servicers. The Company's loans and loans underlying securities are serviced by third-party service providers. As with any external service provider, the Company is subject to the risks associated with inadequate or untimely services. Many borrowers require notices and reminders to keep their loans current and to prevent delinquencies and foreclosures. A substantial increase in the Company's delinquency rate that results from improper servicing or loan performance in general could harm the Company's ability to securitize its real estate loans in the future and may have an adverse effect on its earnings.

Prepayments. Prepayments by borrowers on loans the Company securitized or securities, which it purchases, 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 the Company competes with a number of institutions with greater financial resources. In purchasing portfolio investments, obtaining financing for its investments, and in issuing debt or equity capital, the Company competes 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 the Company does. Increased competition in the market and the Company's competitors greater financial resources have adversely affected the Company in the past and may do so again in the future. Competition may also continue to keep pressure on spreads resulting in the Company being unable to reinvest its capital at acceptable risk-adjusted returns.

Regulatory Changes. The Company's businesses as of March 31, 2008 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 its securitized loan pools or the Company's 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. If it should fail to maintainitsREIT status, the Company would not be able to hold certain investments and would be subject to income taxes.

Section 404 of the Sarbanes-Oxley Act of 2002. The Company is required to comply with the provisions of Section 404 of the Sarbanes-Oxley Act of 2002 and the rules and regulations promulgated by the SEC and the New York Stock Exchange. Failure to comply may result in doubt in the capital markets about the quality and adequacy of the Company's internal controls and corporate governance. This could result in it having difficulty in, or being unable to, raise additional capital in these markets in order to finance its operations and future investments.

Other. The following risks, which are discussed in more detail in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, could also affect the Company's results of operations, financial condition and cash flows:

- The Company may be unable to invest in new assets with attractive yields, and yields on new assets in which it does invest may not generate attractive yields, resulting in a decline in the Company's earnings per share over time.

- New investments may entail risks that the Company does not currently have in its investment portfolio or may substantially add risks to the investment portfolio which the Company may or may not have managed in the past as part of its investment strategy. In addition, while the Company has owned Agency RMBS in the past, it has never had a significant amount of its capital invested in these assets.

- Competition may prevent the Company from acquiring new investments at favorable yields potentially negatively impacting its profitability.

- The Company's ownership of certain subordinate interests in securitization trusts subjects it to credit risk on the underlying loans, and it provides for loss reserves on these loans as required under generally accepted accounting principles.

- The Company's efforts to manage credit risk may not be successful in limiting delinquencies and defaults in underlying loans or losses on its investments.

- Certain investments employ internal structural leverage as a result of the securitization process, and are in the most subordinate position in the capital structure, which magnifies the potential impact of adverse events on the Company's cash flows and reported results.

- The Company may be subject to the risks associated with inadequate or untimely services from third-party service providers, which may harm its results of operations.

- Prepayments of principal on the Company's investments, and the timing of prepayments, may impact its reported earnings and cash flows.

- The Company finances a portion of its investment portfolio with short-term recourse repurchase agreements which subjects the Company to margin calls if the assets pledged subsequently decline in value or if the repurchase agreement financier chooses to reduce its position in financing afforded the Company.

- Interest rate fluctuations can have various negative effects on the Company, and could lead to reduced earnings and/or increased earnings volatility.

- Hedging against interest rate exposure may adversely affect the Company's earnings.

- The Company's reported income depends on accounting conventions and assumptions about the future that may change.

- Failure to qualify as a REIT would adversely affect the Company's dividend distributions and could adversely affect the value of its securities.

- Maintaining REIT status may reduce the Company's flexibility to manage its operations.

- The Company may fail to properly conduct its operations so as to avoid falling under the definition of an investment company pursuant to the Investment Company Act of 1940.

- The Company is dependent on certain key personnel.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument due to fluctuations in interest and foreign exchange rates and in equity and commodity prices. Market risk is inherent to both derivative and non-derivative financial instruments, and accordingly, the scope of the Company's market risk management extends beyond derivatives to include all market risk sensitive financial instruments. As a financial services company, net interest income comprises the primary component of Dynex's earnings and cash flows. The Company is subject to risk resulting from interest rate fluctuations to the extent that there is a gap between the amount of the Company's interest-earning assets and the amount of interest-bearing liabilities that are prepaid, mature or re-price within specified periods.

The Company monitors the aggregate cash flow, projected net interest income and estimated market value of its investment portfolio under various interest rate and prepayment assumptions. While certain investments may perform poorly in an increasing or decreasing interest rate environment, other investments may perform well, and others may not be impacted at all.

The Company specifically focuses on the sensitivity of its investment portfolio cash flow, primarily the cash flow generated from the net interest income of its investment portfolio, 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. Because cash and cash equivalents are such a large portion of the Company's overall assets, the Company also calculated the sensitivity of its cash flows including cash and cash equivalents as if they are part of its investment portfolio. For both analyses, the Company estimates its net interest income 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, 2008, which is referred to as the Base Case. Once the Base Case has been estimated, net interest income 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. To the extent the Company has any cash flow changes from interest rate swaps, caps, floors or any other derivative instrument, they are included in this analysis.

The following table summarizes the Company's net interest income cash flow sensitivity analyses as of March 31, 2008 under the assumptions set forth above. These analyses represent management's estimate of the percentage change in net interest income cash flow (expressed in dollar terms and as a percentage of the base case) for the investment portfolio only and the investment portfolio inclusive of cash and cash equivalents, given a parallel shift in interest rates as discussed above.

As noted above, the Base Case represents the interest rate environment as it existed as of March 31, 2008. At March 31, 2008, one-month LIBOR was 2.70% and six-month LIBOR was 2.61%. The analysis below is heavily dependent upon the assumptions used in the model. The effect of changes in future interest rates beyond the forward LIBOR curve, the shape of the yield curve or the mix of the Company's assets and liabilities may cause actual results to differ significantly from the modeled results. In addition, certain investments which the Company owns provide a degree of "optionality." The most significant option affecting the 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 its liability structure. Historically, there have been significant changes in the Company's investment portfolio and the liabilities incurred by the Company. As a result of anticipated prepayments on assets in the investment portfolio, there are likely to be such changes in the future.

(amounts in thousands)	**Investment Portfolio**		**Investment Portfolio, including Cash and Cash Equivalents**	
Basis Point Change in Interest Rates	**Cash Flow**	**Percent**	**Cash Flow**	**Percent**
+200	$(300.2)	(1.8)%	$1,346.3	7.1%
+100	(245.2)	(1.5)%	578.1	3.1%
Base		–		–
-100	336.3	2.0%	(486.9)	(2.6)%
-200	704.5	4.2%	(942.1)	(5.0)%

Approximately $209 million of Dynex's investment portfolio is comprised of loans or securities that have coupon rates that are fixed. Approximately $98 million of its investment portfolio as of March 31, 2008 was comprised of loans or securities that have coupon rates which adjust over time (subject to certain periodic and lifetime limitations) in conjunction with changes in short-term interest rates. Approximately 50% and 28% of the adjustable-rate loans underlying the Company's securitized finance receivables are indexed to and reset based upon the level of six-month LIBOR and one-year LIBOR, respectively.

Generally, during a period of rising short-term interest rates, the Company's net interest income earned and the corresponding cash flow on its investment portfolio will increase due to the match funding of its securitized mortgage loans and significant investment in cash and cash equivalents. To the extent of the Company's investment in variable rate securitized finance mortgage loans with variable rate securitization financing, the decrease of the net interest spread results from (i) fixed-rate loans and investments financed with variable-rate debt, (ii) the lag in resets of the adjustable rate loans underlying the securitized mortgage loans relative to the rate resets on the associated borrowings and (iii) 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 by match funding fixed rate assets and variable rate assets. As to item (ii) and (iii), 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..

