UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2021

or

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

Commission File Number: 1-9819

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

Virginia	**52-1549373**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4991 Lake Brook Drive, Suite 100	
Glen Allen, Virginia	**23060-9245**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	DX	New York Stock Exchange
6.900% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock, par value $0.01 per share	DXPRC	New York Stock Exchange

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

On July 30, 2021, the registrant had 34,591,535 shares outstanding of common stock, $0.01 par value, which is the registrant’s only class of common stock.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DYNEX CAPITAL, INC.
CONSOLIDATED BALANCE SHEETS
($s in thousands except per share data)

	June 30, 2021		December 31, 2020	
	(unaudited)			
ASSETS				
Cash	$	349,381	$	295,602
Cash collateral posted to counterparties		85,342		14,758
Mortgage-backed securities (including pledged of $2,473,257 and $2,467,859, respectively), at fair value		2,995,502		2,596,255
Mortgage loans held for investment, at fair value		5,146		6,264
Receivable for sales pending settlement		1,057		150,432
Derivative assets		16,854		11,342
Accrued interest receivable		14,056		14,388
Other assets, net		6,957		6,394
Total assets	$	3,474,295	$	3,095,435
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities:				
Repurchase agreements	$	2,321,043	$	2,437,163
Payable for purchases pending settlement		350,854		5
Derivative liabilities		27,325		1,634
Cash collateral posted by counterparties		9,326		7,681
Accrued interest payable		405		1,410
Accrued dividends payable		6,086		5,814
Other liabilities		3,627		8,275
Total liabilities		2,718,666		2,461,982
Shareholders' equity:				
Preferred stock, par value $0.01 per share; 50,000,000 shares authorized; 4,460,000 and 7,248,330 shares issued and outstanding, respectively ($111,500 and $181,208 aggregate liquidation preference, respectively)		107,843		174,564
Common stock, par value $0.01 per share, 90,000,000 shares authorized; 34,344,566 and 23,697,970 shares issued and outstanding, respectively		343		237
Additional paid-in capital		1,065,670		869,495
Accumulated other comprehensive income		29,375		80,261
Accumulated deficit		(447,602)		(491,104)
Total shareholders' equity		755,629		633,453
Total liabilities and shareholders' equity	$	3,474,295	$	3,095,435

See notes to the consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)
($s in thousands except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Interest income	$ 13,393	$ 19,853	$ 27,285	$ 59,676
Interest expense	(1,275)	(4,850)	(2,908)	(26,952)
Net interest income	12,118	15,003	24,377	32,724
Realized gain on sale of investments, net	2,008	193,099	6,705	277,882
Unrealized gain (loss) on investments, net	1,084	332	104	(40)
(Loss) gain on derivative instruments, net	(52,940)	(8,563)	54,861	(204,130)
Other operating expense, net	(323)	(222)	(703)	(645)
General and administrative expenses:				
Compensation and benefits	(3,233)	(2,736)	(6,329)	(4,898)
Other general and administrative	(2,473)	(2,075)	(4,845)	(4,534)
Net (loss) income	(43,759)	194,838	74,170	96,359
Preferred stock dividends	(1,923)	(3,253)	(4,482)	(7,094)
Preferred stock redemption charge	—	—	(2,987)	(3,914)
Net (loss) income to common shareholders	$ (45,682)	$ 191,585	$ 66,701	$ 85,351
Other comprehensive income:				
Unrealized gain (loss) on available-for-sale investments, net	$ 16,278	$ 28,052	$ (44,181)	$ 185,807
Reclassification adjustment for realized gain on available-for-sale investments, net	(2,008)	(193,099)	(6,705)	(277,882)
Total other comprehensive income (loss)	14,270	(165,047)	(50,886)	(92,075)
Comprehensive (loss) income to common shareholders	$ (31,412)	$ 26,538	$ 15,815	$ (6,724)
Weighted average common shares-basic	31,973,587	23,056,812	29,395,463	23,009,948
Weighted average common shares-diluted	31,973,587	23,056,812	29,560,522	23,009,948
Net (loss) income per common share-basic	$ (1.43)	$ 8.31	$ 2.27	$ 3.71
Net (loss) income per common share-diluted	$ (1.43)	$ 8.31	$ 2.26	$ 3.71
Dividends declared per common share	$ 0.39	$ 0.43	$ 0.78	$ 0.88

See notes to the consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)
($s in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	AOCI	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2019	6,788,330	$ 162,807	22,945,993	$ 229	$ 858,347	$ 173,806	$ (612,201)	$ 582,988
Cumulative effect of adopting accounting standard ASU 2019-05	—	—	—	—	—	—	(548)	(548)
Adjusted Balance, January 1, 2020	6,788,330	$ 162,807	22,945,993	$ 229	$ 858,347	$ 173,806	$ (612,749)	$ 582,440
Stock issuance	4,460,000	107,988	—	—	—	—	—	107,988
Redemption of preferred stock	(4,000,000)	(96,086)	—	—	—	—	(3,914)	(100,000)
Restricted stock granted, net of amortization	—	—	67,511	1	306	—	—	307
Stock repurchase	—	—	(18,782)	—	(206)	—	—	(206)
Adjustments for tax withholding on share-based compensation	—	—	(12,744)	—	(235)	—	—	(235)
Stock issuance costs	—	—	—	—	(9)	—	—	(9)
Net loss	—	—	—	—	—	—	(98,479)	(98,479)
Dividends on preferred stock	—	—	—	—	—	—	(3,841)	(3,841)
Dividends on common stock	—	—	—	—	—	—	(10,330)	(10,330)
Other comprehensive income	—	—	—	—	—	72,972	—	72,972
Balance as of March 31, 2020	7,248,330	$ 174,709	22,981,978	$ 230	$ 858,203	$ 246,778	$ (729,313)	$ 550,607
Restricted stock granted, net of amortization	—	—	172,782	1	422	—	—	423
Stock repurchase	—	—	(14,143)	—	(166)	—	—	(166)
Stock issuance costs	—	—	—	—	(8)	—	—	(8)
Net income	—	—	—	—	—	—	194,838	194,838
Dividends on preferred stock	—	—	—	—	—	—	(3,253)	(3,253)
Dividends on common stock	—	—	—	—	—	—	(9,925)	(9,925)
Other comprehensive loss	—	—	—	—	—	(165,047)	—	(165,047)
Balance as of June 30, 2020	7,248,330	$ 174,709	23,140,617	$ 231	$ 858,451	$ 81,731	$ (547,653)	$ 567,469

	Preferred Stock		Common Stock		Additional Paid-in Capital	AOCI	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2020	7,248,330	$ 174,564	23,697,970	$ 237	$ 869,495	$ 80,261	$ (491,104)	$ 633,453
Stock issuance	—	—	7,187,500	72	128,078	—	—	128,150
Redemption of preferred stock	(2,788,330)	(66,721)	—	—	—	—	(2,987)	(69,708)
Restricted stock granted, net of amortization	—	—	16,722	—	451	—	—	451
Adjustments for tax withholding on share-based compensation	—	—	(22,623)	—	(428)	—	—	(428)
Stock issuance costs	—	—	—	—	(270)	—	—	(270)
Net income	—	—	—	—	—	—	117,929	117,929
Dividends on preferred stock	—	—	—	—	—	—	(2,559)	(2,559)
Dividends on common stock	—	—	—	—	—	—	(10,586)	(10,586)
Other comprehensive loss	—	—	—	—	—	(65,156)	—	(65,156)
Balance as of March 31, 2021	4,460,000	$ 107,843	30,879,569	$ 309	$ 997,326	$ 15,105	$ (389,307)	$ 731,276
Stock issuance	—	—	3,463,708	34	68,268	—	—	68,302
Restricted stock granted, net of amortization	—	—	23,305	—	444	—	—	444
Other share-based compensation	—	—	—	—	100	—	—	100
Adjustments for tax withholding on share-based compensation	—	—	(22,016)	—	(425)	—	—	(425)
Stock issuance costs	—	—	—	—	(43)	—	—	(43)
Net loss	—	—	—	—	—	—	(43,759)	(43,759)
Dividends on preferred stock	—	—	—	—	—	—	(1,923)	(1,923)
Dividends on common stock	—	—	—	—	—	—	(12,613)	(12,613)
Other comprehensive income	—	—	—	—	—	14,270	—	14,270
Balance as of June 30, 2021	4,460,000	$ 107,843	34,344,566	$ 343	$ 1,065,670	$ 29,375	$ (447,602)	$ 755,629

See notes to the consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
($s in thousands)

	Six Months Ended June 30,	
	2021	**2020**
Operating activities:		
Net income	$ 74,170	$ 96,359
Adjustments to reconcile net income to cash provided by operating activities:		
Realized gain on sale of investments, net	(6,705)	(277,882)
Unrealized (gain) loss on investments, net	(104)	40
(Gain) loss on derivative instruments, net	(54,861)	204,130
Amortization of investment premiums, net	60,123	63,789
Other amortization and depreciation, net	1,106	959
Share-based compensation expense	995	731
Decrease in accrued interest receivable	332	9,589
Decrease in accrued interest payable	(1,005)	(14,678)
Change in other assets and liabilities, net	(6,197)	432
Net cash provided by operating activities	67,854	83,469
Investing activities:		
Purchase of investments	(1,052,490)	(2,818,863)
Principal payments received on investments	223,706	249,766
Proceeds from sales of investments	474,657	4,226,321
Principal payments received on mortgage loans held for investment	1,171	1,519
Net receipts (payments) on derivatives, including terminations	425,889	(210,712)
Increase in cash collateral posted by counterparties	1,645	394
Net cash provided by investing activities	74,578	1,448,425
Financing activities:		
Borrowings under repurchase agreements	7,955,673	23,686,649
Repayments of repurchase agreement borrowings	(8,071,793)	(25,124,006)
Principal payments on non-recourse collateralized financing	(118)	(1,467)
Proceeds from issuance of preferred stock	—	107,988
Proceeds from issuance of common stock	196,452	—
Cash paid for redemption of preferred stock	(69,708)	(100,000)
Cash paid for stock issuance costs	(313)	—
Cash paid for common stock repurchases	—	(372)
Payments related to tax withholding for share-based compensation	(853)	(235)
Dividends paid	(27,409)	(27,894)
Net cash used in financing activities	(18,069)	(1,459,337)
Net increase in cash including cash posted to counterparties	124,363	72,557
Cash including cash posted to counterparties at beginning of period	310,360	134,230
Cash including cash posted to counterparties at end of period	$ 434,723	$ 206,787
Supplemental Disclosure of Cash Activity:		
Cash paid for interest	$ 3,906	$ 41,613