Net interest income may increase following a fall in short-term interest rates. This increase may be temporary as the yields on the adjustable-rate loans adjust to the new market conditions after a lag period. The net interest spread may also be increased or decreased by the proceeds or costs of interest rate swap, cap or floor agreements, to the extent that Dynex has entered into such agreements.

Item 4. Controls and Procedures

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 or submitted under the Exchange Act is accumulated and communicated to management, including the Company's Principal Executive Officer and Principal Financial Officer, 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 Principal Financial Officer. Based upon that evaluation, the Company's Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Changes in internal controls.

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There were no changes in the Company's internal controls during the Company's last fiscal quarter that could materially affect, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

As discussed in Note 13 of the accompanying Notes to Unaudited Condensed Financial Statements and the Company's Annual Report on Form 10-K for the year ended December 31, 2007, the Company and certain of its subsidiaries are defendants in litigation. The following discussion is the current status of the litigation. One of the Company's subsidiaries, GLS Capital, Inc. (GLS), and the County of Allegheny, Pennsylvania (Allegheny County), are defendants in a class action lawsuit filed in 1997 in the Court of Common Pleas of Allegheny County, Pennsylvania (the Court of Common Pleas). Plaintiffs allege that GLS illegally charged the taxpayers of Allegheny County certain attorney fees, costs and expenses and interest, in the collection of delinquent property tax receivables owned by GLS which were purchased from Allegheny County.   In 2007, the Court of Common Pleas stayed this action pending the outcome of other litigation before the Pennsylvania Supreme Court in which GLS is not directly involved but has filed an Amicus brief in support of the defendants. Several of the allegations in that lawsuit are similar to those being made against GLS in this litigation. Plaintiffs have not enumerated their damages in this matter, and the Company believes that the ultimate outcome of this litigation will not have a material impact on its financial condition, but may have a material impact on its reported results for the particular period presented.

Dynex Capital, Inc. and Dynex Commercial, Inc. (DCI), a former affiliate of the Company and now known as DCI Commercial, Inc., are appellees (or respondents) in the Court of Appeals for the Fifth Judicial District of Texas at Dallas, related to the matter of Basic Capital Management et al. (collectively, BCM or the Plaintiffs) versus Dynex Commercial, Inc. et al. The Court of Appeals heard oral arguments in this matter in April 2006. The appeal sought to overturn the trial court's judgment in the Company's and DCI's favor which denied recovery to Plaintiffs. Plaintiffs sought a reversal of the trial court's judgment, and sought rendition of judgment against the Company for alleged breach of loan agreements for tenant improvements in the amount of $0.3 million. They also sought reversal of the trial court's judgment and rendition of judgment against DCI in favor of BCM under two mutually exclusive damage models, for $2.2 million and $25.6 million, respectively, related to the alleged breach by DCI of a $160.0 million "master" loan commitment. Plaintiffs also sought reversal and rendition of a judgment in their favor for attorneys' fees in the amount of $2.1 million. Alternatively, Plaintiffs sought a new trial. On February 22, 2008, the Court of Appeals ruled in favor of the Company and DCI, upholding the trial court's judgment. On May 7, 2008, Plaintiffs filed an appeal with the Supreme Court of Texas. Even if Plaintiffs were to be successful on appeal, DCI is a former affiliate of the Company, and the Company believes that it would have no obligation for amounts, if any, awarded to the Plaintiffs as a result of the actions of DCI.

The Company and MERIT Securities Corporation, a subsidiary, are defendants in a putative class action complaint alleging violations of the federal securities laws in the United States District Court for the Southern District of New York (District Court) by the Teamsters Local 445 Freight Division Pension Fund (Teamsters). The complaint was filed on February 7, 2005, and purports to be a class action on behalf of purchasers between February 2000 and May 2004 of MERIT Series 12 and MERIT Series 13 securitization financing bonds (the Bonds), which are collateralized by manufactured housing loans. The complaint seeks unspecified damages and alleges, among other things, misrepresentations in connection with the issuance of and subsequent reporting on the Bonds. The complaint initially named the Company's former president and its current Chief Operating Officer as defendants. On February 10, 2006, the District Court dismissed the claims against the Company's former president and its current Chief Operating Officer, but did not dismiss the claims against the Company or MERIT. The Company and MERIT petitioned for an interlocutory appeal with the United States Court of Appeals for the Second Circuit (Second Circuit). The Second Circuit granted the Company's petition on September 15, 2006 and heard oral argument on the appeal on January 30, 2008. The Company has evaluated the allegations made in the complaint, believes them to be without merit 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 its consolidated balance sheet but could materially affect its consolidated results of operations in a given period or year.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in "Item 1A – Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The materialization of any risks and uncertainties identified in the Company's Forward Looking Statements contained herein together with those previously disclosed in the Form 10-K or those that are presently unforeseen could result in significant adverse effects on the Company's financial condition, results of operations and cash flows. See Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward Looking Statements" in this Quarterly Report on Form 10-Q.

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

Exhibit No.	Description
3.1	Articles of Incorporation, as amended, effective as of February 4, 1988 (incorporated herein by reference to Exhibit 4.9 to Dynex's Amendment No. 1 to the Registration Statement on Form S-3 (No. 333-10783) filed March 21, 1997).
3.2	Amended and Restated Bylaws, effective March 26, 2008 (incorporated herein by reference to Exhibit 3.2 to Dynex's Current Report on Form 8-K filed April 1, 2008).
3.3	Amendment to Articles of Incorporation, effective December 29, 1989 (incorporated herein by reference to Exhibit 4.10 to Dynex's Amendment No. 1 to the Registration Statement on Form S-3 (No. 333-10783) filed March 21, 1997).
3.4	Amendment to Articles of Incorporation, effective October 19, 1992 (incorporated herein by reference to Exhibit 4.2 to Dynex's Amendment No. 1 to the Registration Statement on Form S-3 (No. 333-10783) filed March 21, 1997).
3.5	Amendment to Articles of Incorporation, effective April 25, 1997 (incorporated herein by reference to Exhibit 3.10 to Dynex's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997).
3.6	Amendment to Articles of Incorporation, effective June 17, 1998 (incorporated herein by reference to Exhibit 3.7 to Dynex's Annual Report on Form 10-K for the year ended December 31, 2004).
3.7	Amendment to Articles of Incorporation, effective August 2, 1999 (incorporated herein by reference to Exhibit 3.8 to Dynex's Annual Report on Form 10-K for the year ended December 31, 2004).
3.8	Amendment to Articles of Incorporation, effective May 18, 2004 (incorporated herein by reference to Exhibit 3.3 to Dynex's Quarterly Report on Form 10-Q for the quarter ended June 30, 2004).
10.6	Employment Agreement, dated as of March 31, 2008, between Dynex and Thomas B. Akin (incorporated herein by reference to Exhibit 10.6 to Dynex's Current Report on Form 8-K filed April 4, 2008).
10.7	Dynex Capital, Inc. 401(k) Overflow Plan, effective July 1, 1997 (filed herewith).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (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.

Date: May 12, 2008	/s/ Thomas B. Akin Thomas B. Akin Chief Executive Officer (Principal Executive Officer)
	/s/ Stephen J. Benedetti Stephen J. Benedetti Executive Vice President and Chief Operating Officer (Principal Financial Officer)

EXHIBIT INDEX

Exhibit No.	
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32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

Exhibit 10.7

DYNEX CAPITAL, INC.

401(K) OVERFLOW PLAN

Nonqualified Retirement Plan 7.5A
Effective: July 1, 1997

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INTRODUCTION

The Employer is establishing a nonqualified, defined contribution employees' retirement plan which has been designed as, and is intended to be, a funded plan for purposes of the Employee Retirement Income Security Act of 1974, as amended, and a nonqualified plan under the Internal Revenue Code of 1986, including any later amendments to the Code. The Employer agrees to operate the plan according to the terms, provisions and conditions set forth in this document.

The purpose of the Plan is to provide a vehicle to overcome the limitations regarding the contributions which can be made by or on the behalf of some highly compensated employees to the Qualified Plan. This Plan, working in combination with the Qualified Plan, will permit Participants and the Employer to contribute the full amount of Salary Savings Contributions and Employer contributions desired without regard to the limitations of the Qualified Plan.

ARTICLE I

FORMAT AND DEFINITIONS

SECTION 1.01 -- FORMAT.

Words and phrases defined in the DEFINITIONS SECTION of Article I shall have that defined meaning when used in this Plan, unless the context clearly indicates otherwise.

These words and phrases have an initial capital letter to aid in identifying them as defined terms.

SECTION 1.02 -- DEFINITIONS.

ACCOUNT means, for a Participant, his share of the Investment Fund. Separate accounting records are kept for those parts of his Account that result from:

(a) Salary Savings Contributions.

(b) Matching Contributions.

(c) Excess Contributions.

A Participant's Account shall be reduced by any distribution of his Account. A Participant's Account will participate in the earnings credited, expenses charged and any appreciation or depreciation of the Investment Fund. His Account is subject to any minimum guarantees applicable under the Group Contract or other investment arrangement.

ACTIVE PARTICIPANT means an Eligible Employee who is actively participating in the Plan according to the provisions in the ACTIVE PARTICIPANT SECTION of Article II.

ANNUITY STARTING DATE means, for a Participant, the first day of the first period for which an amount is payable as an annuity or any other form.

BENEFICIARY means the person or persons named by a Participant to receive any benefits under this Plan upon the Participant's death. See the BENEFICIARY SECTION of Article IX.

CLAIMANT means any person who has made a claim for benefits under this Plan. See the CLAIM AND APPEAL PROCEDURES SECTION of Article VIII.

CODE means the Internal Revenue Code of 1986, as amended.

COMPENSATION means the total earnings paid or made available to an Employee by the Employer during any specified period. Compensation shall exclude Employer Contributions made under this Plan.

"Earnings" in this definition means an Employee's W-2 earnings.

Compensation shall also include employer contributions made pursuant to a salary reduction agreement which are not includible in the gross income of the Employee under Code Sections 125, 402(a)(8), 402(h), 403(b) or 457.

CONTINGENT ANNUITANT means an individual named by the Participant to receive a lifetime benefit after the Participant's death in accordance with a survivorship life annuity.

CONTRIBUTIONS means

Salary Savings Contributions
Matching Contributions
Excess Contributions

as set out in Article III, unless the context clearly indicates otherwise.

ELIGIBLE EMPLOYEE means any Employee of the Employer as determined from Plan Year to Plan Year by the Employer, and for whom contributions to the Qualified Plan are limited by more than $500 due to the restrictions imposed by the Qualified Plan to meet qualification requirements of the Internal Revenue Code.

EMPLOYEE means an individual who is employed by the Employer.

EMPLOYER means Dynex Capital, Inc. or any adopting employer of the Dynex Capital 401(k) Plan. The Employer will act as Agent for its Employees participating in this Plan. See the AGREEMENT OF AGENCY SECTION of Article IV. This will also include any successor corporation or firm of the Employer which shall, by written agreement, assume the obligations of this Plan or any predecessor corporation or firm of the Employer (absorbed by the Employer, or of which the Employer was once a part) which became a predecessor because of a change of name, merger, purchase of stock or purchase of assets and which maintained this Plan.

EMPLOYER CONTRIBUTIONS means

Matching Contributions
Excess Contributions

as set out in Article III, unless the context clearly indicates otherwise.

ENTRY DATE means the date an Employee first enters the Plan as an Active Participant. See the ACTIVE PARTICIPANT SECTION of Article II.

ERISA means the Employee Retirement Income Security Act of 1974, as amended.

EXCESS CONTRIBUTIONS means excess contributions made by the Employer to fund this Plan. See the EMPLOYER CONTRIBUTIONS SECTION of Article III.

FISCAL YEAR means the Employer's taxable year. The last day of the Fiscal Year is December 31.

GROUP CONTRACT means the group annuity contract or contracts into which the Employer enters with the Insurer for the investment of Contributions and the payment of benefits under this Plan. The term Group Contract as it is used in this Plan is deemed to include the plural unless the context clearly indicates otherwise.

INACTIVE PARTICIPANT means a former Active Participant who has an Account. See the INACTIVE PARTICIPANT SECTION of Article II.

INSURER means Principal Mutual Life Insurance Company and any other insurance company or companies named by the Employer.

INVESTMENT FUND means the total assets held for the purpose of providing benefits for Participants. These funds result from Contributions made under the Plan.

INVESTMENT MANAGER means any fiduciary (other than a trustee or Named Fiduciary)

(a) who has the power to manage, acquire, or dispose of any assets of the Plan; and

(b) who (1) is registered as an investment adviser under the Investment Advisers Act of 1940, or (2) is a bank, as defined in the Investment Advisers Act of 1940, or (3) is an insurance company qualified to perform services described in subparagraph (a) above under the laws of more than one state; and

(c) who has acknowledged in writing being a fiduciary with respect to the Plan.

LATE RETIREMENT DATE means the first day of any month which is after a Participant's Normal Retirement Date and on which retirement benefits begin. If a Participant continues to work for the Employer after his Normal Retirement Date, his Late Retirement Date shall be the earliest first day of the month on or after he ceases to be an Employee. A later Retirement Date may apply if the Participant so elects. See the WHEN BENEFITS START SECTION of Article V.

MATCHING CONTRIBUTIONS means matching contributions made by the Employer to fund this Plan. See the EMPLOYER CONTRIBUTIONS SECTION of Article III.

MONTHLY DATE means each Yearly Date and the same day of each following month during the Plan Year beginning on such Yearly Date.

NAMED FIDUCIARY means the person or persons who have authority to control and manage the operation and administration of the Plan.

The Named Fiduciary is the Employer.

NORMAL FORM means a single life annuity with installment refund.

NORMAL RETIREMENT AGE means the older of age 60 or his age on the date five years after the first day of the Plan Year in which his Entry Date occurred.

NORMAL RETIREMENT DATE means the first day of the month on or after the date the Participant reaches his Normal Retirement Age. Unless otherwise provided in this Plan, a Participant's retirement benefits shall begin on a Participant's Normal Retirement Date if he has ceased to be an Employee on such date and has an Account. Even if the Participant is an Employee on his Normal Retirement Date, he may choose to have his retirement benefit begin on such date. See the WHEN BENEFITS START SECTION of Article V.

PARENTAL ABSENCE means an Employee's absence from work which begins on or after the first Yearly Date after December 31, 1984,

(a) by reason of pregnancy of the Employee,

(b) by reason of birth of a child of the Employee,

(c) by reason of the placement of a child with the Employee in connection with adoption of such child by such Employee, or

(d) for purposes of caring for such child for a period beginning immediately following such birth or placement.

PARTICIPANT means either an Active Participant or an Inactive Participant.

PERIOD OF SERVICE means a period of time beginning on an Employee's Employment Commencement Date or Reemployment Commencement Date (whichever applies) and ending on his Severance from Service Date.

PLAN means the nonqualified retirement plan of the Employer set forth in this document, including any later amendments to it.

PLAN ADMINISTRATOR means the person or persons who administer the Plan.

The Plan Administrator is the Employer.

PLAN YEAR means a period beginning on a Yearly Date and ending on the day before the next Yearly Date.

QUALIFIED JOINT AND SURVIVOR FORM means, for a Participant who has a spouse, a survivorship life annuity with installment refund, where the survivorship percentage is 50% and the Contingent Annuitant is the Participant's spouse. A former spouse will be treated as the spouse to the extent provided under a qualified domestic relations order as described in ERISA Act Section 206(d). If a Participant does not have a spouse, the Qualified Joint and Survivor Form means the Normal Form.