See notes to the consolidated financial statements.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Dynex Capital, Inc. ("Company") was incorporated in the Commonwealth of Virginia on December 18, 1987 and commenced operations in February 1988. The Company is an internally managed mortgage real estate investment trust, or mortgage REIT, which primarily earns income from investing on a leveraged basis in debt securities, the majority of which are specified pools of Agency mortgage-backed securities ("MBS") consisting of commercial MBS ("CMBS"), residential MBS ("RMBS"), and CMBS interest-only ("IO") securities and non-Agency MBS, which consist mainly of CMBS IO. Agency MBS have a guaranty of principal payment by a U.S. government-sponsored entity ("GSE") such as Fannie Mae and Freddie Mac, which are in conservatorship and are currently supported by a senior preferred stock purchase agreement from the U.S. Treasury. Non-Agency MBS are issued by non-governmental enterprises and do not have a guaranty of principal payment. The Company also invests in other types of mortgage-related securities, such as to-be-announced securities ("TBAs" or "TBA securities").

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company and its subsidiaries (together, "Dynex" or, as appropriate, the "Company") have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Article 10, Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all significant adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the consolidated financial statements have been included. Operating results for the three and six months ended June 30, 2021 are not necessarily indicative of the results that may be expected for any other interim periods or for the entire year ending December 31, 2021. The unaudited consolidated financial statements included herein should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 (the "2020 Form 10-K") filed with the SEC.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. The most significant estimates used by management include, but are not limited to, amortization of premiums and discounts and fair value measurements of its investments. These items are discussed further below within this note to the consolidated financial statements.

The Company believes the estimates and assumptions underlying the consolidated financial statements included herein are reasonable and supportable based on the information available as of June 30, 2021; however, the uncertainty over the impact that the COVID-19 pandemic may continue to have on the global economy and on the Company's business makes any estimates and assumptions inherently less certain than they would be absent the current and potential impacts of COVID-19. The COVID-19 pandemic and resulting emergency measures have led (and may continue to lead) to significant disruptions in the global capital markets and supply chains as well as the economy of the U.S. and other countries impacted by COVID-19. In particular, as part of the Coronavirus Aid, Relief, and Economic Security ("CARES") Act passed by the U.S. Congress, which includes assistance to homeowners and renters, both Fannie Mae and Freddie Mac implemented mortgage forbearance policies that allowed borrowers to delay their mortgage payments for up to 18 months and placed a moratorium on foreclosures on single-family homes until June 30, 2021. In addition, to provide assistance to families still struggling to pay their rent and to help multifamily property owners maintain their properties, Fannie Mae and Freddie Mac are extending the multifamily COVID-19 forbearance protection to qualifying borrowers and extending the moratorium on tenant evictions through the end of September 2021. The impact of high levels of forbearance on the loans underlying the Company's MBS could range from immaterial to significant depending upon not only actual losses incurred on underlying loans but also future public policy choices and actions by the GSEs, their regulator the Federal Housing Finance Agency ("FHFA"), the U.S. Federal Reserve ("Federal Reserve"), and federal and state governments. The nature and timing of any such future public policy choices and actions are unpredictable, including the potential impact on MBS prices and prepayment speeds. Though these supportive actions have helped cushion the economic damage from the disruption of the pandemic to date, the Company can give no assurance as to how, in the long term, these and other actions by the U.S. government and GSEs will affect the efficiency, liquidity and stability of the financial and mortgage markets.

Reclassifications

Certain items on the Company's consolidated balance sheet as of December 31, 2020 have been reclassified to conform to the current period's presentation. In the Company's 2020 Form 10-K, restricted cash on the consolidated balance sheet as of December 31, 2020 consisted of the cash collateral posted by the Company to its counterparties to cover initial and variation margin related to its financing and derivative instruments, net of any cash collateral received by the Company from its counterparties. Restricted cash has been renamed "cash collateral posted to counterparties" within total assets, and cash collateral of $7,681 posted by counterparties as of December 31, 2020 has been reclassified to "cash collateral posted by counterparties" within total liabilities.