The amount of benefit payable under the Qualified Joint and Survivor Form shall be the amount of benefit which may be provided by the Participant's Account.

QUALIFIED PLAN means Dynex Capital, Inc. 401(k) Plan.

QUALIFIED PRERETIREMENT SURVIVOR ANNUITY means a single life annuity with installment refund payable to the surviving spouse of a Participant who dies before his Annuity Starting Date. A former spouse will be treated as the surviving spouse to the extent provided under a qualified domestic relations order as described in ERISA Act Section 206(d).

REEMPLOYMENT COMMENCEMENT DATE means the date an Employee first performs an Hour-of-Service following a Period of Severance.

REENTRY DATE means the date a former Active Participant reenters the Plan. See the ACTIVE PARTICIPANT SECTION of Article II.

RETIREMENT DATE means the date a retirement benefit will begin and is a Participant's Normal or Late Retirement Date, as the case may be.

SALARY SAVINGS CONTRIBUTIONS means salary deferral contributions made by the Employer to fund this Plan. See the SALARY SAVINGS CONTRIBUTIONS SECTION of Article III.

SEVERANCE FROM SERVICE DATE means the earlier of

(a) the date on which an Employee quits, retires, dies or is discharged, or

(b) the first anniversary of the date an Employee begins a one-year absence from service (with or without pay). This absence may be the result of any combination of vacation, holiday, sickness, disability, leave of absence or layoff.

Solely to determine whether a one-year Period of Severance has occurred for eligibility or vesting purposes for an Employee who is absent from service beyond the first anniversary of the first day of a Parental Absence, Severance from Service Date is the second anniversary of the first day of the Parental Absence. The period between the first and second anniversaries of the first day of the Parental Absence is not a Period of Service and is not a Period of Severance.

YEARLY DATE means July 1, 1997, and each following January 1.

ARTICLE II

PARTICIPATION

SECTION 2.01 -- ACTIVE PARTICIPANT.

(a) An Employee shall first become an Active Participant (begin active participation in the Plan) on the earliest Monthly Date on which he is an Eligible Employee.

The date is his Entry Date.

If a person has been an Eligible Employee who has met all the eligibility requirements stated above,

(b) An Inactive Participant shall again become an Active Participant (resume active participation in the Plan) on the date he again performs an Hour of Service as an Eligible Employee. This date is his Reentry Date.

Upon again becoming an Active Participant, he shall cease to be an Inactive Participant.

(c) A former Participant shall again become an Active Participant (resume active participation in the Plan) on the date he again performs an Hour of Service as an Eligible Employee. This date is his Reentry Date.

There shall be no duplication of benefits for a Participant under this Plan because of more than one period as an Active Participant.

SECTION 2.02 -- INACTIVE PARTICIPANT.

An Active Participant shall become an Inactive Participant on the earlier of the following:

(a) The date on which he ceases to be an Eligible Employee (on his Retirement Date if the date he ceases to be an Eligible Employee occurs within one month of his Retirement Date).

(b) The effective date of complete termination of the Plan.

SECTION 2.03 -- CESSATION OF PARTICIPATION.

A Participant shall cease to be a Participant on the date he is no longer an Eligible Employee and the value of his Account is zero.

ARTICLE III

CONTRIBUTIONS

SECTION 3.01 -- SALARY SAVINGS CONTRIBUTIONS

Salary Savings Contributions shall be equal to any percentage of the Participant's Compensation for the pay period as elected by the Participant, and are as described below.

(a) **Contributions of amounts refunded or not accepted by the Qualified Plan due to requirements under Code Sections 401(a)(17), 401(k), 401(m) and 415.** Participants may elect to contribute amounts refunded or not accepted by the Qualified Plan due to the requirements of Code Sections 401(a)(17), 401(k), 401(m) and 415 to the Plan by designation on an election form provided by the Employer.

(b) **Contributions in excess of the Qualified Plan specified maximum deferral percentage**. Participants who have current elections on file to contribute the maximum percentage of compensation permitted under the Qualified Plan (12% in 1997) may elect to make Salary Savings Contributions to the Plan by designation on an election form provided by the Employer.

Elections to start or change Salary Savings Contributions may be effective on a Participant's Entry Date (Reentry Date, if applicable) or any following date. The Participant may start, make any change or terminate an election by completing a new election form provided by the Employer.

SECTION 3.02 -- EMPLOYER CONTRIBUTIONS

Employer Contributions for each Plan Year are as described below:

(a) **Matching Contributions**. For Participants who are 100% vested under the Qualified Plan, the amount of each Matching Contribution made by the Employer for a Participant shall be equal to the amount the Employer would have made under the Qualified Plan in the absence of limitations imposed by Code Sections 401(a)(17), 401(k), 401(m) and 415, if the Participant had made all contributions contributed to this Plan to the Qualified Plan, reduced by the Employer's matching contributions to the Qualified Plan.

For Participants who are less than 100% vested under the Qualified Plan, the Matching Contribution to the Plan is determined as described in the above paragraph, but only to the extent these contributions would be vested according to the vesting provisions of the Qualified Plan. Amounts not initially contributed to the Plan will be contributed by the Employer to the Plan in subsequent years as the Participant's vesting status under the Qualified Plan increases.

(b) **Excess Contributions.** For Participants who are 100% vested under the Qualified Plan, the amount of each Excess Contribution made by the Employer for the Participant shall be equal to the amount the Employer would have contributed to the Qualified Plan if the limits of Section 415 and 401(a)(17) of the Code were not operative, reduced by the Employer's Discretionary Contributions (as defined in the Qualified Plan) to the Qualified Plan.

For Participants who are less than 100% vested under the Qualified Plan, the amount of each Excess Contribution made by the Employer for the Participant is as described in the above paragraph, but only to the extent these contributions would be vested according to the vesting provisions of the Qualified Plan. Amounts not initially contributed to the Plan will be contributed by the Employer to the Plan in subsequent years as the Participant's vesting status under the Qualified Plan increases.

SECTION 3.03 -- NONFORFEITABILITY OF CONTRIBUTIONS.

All Contributions are fully vested and nonforfeitable when made.

SECTION 3.04 -- ALLOCATION.

The following Contributions for each Plan Year shall be allocated to each Participant for whom such Contributions were made under the SALARY SAVINGS CONTRIBUTIONS and EMPLOYER CONTRIBUTIONS SECTIONS of Article III.

Salary Savings Contributions
Matching Contributions
Excess Contributions

These Contributions shall be allocated when made and credited to the Participant's Account.

ARTICLE IV

INVESTMENT OF CONTRIBUTIONS

SECTION 4.01 -- INVESTMENT OF CONTRIBUTIONS.

All Contributions are forwarded by the Employer to the appropriate funding arrangement for deposit in the Investment Fund.

Investment of Contributions is governed by the provisions of the Plan, the Group Contract and any other funding arrangement in which the Investment Fund is or may be invested. To the extent permitted by the Plan, Group Contract or other funding arrangement, the Participant shall direct the Contributions to any of the accounts available under the Plan or Group Contract and may request the transfer of assets resulting from those Contributions between such accounts. A Participant may not direct the Employer to invest the Participant's Account in collectibles. To the extent that a Participant does not direct the investment of his Account, such Account shall be invested ratably in the accounts available under the Investment Fund or Group Contract in the same manner as the undirected Accounts of all other Participants. The Accounts of all Inactive Participants may be segregated and invested separately from the Accounts of all other Participants.

The Investment Fund shall be valued at current fair market value as of the last day of the last calendar month ending in the Plan Year and, at the discretion of the Employer, may be valued more frequently. The valuation shall take into consideration investment earnings credited, expenses charged, payments made and changes in the value of the assets held in the Investment Fund. The Account of a Participant shall be credited with its share of the gains and losses of the Investment Fund. That part of a Participant's Account invested in a funding arrangement which establishes an account or accounts for such Participant thereunder shall be credited with the gain or loss from such account or accounts. That part of a Participant's Account which is invested in other funding arrangements shall be credited with a proportionate share of the gain or loss of such investments. The share shall be determined by multiplying the gain or loss of the investment by the ratio of the part of the Participant's Account invested in such funding arrangement to the total of the Investment Fund invested in such funding arrangement.

At least annually, the Named Fiduciary shall review all pertinent Employee information and Plan data in order to establish the funding policy of the Plan and to determine appropriate methods of carrying out the Plan's objectives. The Named Fiduciary shall inform any Investment Manager of the Plan's short-term and long-term financial needs so the investment policy can be coordinated with the Plan's financial requirements.

SECTION 4.01A-- AGREEMENT OF AGENCY.

The Employer agrees that it will act as Agent of its employees who are Participants under this Plan for purposes of entering into a Group Contract and collecting salary deferral amounts, if any, and any Employer deposits to the Plan, and transmitting said amounts to the Insurer for deposit under the Group Contract.

As Agent, the Employer has the right to:

(i) agree to any amendments to such contract, as long as any such amendment does not adversely affect the amounts accumulated for a Participant or beneficiary before the effective date of said amendment;

(ii) terminate the Group Contract; and

(iii) direct benefit payments and exercise any other rights, duties and privileges of the Contractholder.

The Insurer may rely on information given by the Agent and on Contractholder decisions made by the Agent. Nothing in this agency agreement, however, gives the Agent the right to direct payments from the Group Contract to other than Participants or their beneficiaries without the express consent of the Participant. In no event will the Agent convert assets held under the Group Contract to its own use.

The Employer and its successors or assignees shall remain Agent until it notifies each Participant hereunder that it will no longer serve as Agent. The Employer's agency agreement will not terminate until the Group Contract has been terminated by the Employer and distribution of the Participant accounts has occurred.

ARTICLE V

BENEFITS

SECTION 5.01 -- RETIREMENT BENEFITS.

On a Participant's Retirement Date, his Account shall be distributed to him according to the distribution of benefits provisions of Article VI and the provisions of the SMALL AMOUNTS SECTION of Article IX.

SECTION 5.02 -- DEATH BENEFITS.

If a Participant dies before his Annuity Starting Date, his Account shall be distributed according to the distribution of benefits provisions of Article VI and the provisions of the SMALL AMOUNTS SECTION of Article IX.

SECTION 5.03 -- TERMINATION BENEFITS.

A Participant may receive a distribution of his Account at any time after he ceases to be an Employee, provided he has not again become an Employee. If such amount is not payable under the provisions of the SMALL AMOUNTS SECTION of Article IX, it will be distributed only if the Participant so elects. The Participant's election shall be subject to the requirements in the ELECTION PROCEDURES SECTION of Article VI for a qualified election of a retirement benefit.

If a Participant does not receive an earlier distribution according to the provisions of this section or the SMALL AMOUNTS SECTION of Article IX, upon his Retirement Date or death, his Account shall be applied according to the provisions of the RETIREMENT BENEFITS SECTION or the DEATH BENEFITS SECTION of Article V.

SECTION 5.04 -- WHEN BENEFITS START.

Benefits under the Plan begin when a Participant retires, dies or ceases to be an Employee, whichever applies, as provided in the preceding sections of this article. The start of benefits is subject to the qualified election procedures of Article VI.

Unless otherwise elected, benefits shall begin before the sixtieth day following the close of the Plan Year in which the latest date below occurs:

(a) The date the Participant attains age 65 (Normal Retirement Age, if earlier).

(b) The tenth anniversary of the Participant's Entry Date.

(c) The date the Participant ceases to be an Employee.

Notwithstanding the foregoing, the failure of a Participant and spouse to consent to a distribution while a benefit is immediately distributable, within the meaning of the ELECTION

PROCEDURES SECTION of Article VI, shall be deemed to be an election to defer commencement of payment of any benefit sufficient to satisfy this section.

The Participant may elect to have his benefits begin after the latest date for beginning benefits described above, subject to the provisions of this section. The Participant shall make the election in writing and deliver the signed statement of election to the Plan Administrator before Normal Retirement Date or the date he ceases to be an Employee, if later. The election must describe the form of distribution and the date the benefits will begin.

SECTION 5.05 -- WITHDRAWAL PRIVILEGES.

Before he ceases to be an Employee, a Participant may withdraw all or part of his Account, as permitted under the funding arrangement for this Plan, and in accordance with the procedures and limitations set up by the Plan Administrator.

A request for withdrawal shall be in writing on a form furnished for that purpose and delivered to the Plan Administrator before the withdrawal is to occur. The Participant's request shall be subject to the requirements in the ELECTION PROCEDURES SECTION of Article VI for a qualified election of a retirement benefit payable in a form other than a Qualified Joint and Survivor Form.

ARTICLE VI

DISTRIBUTION OF BENEFITS

SECTION 6.01 -- AUTOMATIC FORMS OF DISTRIBUTION.

Unless a qualified election of an optional form of benefit has been made within the election period (see the ELECTION PROCEDURES SECTION of Article VI),. the automatic form of benefit payable to or on behalf of a Participant is determined as follows:

(a) The automatic form of retirement benefit for a Participant who does not die before his Annuity Starting Date shall be the Qualified Joint and Survivor Form.

(b) The automatic form of death benefit for a Participant who dies before his Annuity Starting Date shall be:

(1) A Qualified Preretirement Survivor Annuity for a Participant who has a spouse to whom he has been continuously married throughout the one-year period ending on the date of his death. The spouse may elect to start receiving the death benefit on any first day of the month on or after the Participant dies. If the spouse dies before benefits start, the Participant's Account, determined as of the date of the spouse's death, shall be paid to the spouse's Beneficiary.

(2) A single-sum payment to the Participant's Beneficiary for a Participant who does not have a spouse who is entitled to a Qualified Preretirement Survivor Annuity.

Before a death benefit will be paid on account of the death of a Participant who does not have a spouse who is entitled to a Qualified Preretirement Survivor Annuity, it must be established to the satisfaction of a plan representative that the Participant does not have such a spouse.

SECTION 6.02 -- OPTIONAL FORMS OF DISTRIBUTION.

(a) The optional forms of retirement benefit shall be the following: a straight life annuity; single life annuities with certain periods of five, ten or fifteen years; a single life annuity with installment refund; survivorship life annuities with installment refund and survivorship percentages of 50, 66 2/3 or 100; fixed period annuities for any period of whole months which is not less than 60 nor more than 360; and a series of installments chosen by the Participant. The minimum payment will be based on a period equal to the joint and last survivor expectancy of the Participant and the Participant's spouse, if any, where the joint and last survivor expectancy is recalculated. The balance of the Participant's Account, if any, will be payable on the Participant's death to his Beneficiary in a single sum. The Participant may also elect to receive his Account in a single-sum payment.

Election of an optional form is subject to the qualified election provisions of Article VI.

(b) The optional forms of death benefit are a single-sum payment and any annuity that is an optional form of retirement benefit. However, a series of installments shall not be available if the Beneficiary is not the spouse of the deceased Participant.

SECTION 6.03 -- ELECTION PROCEDURES.

The Participant, Beneficiary, or spouse shall make any election under this section in writing. The Plan Administrator may require such individual to complete and sign any necessary documents as to the provisions to be made. Any election permitted under (a) and (b) below shall be subject to the election provisions of (c) below.

(a) Retirement Benefits. A Participant may elect his Beneficiary or Contingent Annuitant and may elect to have retirement benefits distributed under any of the optional forms of retirement benefit described in the OPTIONAL FORMS OF DISTRIBUTION SECTION of Article VI.