Consolidation and Variable Interest Entities

The consolidated financial statements include the accounts of the Company and the accounts of its majority owned subsidiaries and variable interest entities ("VIE") for which it is the primary beneficiary. All intercompany accounts and transactions have been eliminated in consolidation.

The Company consolidates a VIE if the Company is determined to be the VIE's primary beneficiary, which is defined as the party that has both: (i) the power to control the activities that most significantly impact the VIE's financial performance and (ii) the right to receive benefits or absorb losses that could potentially be significant to the VIE. The Company reconsiders its evaluation of whether to consolidate a VIE on an ongoing basis, based on changes in the facts and circumstances pertaining to the VIE. Though the Company invests in Agency and non-Agency MBS which are generally considered to be interests in VIEs, the Company does not consolidate these entities because it does not meet the criteria to be deemed a primary beneficiary.

The Company consolidates a securitization trust, which has residential mortgage loans included in "mortgage loans held for investment" on its consolidated balance sheet. The Company owns the subordinate class in the trust and has been deemed the primary beneficiary.

Income Taxes

The Company has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986 and the corresponding provisions of state law. To qualify as a REIT, the Company must meet certain tests including investing in primarily real estate-related assets and the required distribution of at least 90% of its annual REIT taxable income to shareholders after consideration of its net operating loss ("NOL") carryforward and not including taxable income retained in its taxable subsidiaries. As a REIT, the Company generally will not be subject to federal income tax on the amount of its income or capital gains that is distributed as dividends to shareholders.

The Company assesses its tax positions for all open tax years and determines whether the Company has any material unrecognized liabilities and records these liabilities, if any, to the extent they are deemed more likely than not to have been incurred.

Net Income (Loss) Per Common Share

The Company calculates basic net income per common share by dividing net income to common shareholders for the period by weighted-average shares of common stock outstanding for that period. Please see Note 2 for the calculation of the Company's basic and diluted net income (loss) per common share for the periods indicated.

The Company currently has unvested restricted stock, service-based restricted stock units ("RSUs") and performance-based stock units ("PSUs") issued and outstanding. Upon vesting (or settlement, in the case of units), restrictions on transfer expire on each share of restricted stock, RSU, and PSU, and each such share represents one unrestricted share of common stock. Restricted stock awards are considered participating securities and therefore are included in the computation of basic net income per common share using the two-class method because holders of unvested shares of restricted stock are eligible to receive non-forfeitable dividends. Holders of unvested RSUs and PSUs accrue forfeitable dividend equivalent rights over the vesting period, receiving dividend payments only upon the settlement date if the requisite service-based and performance-based conditions have been achieved. As such, unvested RSUs and PSUs are excluded from the computation of basic net income per common share, but are included in the computation of diluted net income per common share unless the effect is to reduce a net loss or increase the net income per common share (also known as "anti-dilutive").

(amounts in thousands except share data)

Because the Company's 6.900% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock") is redeemable at the Company's option for cash only and convertible into shares of common stock only upon a change of control of the Company (and subject to other circumstances) as described in Article IIIC of the Company's Restated Articles of Incorporation, the effect of those shares and their related dividends were excluded from the calculation of diluted net income per common share for the periods presented.

Cash

Cash includes unrestricted demand deposits at highly rated financial institutions. The Company's cash balances fluctuate throughout the year and may exceed Federal Deposit Insurance Corporation ("FDIC") insured limits from time to time. Although the Company bears risk to amounts in excess of those insured by the FDIC, it does not anticipate any losses as a result due to the financial position and creditworthiness of the depository institutions in which those deposits are held.

Cash Collateral Posted To/By Counterparties

Cash collateral posted to/by counterparties represents amounts pledged/received to cover initial and variation margin related to the Company's financing and derivative instruments.

The following table provides a reconciliation of "cash" and "cash posted to counterparties" reported on the Company's consolidated balance sheet as of the period indicated that sum to the total of the same such amounts shown on the Company's consolidated statement of cash flows for the six months ended June 30, 2021:

	June 30, 2021	
Cash	$	349,381
Cash collateral posted to counterparties		85,342
Total cash including cash posted to counterparties shown on consolidated statement of cash flows	$	434,723

Mortgage-Backed Securities

The Company's MBS are recorded at fair value on the Company's consolidated balance sheet. MBS purchased prior to January 1, 2021 are designated as available-for-sale ("AFS") with changes in fair value reported in other comprehensive income ("OCI") as an unrealized gain (loss) until the security is sold or matures. Effective January 1, 2021, the Company elected the fair value option for all MBS purchased on or after that date with changes in fair value reported in net income as "unrealized gain (loss) on investments, net" until the security is sold or matures. Upon the sale of an MBS, any unrealized gain or loss is reclassified to "realized gain (loss) on sale of investments, net" using the specific identification method. Management elected the fair value option so that GAAP net income will reflect the changes in fair value for its future purchases of MBS in a manner consistent with the presentation and timing of the changes in fair value of its derivative instruments. Electing the fair value option is increasing as an industry trend for mortgage REITs who have not elected cash flow hedge accounting. "Unrealized gain (loss) on investments, net", which was titled "fair value adjustments, net" in prior reporting periods, also includes changes in fair value for mortgage loans held for investment for which the Company elected the fair value option effective January 1, 2020.

Interest Income, Premium Amortization, and Discount Accretion. Interest income on MBS is accrued based on the outstanding principal balance (or notional balance in the case of interest-only, or "IO" securities) and their contractual terms. Premiums or discounts associated with the purchase of Agency MBS as well as any non-Agency MBS are amortized or accreted into interest income over the projected life of such securities using the effective yield method, and adjustments to premium amortization and discount accretion are made for actual cash payments. The Company's projections of future cash payments are based on input and analysis received from external sources and internal models and include assumptions about the amount and timing of loan prepayment rates, fluctuations in interest rates, credit losses, and other factors. On at least a quarterly basis, the Company reviews and makes any necessary adjustments to its cash flow projections and updates the yield recognized on these assets.

The Company does not currently hold any non-Agency MBS that were purchased at a discount with credit ratings of less than 'AA' or not rated by any of the nationally recognized credit rating agencies at the time of purchase.

Determination of MBS Fair Value. The Company estimates the fair value of the majority of its MBS based upon prices obtained from pricing services and broker quotes. The remainder of the Company's MBS are valued by discounting the estimated future cash flows derived from cash flow models that utilize information such as the security's coupon rate, estimated prepayment speeds, expected weighted average life, collateral composition, estimated future interest rates, expected losses, and credit enhancements as well as certain other relevant information. Please refer to Note 6 for further discussion of MBS fair value measurements.

Allowance for Credit Losses. On at least a quarterly basis, the Company evaluates any MBS designated as AFS with a fair value less than its amortized cost for credit losses. If the difference between the present value of cash flows expected to be collected on the MBS is less than its amortized cost, the difference is recorded as an allowance for credit loss through net income up to and not exceeding the amount that the amortized cost exceeds current fair value. Subsequent changes in credit loss estimates are recognized in earnings in the period in which they occur. Because the majority of the Company's investments are higher credit quality and most are guaranteed by a GSE, the Company is not likely to have an allowance for credit losses related to its MBS recorded on its consolidated balance sheet.

Repurchase Agreements

The Company's repurchase agreements, which are used to finance its purchases of MBS, are accounted for as secured borrowings under which the Company pledges its securities as collateral to secure a loan, which is equal in value to a specified percentage of the estimated fair value of the pledged collateral. The Company retains beneficial ownership of the pledged collateral, which is disclosed parenthetically on the Company's consolidated balance sheets. At the maturity of a repurchase agreement, the Company is required to repay the loan and concurrently receives back its pledged collateral from the lender or, with the consent of the lender, the Company may renew the agreement at the then prevailing financing rate. A repurchase agreement lender may require the Company to pledge additional collateral in the event of a decline in the fair value of the collateral pledged. Repurchase agreement financing is recourse to the Company and the assets pledged. Most of the Company's repurchase agreements are based on the September 1996 version of the Bond Market Association Master Repurchase Agreement, which generally provides that the lender, as buyer, is responsible for obtaining collateral valuations from a generally recognized source agreed to by both the Company and the lender, or, in an instance when such source is not available, the value determination is made by the lender.

Derivative Instruments

As of June 30, 2021, the Company's derivative instruments include U.S. Treasury futures, options on U.S. Treasury futures, options on interest rate swaps ("swaptions") and TBA securities, which are forward contracts for the purchase or sale of Agency RMBS on a non-specified pool basis. Derivative instruments are reported at their fair value on the Company's consolidated balance sheet as derivative assets if in a gain position or as derivative liabilities if in a loss position, at the end of the period reported. All periodic interest benefits/costs and changes in fair value of derivative instruments, including gains and losses realized upon termination, maturity, or settlement are recorded in "gain (loss) on derivative instruments, net" on the Company's consolidated statement of comprehensive income (loss). Cash receipts and payments related to derivative instruments are classified in the investing activities section of the consolidated statements of cash flows in accordance with the underlying nature or purpose of the derivative transactions.

The Company currently has short positions in U.S. Treasury futures contracts, which are valued based on exchange pricing with daily margin settlements. The Company realizes gains or losses on these contracts upon expiration at an amount equal to the difference between the current fair value of the underlying asset and the contractual price of the futures contract. Daily margin exchanges for the Company's U.S. Treasury futures are not considered legal settlement of the instrument.