(b) Death Benefits. A Participant may elect his Beneficiary and may elect to have death benefits distributed under any of the optional forms of death benefit described in the OPTIONAL FORMS OF DISTRIBUTION SECTION of Article VI.

If the Participant has not elected an optional form of distribution for the death benefit payable to his Beneficiary, the Beneficiary may, for his own benefit, elect the form of distribution, in like manner as a Participant.

The Participant may waive the Qualified Preretirernent Survivor Annuity by naming someone other than his spouse as Beneficiary.

In lieu of the Qualified Preretirement Survivor Annuity described in the AUTOMATIC FORMS OF DISTRIBUTION SECTION of Article VI, the spouse may, for his own benefit, waive the Qualified Preretirement Survivor Annuity by electing to have the benefit distributed under any of the optional forms of death benefit described in the OPTIONAL FORMS OF DISTRIBUTION SECTION of Article VI.

(c) Qualified Election. The Participant, Beneficiary or spouse may make an election at any time during the election period. The Participant, Beneficiary, or spouse may revoke the election made (or make a new election) at any time and any number of times during the election period. An election is effective only if it meets the consent requirements below.

The election period as to retirement benefits is the 90-day period ending on the Annuity Starting Date. An election to waive the Qualified Joint and Survivor Form may not be made before the date he is provided with the notice of the ability to waive the Qualified Joint and Survivor Form. If the Participant elects the series of installments, he may elect on any later date to have the balance of his Account paid under any of the optional forms of retirement benefit available under the Plan. His election period for this election is the 90-day period ending on the Annuity Starting Date for the optional form of retirement benefit elected.

A Participant may make an election as to death benefits at any time before he dies. The spouse's election period begins on the date the Participant dies and ends on the date benefits begin. The Beneficiary's election period begins on the date the Participant dies and ends on the date benefits begin. An election to waive the Qualified Preretirement Survivor Annuity may not be made by the Participant before the date he is provided with the notice of the ability to waive the Qualified Preretirement Survivor Annuity. A Participant's election to waive the Qualified Preretirement Survivor Annuity which is made before the first day of the Plan Year in which he reaches age 35 shall become invalid on such date. An election made by a Participant after he ceases to be an Employee will not become invalid on the first day of the Plan Year in which he reaches age 35 with respect to death benefits from that part of his Account resulting from Contributions made before he ceased to be an Employee.

If the Participant's Account has at any time exceeded $5,000, any benefit which is (1) immediately distributable or (2) payable in a form other than a Qualified Joint and Survivor Form or a Qualified Preretirement Survivor Annuity requires the consent of the Participant and the Participant's spouse (or where either the Participant or the spouse has died, the survivor). The consent of the Participant or spouse to a benefit which is immediately distributable must not be made before the date the Participant or spouse is provided with the notice of the ability to defer the distribution. Such consent shall be made in writing. The consent shall not be made more than 90 days before the Annuity Starting Date. Spousal consent is not required for a benefit which is immediately distributable in a Qualified Joint and Survivor Form. Furthermore, if spousal consent is not required because the Participant is electing an optional form of retirement benefit that is not a life annuity pursuant to (d) below, only the Participant need consent to the distribution of a benefit payable in a form that is not a life annuity and which is immediately distributable.

A benefit is immediately distributable if any part of the benefit could be distributed to the Participant (or surviving spouse) before the Participant attains (or would have attained if not deceased) the older of Normal Retirement Age or age 62. If the Qualified Joint and Survivor Form is waived, the spouse has the right to limit consent only to a specific Beneficiary or a specific form of benefit. The spouse can relinquish one or both rights. Such consent shall be made in writing. The consent shall not be made more than 90 days before the Annuity Starting Date. If the Qualified Preretirement Survivor Annuity is waived, the spouse has the right to limit consent only to a specific Beneficiary. Such consent shall be in writing. The spouse's consent shall be witnessed by a plan representative or notary public. The spouse's consent must acknowledge the effect of the election, including that the spouse had the right to limit consent only to a specific Beneficiary or a specific form of benefit, if applicable, and that the relinquishment of one or both such rights was voluntary. Unless the consent of the spouse expressly permits designations by the Participant without a requirement of further consent by the spouse, the spouse's consent must be limited to the form of benefit, if applicable, and the Beneficiary (including any Contingent Annuitant), class of Beneficiaries, or contingent Beneficiary named in the election. Spousal consent is not required, however, if the Participant establishes to the satisfaction of the plan representative that the consent of the spouse cannot be obtained because there is no spouse or the spouse cannot be located. A spouse's consent under this paragraph shall not be valid with respect to any other spouse. A Participant may revoke a prior election without the consent of the spouse. Any new election will require a new spousal consent, unless the consent of the spouse expressly permits such election by the Participant without further consent by the spouse. A spouse's consent may be revoked at any time within the Participant's election period.

(d) Special Rule for Profit Sharing Plan. As provided in the preceding provisions of the Plan, if a Participant has a spouse to whom he has been continuously married throughout the one-year period ending on the date of his death, the Participant's Account shall be paid to such spouse. However, if there is no such spouse or if the surviving spouse has already consented in a manner conforming to the election requirements in (c) above, the Account shall be payable to the Participant's Beneficiary in the event of the Participant's death.

The Participant may waive the spousal death benefit described above at any time provided that no such waiver shall be effective unless it satisfies the conditions of (c) above (other than the notification requirement referred to therein) that would apply to the Participant's waiver of the Qualified Preretirement Survivor Annuity.

Because this is a profit sharing plan which pays death benefits as described above, this subsection (d) applies if the following condition is met: with respect to the Participant, this Plan is not a direct or indirect transferee after December 31, 1984, of a defined benefit plan, money purchase plan (including a target plan), stock bonus plan or profit sharing plan which is subject to the survivor annuity requirements of ERISA Act Section 205. If the above condition is met, spousal consent is not required for electing a benefit payable in a form that is not a life annuity. If the above condition is not met, the consent requirements of this article shall be operative.

SECTION 6.04 -- NOTICE REQUIREMENTS.

(a) Optional forms of retirement benefit. The Plan Administrator shall furnish to the Participant and the Participant's spouse a written explanation of the optional forms of retirement benefit in the OPTIONAL FORMS OF DISTRIBUTION SECTION of Article VI, including the material features and relative values of these options, in a manner that would satisfy the notice requirements of ERISA

Act Section 205 and the right of the Participant and the Participant's spouse to defer distribution until the benefit is no longer immediately distributable. The Plan Administrator shall furnish the written explanation by a method reasonably calculated to reach the attention of the Participant and the Participant's spouse no less than 30 days and no more than 90 days before the Annuity Starting Date.

(b) Qualified Joint and Survivor Form. The Plan Administrator shall furnish to the Participant a written explanation of the following: the terms and conditions of the Qualified Joint and Survivor Form; the Participant's right to make, and the effect of, an election to waive the Qualified Joint and Survivor Form; the rights of the Participant's spouse; and the right to revoke an election and the effect of such a revocation. The Plan Administrator shall furnish the written explanation by a method reasonably calculated to reach the attention of the Participant no less than 30 days and no more than 90 days before the Annuity Starting Date.

After the written explanation is given, a Participant or spouse may make written request for additional information. The written explanation must be personally delivered or mailed (first class mail, postage prepaid) to the Participant or spouse within 30 days from the date of the written request. The Plan Administrator does not need to comply with more than one such request by Participant or spouse.

The Plan Administrator's explanation shall be written in nontechnical language and will explain the terms and conditions of the Qualified Joint and Survivor Form and the financial effect upon the Participant's benefit (in terms of dollars per benefit payment) of electing not to have benefits distributed in accordance with the Qualified Joint and Survivor Form.

(c) Qualified Preretirement Survivor Annuity. As required by the Code and Federal regulation, the Plan Administrator shall furnish to the Participant a written explanation of the following: the terms and conditions of the Qualified Preretirement Survivor Annuity; the Participant's right to make, and the effect of, an election to waive the Qualified Preretirement Survivor Annuity; the rights of the Participant's spouse; and the right to revoke an election and the effect of such a revocation. The Plan Administrator shall furnish the written explanation by a method reasonably calculated to reach the attention of the Participant within the applicable period. The applicable period for a Participant is whichever of the following periods ends last:

(1) the period beginning one year before the date the individual becomes a Participant and ending one year after such date; or

(2) the period beginning one year before the date the Participant's spouse is first entitled to a Qualified Preretirement Survivor Annuity and ending one year after such date.

If such notice is given before the period beginning with the first day of the Plan Year in which the Participant attains age 32 and ending with the close of the Plan

Year preceding the Plan Year in which the Participant attains age 35, an additional notice shall be given within such period. If a Participant ceases to be an Employee before attaining age 35, an additional notice shall be given within the period beginning one year before the date he ceases to be an Employee and ending one year after such date.

After the written explanation is given, a Participant or spouse may make written request for additional information. The written explanation must be personally delivered or mailed (first class mail, postage prepaid) to the Participant or spouse within 30 days from the date of the written request. The Plan Administrator does not need to comply with more than one such request by a Participant or spouse.

The Plan Administrator's explanation shall be written in nontechnical language and will explain the terms and conditions of the Qualified Preretirement Survivor Annuity and the financial effect upon the spouse's benefit (in terms of dollars per benefit payment) of electing not to have benefits distributed in accordance with the Qualified Preretirernent Survivor Annuity.

ARTICLE VII

TERMINATION OF PLAN

The Employer expects to continue the Plan indefinitely but reserves the right to terminate the Plan in whole or in part at any time upon giving written notice to all parties concerned. Complete discontinuance of Contributions under the Plan constitutes complete termination of Plan.

The Participant's Account shall continue to participate in the earnings credited, expenses charged and any appreciation or depreciation of the Investment Fund until the Account is distributed. A distribution under this article will be a retirement benefit and shall be distributed to the Participant according to the provisions of Article VI.

Upon complete termination of Plan, no more Employees shall become Participants and no more Contributions shall be made.

The assets of this Plan shall not be paid to the Employer at any time.

ARTICLE VIII

ADMINISTRATION OF PLAN

SECTION 8.01 -- ADMINISTRATION.

Subject to the provisions of this article, the Plan Administrator has complete control of the administration of the Plan. The Plan Administrator has all the powers necessary for it to properly carry out its administrative duties. Not in limitation, but in amplification of the foregoing, the Plan Administrator has the power to construe the Plan and to determine all questions that may arise under the Plan, including all questions relating to the eligibility of Employees to participate in the Plan and the amount of benefit to which any Participant, Beneficiary, spouse or Contingent Annuitant may become entitled. The Plan Administrator's decisions upon all matters within the scope of its authority shall be final.

Unless otherwise set out in the Plan, Group Contract or other funding arrangement, the Plan Administrator may delegate recordkeeping and other duties which are necessary for the administration of the Plan to any person or firm which agrees to accept such duties. The Plan Administrator shall be entitled to rely upon all tables, valuations, certificates and reports furnished by the consultant or actuary appointed by the Plan Administrator and upon all opinions given by any counsel selected or approved by the Plan Administrator.

The Plan Administrator shall receive all claims for benefits by Participants, former Participants, Beneficiaries, spouses and Contingent Annuitants. The Plan Administrator shall determine all facts necessary to establish the right of any Claimant to benefits and the amount of those benefits under the provisions of the Plan. The Plan Administrator may establish rules and procedures to be followed by Claimants in filing claims for benefits, in furnishing and verifying proofs necessary to determine age, and in any other matters required to administer the Plan.

SECTION 8.02 -- RECORDS.

All acts and determinations of the Plan Administrator shall be duly recorded. All these records, together with other documents necessary for the administration of the Plan, shall be preserved in the Plan Administrator's custody.

Writing (handwriting, typing, printing), photostating, photographing, microfilming, magnetic impulse, mechanical or electrical recording or other forms of data compilation shall be acceptable means of keeping records.

SECTION 8.03 -- INFORMATION AVAILABLE.

Any Participant in the Plan or any Beneficiary may examine copies of the Plan description, latest annual report, any bargaining agreement, this Plan, the Group Contract or any other instrument under which the Plan was established or is operated. The Plan Administrator shall maintain all of the items listed in this section in its office, or in such other place or places as it may designate in order to comply with governmental regulations. These items may be examined during reasonable business hours. Upon the written request of a Participant or Beneficiary receiving benefits under the Plan, the Plan Administrator will furnish him with a copy of any of these items. The Plan Administrator may make a reasonable charge to the requesting person for the copy.

SECTION 8.04 -- CLAIM AND APPEAL PROCEDURES.

A Claimant must submit any required forms and pertinent information when making a claim for benefits under the Plan.

If a claim for benefits under the Plan is denied, the Plan Administrator shall provide adequate written notice to the Claimant whose claim for benefits under the Plan has been denied. The notice must be furnished within 90 days of the date that the claim is received by the Plan Administrator. The Claimant shall be notified in writing within this initial 90-day period if special circumstances require an extension of time needed to process the claim and the date by which the Plan Administrator's decision is expected to be rendered. The written notice shall be furnished no later than 180 days after the date the claim was received by the Plan Administrator.

The Plan Administrator's notice to the Claimant than specify the reason for the denial; specify references to pertinent Plan provisions on which denial is based; describe any additional material and information needed for the Claimant to perfect his claim for benefits; explain why the material and information is needed; inform the Claimant that any appeal he wishes to make must be in writing to the Plan Administrator within 60 days after receipt of the Plan Administrator's notice of denial of benefits and that failure to make the written appeal within such 60-day period shall render the Plan Administrator's determination of such denial final, binding and conclusive.

If the Claimant appeals to the Plan Administrator, the Claimant, or his authorized representative, may submit in writing whatever issues and comments the Claimant, or his representative, feels are pertinent. The Claimant, or his authorized representative may review pertinent Plan documents. The Plan Administrator shall reexamine all facts related to the appeal and make a final determination as to whether the denial of benefits is justified under the circumstances. The Plan Administrator shall advise the Claimant of its decision within 60 days of his written request for review, unless special circumstances (such as a hearing) would make rendering a decision within the 60-day limit unfeasible. The Claimant must be notified within the 60-day limit if an extension is necessary. The Plan Administrator shall render a decision on a claim for benefits no later than 120 days after the request for review s received.

SECTION 8.05 -- DELEGATION OF AUTHORITY.

All or any part of the administrative duties and responsibilities under this article may be delegated by the Plan Administrator to a retirement committee. The duties and responsibilities of the retirement committee shall be set out in a separate written agreement.

ARTICLE IX

GENERAL PROVISIONS

SECTION 9.01 -- AMENDMENTS.