The Company's options on U.S. Treasury futures provide the Company the right, but not an obligation, to buy U.S. Treasury futures at a predetermined notional amount and stated term in the future. Options on U.S. Treasury futures are valued based on exchange pricing without daily exchanges of margin amounts. The Company records the premium paid for the option contract as a derivative asset on its consolidated balance sheet and adjusts the balance for changes in fair value through "gain (loss) on derivative instruments" until the option is exercised or the contract expires. The Company may also purchase swaptions and defer the premium payment until the effective date. The premium payable and underlying swaption are accounted for as a single unit of account.

A TBA security is a forward contract ("TBA contract") for the purchase ("long position") or sale ("short position") of a non-specified Agency MBS at a predetermined price with certain principal and interest terms and certain types of collateral, but the particular Agency securities to be delivered are not identified until shortly before the settlement date. The Company accounts for long and short positions in TBAs as derivative instruments because the Company cannot assert that it is probable at inception and throughout the term of an individual TBA transaction that its settlement will result in physical delivery of the underlying Agency RMBS or that the individual TBA transaction will not settle in the shortest time period possible.

Please refer to Note 5 for additional information regarding the Company's derivative instruments as well as Note 6 for information on how the fair value of these instruments is calculated.

Share-Based Compensation

The Company's 2020 Stock and Incentive Plan (the "2020 Plan") reserves for issuance up to 2,300,000 common shares for eligible employees, non-employee directors, consultants, and advisors to the Company to be granted in the form of stock options, restricted stock, restricted stock units, stock appreciation rights, performance units, and performance cash awards (collectively, "awards"). Awards previously granted under the Company's 2018 Stock and Incentive Plan ("2018 Plan") or any other prior equity plan will remain outstanding and valid in accordance with their terms, but no new awards will be granted under the 2018 Plan or any other prior equity plan.

Currently, the Company has shares of restricted stock and RSUs issued and outstanding which are treated as equity awards and recorded at their fair value using the closing stock price on the grant date. The compensation cost is recognized over the vesting period with a corresponding credit to shareholders' equity using the straight-line method.

The Company also has PSUs issued and outstanding which contain either Company performance-based or market performance-based conditions. PSUs subject to Company performance-based conditions are initially recognized as equity at their fair value which is measured using the closing stock price on the grant date multiplied by the number of units expected to vest based on an assessment of the probability of achievement of the Company performance-based conditions as of the grant date. The grant date fair value is amortized as compensation cost on a straight-line basis over the vesting period with adjustments to compensation cost if necessary based on any change in probability of achievement which is re-assessed as of each reporting date and on at least a quarterly basis.

PSUs subject to market performance-based conditions are recognized as equity at their grant date fair value determined through a Monte-Carlo simulation of the Company's common stock total shareholder return ("TSR") relative to the common stock TSR of the group of peer companies specified in the award agreement. Awards subject to market performance-based conditions are not assessed for probability of achievement and are not remeasured subsequent to issuance. The grant date fair value is recognized as compensation cost on a straight-line basis over the vesting period even if the market performance-based conditions are not achieved.

The Company does not estimate forfeitures for any of its share-based compensation awards, but adjusts for actual forfeitures in the periods in which they occur. Because RSUs and PSUs have forfeitable dividend equivalent rights that are paid only upon settlement, any accrued dividend equivalent rights on forfeited units are reversed with a corresponding credit to compensation cost.

Contingencies

In the normal course of business, there may be various lawsuits, claims, and other contingencies pending against the Company. On a quarterly basis, the Company evaluates whether to establish provisions for estimated losses from those matters. The Company recognizes a liability for a contingent loss when: (a) the underlying causal event has occurred prior to the balance sheet date; (b) it is probable that a loss has been incurred; and (c) there is a reasonable basis for estimating that loss. A liability is not recognized for a contingent loss when it is only possible or remotely possible that a loss has been incurred, however, possible contingent losses shall be disclosed. If the contingent loss (or an additional loss in excess of any accrual) is at least a reasonable possibility and material, then the Company discloses a reasonable estimate of the possible loss or range of loss, if such reasonable estimate can be made. If the Company cannot make a reasonable estimate of the possible material loss, or range of loss, then that fact is disclosed.