The Employer may amend this Plan at any time, to comply with the requirements of any law or regulation issued by any governmental agency to which the Employer is subject. Amendments may be made in the form of written resolutions or by a separate written document and, except in the case of an amendment adopted pursuant to the next sentence hereof, shall be adopted pursuant to action by the Board of Directors of the Employer (including pursuant to any standing authorization for any officer, director or committee to adopt amendments) in accordance with its applicable procedures, including, where applicable, by majority vote or consent in writing. In addition, and as an alternative, to amendment of the Plan by action of the Board of Directors of the Employer, the Chief Executive Officer and the Chief Financial Officer of Dynex Capital, Inc., acting jointly or individually, shall be and are hereby authorized to adopt on behalf of the Board of Directors of the Employer and to execute any technical amendments to the Plan which in the opinion of counsel for Dynex Capital, Inc. are required by law and are deemed advisable by such officers and to also adopt and execute any other discretionary amendments to the Plan which are deemed advisable by such officers so long as any such amendments do not, in the view of such officers, materially increase costs of the Plan to the Employer. An amendment may not diminish or adversely affect any accrued interest or benefit of Participants or their Beneficiaries or eliminate an optional form of distribution with respect to benefits attributable to service before the amendment nor allow reversion or diversion of Plan assets to the Employer at any time, except as may be necessary to comply with the requirements of any law or regulation issued by any governmental agency to which the Employer is subject. No amendment to this Plan shall be effective to the extent that it has the effect of decreasing a Participant's accrued benefit. For purposes of this paragraph, a Plan amendment which has the effect of decreasing a Participant's Account or eliminating an optional form of benefit, with respect to benefits attributable to service before the amendment shall be treated as reducing an accrued benefit. Furthermore, if the vesting schedule of the Plan is amended, in the case of an Employee who is a Participant as of the later of the date such amendment is adopted or the date it becomes effective, the nonforfeitable percentage (determined as of such date) of such Employee's employer-derived accrued benefit will not be less than his percentage computed under the Plan without regard to such amendment.

SECTION 9.02 -- MERGERS.

The Plan may not be merged or consolidated with, nor have its assets or liabilities transferred to, any other retirement plan, unless each Participant in the plan would (if the plan then terminated) receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit the Participant would have been entitled to receive immediately before the merger, consolidation or transfer (if this Plan had then terminated).

SECTION 9.03 -- PROVISIONS RELATING TO THE INSURER AND OTHER PARTIES.

The obligations of an Insurer shall be governed solely by the provisions of the Group Contract. The Insurer shall not be required to perform any act not provided in or contrary to the provisions of the Group Contract. See the CONSTRUCTION SECTION of this article.

Any issuer or distributor of investment contracts or securities is governed solely by the terms of its policies, written investment contract, prospectuses, security instruments, and any other written agreements entered into with the Employer or Participant.

Such Insurer, issuer or distributor is not a party to the Plan, nor bound in any way by the Plan provisions. Such parties shall not be required to look to the terms of this Plan, nor to determine whether the Employer, the Plan Administrator, or the Named Fiduciary have the authority to act in any particular manner or to make any contract or agreement.

Until notice of any amendment or termination of this Plan has been received by the Insurer at its home office or an issuer or distributor at their principal address, they are and shall be fully protected in assuming that the Plan has not been amended or terminated and in dealing with any party acting as Agent according to the latest information which they have received at their home office or principal address.

SECTION 9.04 -- EMPLOYMENT STATUS.

Nothing contained in this Plan gives an Employee the right to be retained in the Employer's employ or to interfere with the Employer's right to discharge any Employee.

SECTION 9.05 -- RIGHTS TO PLAN ASSETS.

No Employee shall have any right to or interest in any assets of the Plan upon termination of his employment or otherwise except as specifically provided under this Plan, and then only to the extent of the benefits payable to such Employee in accordance with Plan provisions.

Any final payment or distribution to a Participant or his legal representative or to any Beneficiaries, spouse or Contingent Annuitant of such Participant under the Plan provisions shall be in full satisfaction of all claims against the Plan, the Named Fiduciary, the Plan Administrator, the Insurer, and the Employer arising under or by virtue of the Plan.

SECTION 9.06 -- BENEFICIARY

Each Participant may name a Beneficiary to receive any death benefit (other than any income payable to a Contingent Annuitant) that may arise out of his participation in the Plan. The Participant may change his Beneficiary from time to time. Unless a qualified election has been made, for purposes of distributing any death benefits before Retirement Date, the Beneficiary of a Participant who has a spouse who is entitled to a Qualified Preretirement Survivor Annuity shall be the Participant's spouse. The Participant's Beneficiary designation and any change of Beneficiary shall be subject to the provisions of the ELECTION

PROCEDURES SECTION of Article VI. It is the responsibility of the Participant to give written notice to the Insurer of the name of the Beneficiary on a form furnished for that purpose.

With the Employer's consent, the Plan Administrator may maintain records of Beneficiary designations for Participants before their Retirement Dates. In that event, the written designations made by Participants shall be filed with the Plan Administrator. If a Participant dies before his Retirement Date, the Plan Administrator shall certify to the Insurer the Beneficiary designation on its records for the Participant.

If, at the death of a Participant, there is no Beneficiary named or surviving, any death benefit under the Group Contract shall be paid under the applicable provisions of the Group Contract.

SECTION 9.07 -- NONALIENATION OF BENEFITS.

Benefits payable under the Plan are not subject to the claims of any creditor of any Participant, Beneficiary, spouse or Contingent Annuitant. A Participant, Beneficiary, spouse or Contingent Annuitant does not have any rights to alienate, anticipate, commute, pledge, encumber or assign any of such benefits. The preceding sentences shall also apply to the creation, assignment, or recognition of a right to any benefit payable with respect to a Participant according to a domestic relations order, unless such order is determined by the Plan Administrator to be a qualified domestic relations order, as defined in ERISA Act Section 206(d), or any domestic relations order entered before January 1, 1985.

SECTION 9.08 -- CONSTRUCTION.

The validity of the Plan or any of its provisions is determined under and construed according to Federal law and, to the extent permissible, according to the laws of the state in which the Employer has its principal office. In case any provision of this Plan is held illegal or invalid for any reason, such determination shall not affect the remaining provisions of this Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had never been included.

In the event of any conflict between the provisions of the Plan and the terms of any contract or policy issued hereunder, the provisions of the Plan control the operation and administration of the Plan.

SECTION 9.09 -- LEGAL ACTIONS.

The Plan, the Plan Administrator, and the Named Fiduciary are the necessary parties to any action or proceeding involving the assets held with respect to the Plan or administration of the Plan. No person employed by the Employer, no Participant, former Participant or their Beneficiaries or any other person having or claiming to have an interest in the Plan is entitled to any notice of process. A final judgment entered in any such action or proceeding shall be binding and conclusive on all persons having or claiming to have an interest in the Plan.

SECTION 9.10 -- SMALL AMOUNTS.

If the Account of a Participant has never exceeded $5,000, the entire Account shall be payable in a single sum as of the earliest of his Retirement Date, the date he dies, or the date he ceases to be an Employee for any other reason. This is a small amounts payment. If a small amount is payable as of the date the Participant dies, the small amounts payment shall be made to the Participant’s Beneficiary (spouse if the death benefit is payable to the spouse). If a small amount is payable while the Participant is living, the small amounts payment shall be made to the Participant. The small amounts payment is in full settlement of all benefits otherwise payable. The service credited to a Participant who is reemployed by the Employer is not diminished as a result of receiving a small amounts payment.

No other small amounts payments shall be made.

SECTION 9.11 -- WORD USAGE.

The masculine gender, where used in this Plan, shall include the feminine gender and the singular words as used in this Plan may include the plural, unless the context indicates otherwise.

Exhibit 31.1

CERTIFICATIONS

I, Thomas B. Akin, 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. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our 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

   (d) 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. The registrant's other certifying officer and I have disclosed, based on our 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.

Date: May 12, 2008

/s/ Thomas B. Akin
Thomas B. Akin
Principal Executive Officer

Exhibit 31.2

CERTIFICATIONS

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. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our 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

   (d) 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. The registrant's other certifying officer and I have disclosed, based on our 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.

Date: May 12, 2008

/s/ Stephen J. Benedetti
Stephen J. Benedetti
Principal Financial Officer

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Dynex Capital, Inc. (the “Company”) for the period ended March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, as the Principal Executive Officer of the Company and the Principal Financial Officer of the Company, respectively, 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 their 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.

Date: May 12, 2008

/s/ Thomas B. Akin
Thomas B. Akin
Principal Executive Officer

Date: May 12, 2008

/s/ Stephen J. Benedetti
Stephen J. Benedetti
Principal Financial Officer