As previously disclosed in the 2020 Form 10-K, the receiver (the "Receiver") for one of the plaintiffs awarded damages in a judgment (the "DCI Judgment") against Dynex Commercial, Inc. ("DCI"), a subsidiary of a former affiliate of the Company, filed a separate claim in May 2018 against the Company seeking payment of the damages awarded in connection with the DCI Judgment, alleging that the Company breached a litigation cost sharing agreement, as amended (the "Agreement"), that was initially entered into by the Company and DCI in December 2000. On November 21, 2019, the U.S. District Court, Northern District of Texas ("Northern District Court") granted in part and denied in part summary judgment on the Receiver's claim and the Company's claim for offset and recoupment. The Northern District Court found that the Company breached the Agreement and therefore must pay damages to the Receiver. The Northern District Court simultaneously granted the Company's motion for summary judgment finding that DCI also breached the Agreement and that the Company can recover amounts due to it from DCI under the Agreement. The Receiver subsequently filed a claim for damages with the Northern District Court of approximately $12,600, while the Company filed claims for damages ranging from $13,300 to $30,600, including interest. The Receiver filed objections (the "Objections") with the Northern District Court to, among other things, the Company recovering amounts incurred prior to entry into the Agreement and amounts incurred under the Agreement after January 31, 2006, including interest, which is the date that DCI's corporate existence ceased under Virginia law. The Company has disputed the Receiver's Objections, arguing, among other things, that the Receiver's Objections are not supportable under Virginia law and has further refined its damages claim to range from $15,961 based on simple interest to $22,752 based on a combination of simple and compound interest, which the Company believes is supportable under Virginia law. There were no material developments in this matter during the three months ended June 30, 2021. After consultation with litigation counsel, the Company believes, based upon information currently available and its evaluation of Virginia law, that the likelihood of loss is not probable, and given the range of potential claims for damages by the Company to offset the Receiver's claims, the amount of possible loss cannot be reasonably estimated, and therefore, no contingent liability has been recorded.

(amounts in thousands except share data)

Recently Issued Accounting Pronouncements

The Company evaluates Accounting Standards Updates ("ASU") issued by the Financial Accounting Standards Board ("FASB") on at least a quarterly basis to evaluate applicability and significance of any impact on its financial condition and results of operations. There were no accounting pronouncements issued during the six months ended June 30, 2021 that are expected to have a material impact on the Company's financial condition or results of operations.

NOTE 2 – NET INCOME (LOSS) PER COMMON SHARE

Please refer to Note 1 for information regarding the Company's treatment of its preferred stock and stock awards in the calculation of its basic and diluted net income (loss) per common share. The following table presents the computations of basic and diluted net income (loss) per common share for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Weighted average number of common shares outstanding - basic	31,973,587	23,056,812	29,395,463	23,009,948
Incremental common shares-unvested RSUs	—	—	55,019	—
Incremental common shares-unvested PSUs	—	—	110,040	—
Weighted average number of common shares outstanding - diluted	31,973,587	23,056,812	29,560,522	23,009,948
Net (loss) income to common shareholders	$ (45,682)	$ 191,585	$ 66,701	$ 85,351
Net (loss) income per common share - basic	$ (1.43)	$ 8.31	$ 2.27	$ 3.71
Net (loss) income per common share - diluted	$ (1.43)	$ 8.31	$ 2.26	$ 3.71

For the three months ended June 30, 2021, 165,059 of potentially dilutive unvested RSUs and PSUs were excluded from the computation of diluted net income (loss) per common share because to do so would have been anti-dilutive for the period. The Company did not have any potential dilutive instruments outstanding during the three or six months ended June 30, 2020.

(amounts in thousands except share data)

NOTE 3 – MORTGAGE-BACKED SECURITIES

The following tables present the Company's MBS by investment type as of the dates indicated:

	June 30, 2021				
	Agency RMBS	Agency CMBS	CMBS IO (1)	Non-Agency Other	Total
MBS designated as AFS:					
Par value	$ 1,347,318	$ 196,093	$ —	$ 1,196	$ 1,544,607
Unamortized premium (discount)	44,344	2,725	326,572	(306)	373,335
Amortized cost	1,391,662	198,818	326,572	890	1,917,942
Gross unrealized gain	10,022	12,300	16,155	152	38,629
Gross unrealized loss	(8,420)	(8)	(786)	(41)	(9,255)
Fair value	1,393,264	211,110	341,941	1,001	1,947,316
MBS measured at fair value through net income:					
Par value	$ 1,013,404	$ —	$ —	$ —	$ 1,013,404
Unamortized premium	34,219	—	526	—	34,745
Amortized cost	1,047,623	—	526	—	1,048,149
Gross unrealized gain	451	—	16	—	467
Gross unrealized loss	(430)	—	—	—	(430)
Fair value	1,047,644	—	542	—	1,048,186
Total as of June 30, 2021	$ 2,440,908	$ 211,110	$ 342,483	$ 1,001	$ 2,995,502

(1) The notional balance for Agency CMBS IO and non-Agency CMBS IO was $10,868,346 and $8,984,509 respectively, as of June 30, 2021.

(amounts in thousands except share data)

	December 31, 2020				
	Agency RMBS	Agency CMBS	CMBS IO [(1)]	Non-Agency Other	Total
MBS designated as AFS:					
Par value	$ 1,839,046	$ 235,801	$ —	$ 1,499	$ 2,076,346
Unamortized premium (discount)	57,997	3,152	378,940	(440)	439,649
Amortized cost	1,897,043	238,953	378,940	1,059	2,515,995
Gross unrealized gain	49,348	19,597	12,081	267	81,293
Gross unrealized loss	—	—	(982)	(51)	(1,033)
Fair value	1,946,391	258,550	390,039	1,275	2,596,255
MBS measured at fair value through net income:					
Par value	$ —	$ —	$ —	$ —	$ —
Unamortized premium	—	—	—	—	—
Amortized cost	—	—	—	—	—
Gross unrealized gain	—	—	—	—	—
Gross unrealized loss	—	—	—	—	—
Fair value	—	—	—	—	—
Total as of December 31, 2020	$ 1,946,391	$ 258,550	$ 390,039	$ 1,275	$ 2,596,255

(1) The notional balance for the Agency CMBS IO and non-Agency CMBS IO was $11,277,908 and $9,319,520, respectively, as of December 31, 2020.

The majority of the Company's MBS are pledged as collateral for the Company's repurchase agreements, which are disclosed in Note 4. Actual maturities of MBS are affected by the contractual lives of the underlying mortgage collateral, periodic payments of principal, prepayments of principal, and the payment priority structure of the security; therefore, actual maturities are generally shorter than the securities' stated contractual maturities.

The following table presents information regarding the "realized gain on sale of investments, net" on the Company's consolidated statements of comprehensive income (loss) for the periods indicated:

(amounts in thousands except share data)

	Three Months Ended June 30,			
	2021		2020	
	Proceeds Received	Realized Gain (Loss)	Proceeds Received	Realized Gain
Agency RMBS-designated as AFS	$ 212,580	$ (759)	$ 371,106	$ 11,729
Agency CMBS-designated as AFS	37,873	2,767	2,020,228	181,370
	$ 250,453	$ 2,008	$ 2,391,334	$ 193,099

	Six Months Ended June 30,			
	2021		2020	
	Proceeds Received	Realized Gain	Proceeds Received	Realized Gain
Agency RMBS-designated as AFS	$ 287,409	$ 3,938	$ 2,188,456	$ 75,823
Agency CMBS-designated as AFS	37,873	2,767	2,193,912	202,059
	$ 325,282	$ 6,705	$ 4,382,368	$ 277,882

The following table presents certain information for the AFS securities in an unrealized loss position as of the dates indicated:

	June 30, 2021			December 31, 2020		
	Fair Value	Gross Unrealized Losses	# of Securities	Fair Value	Gross Unrealized Losses	# of Securities
Continuous unrealized loss position for less than 12 months:						
Agency MBS	$ 1,961,980	$ (9,212)	34	$ 19,266	$ (399)	19
Non-Agency MBS	4,996	(203)	5	33,417	(408)	23
Continuous unrealized loss position for 12 months or longer:						
Agency MBS	$ 324	$ (121)	5	$ 749	$ (133)	2
Non-Agency MBS	3,333	(149)	7	2,156	(93)	5

The unrealized losses on the Company's MBS were the result of declines in market prices and were not credit related; therefore the Company's allowance for credit losses on its MBS designated as AFS was $0 as of June 30, 2021. The principal related to Agency MBS is guaranteed by the GSEs Fannie Mae and Freddie Mac. Although the unrealized losses are not credit related, the Company assesses its ability and intent to hold any MBS with an unrealized loss until the recovery in its value. This assessment is based on the amount of the unrealized loss and significance of the related investment as well as the Company's leverage and liquidity position. In addition, for its non-Agency MBS, the Company reviews the credit ratings, the credit characteristics of the mortgage loans collateralizing these securities, and the estimated future cash flows including projected collateral losses.

(amounts in thousands except share data)

NOTE 4 – REPURCHASE AGREEMENTS

The Company's repurchase agreements outstanding as of June 30, 2021 and December 31, 2020 are summarized in the following tables:

	June 30, 2021			December 31, 2020		
Collateral Type	**Balance**	**Weighted Average Rate**	**Fair Value of Collateral Pledged**	**Balance**	**Weighted Average Rate**	**Fair Value of Collateral Pledged (1)**
Agency RMBS	$ 1,835,941	0.12 %	$ 1,928,660	$ 1,874,176	0.23 %	$ 1,973,608
Agency CMBS	195,168	0.12 %	209,156	237,649	0.23 %	255,741
Agency CMBS IO	190,110	0.72 %	215,503	209,393	0.90 %	243,042
Non-Agency CMBS IO	99,824	1.00 %	119,938	115,945	1.28 %	136,684
Total repurchase agreements	$ 2,321,043	0.21 %	$ 2,473,257	$ 2,437,163	0.34 %	$ 2,609,075

(1) The amounts for fair value of collateral pledged in the table above as of December 31, 2020 include securities with an amortized cost of $141,215 which were sold but not settled as of that date, and for which the proceeds of $150,432 are recorded within "receivable for sales pending settlement" on the consolidated balance sheet. These securities collateralized $140,612 of the Company's repurchase agreement borrowings outstanding as of December 31, 2020.

The Company had $350,854 and $5 payable to counterparties as of June 30, 2021 and December 31, 2020, respectively, for purchases pending settlement as of those respective dates. The Company had repurchase agreement borrowings outstanding with 23 different counterparties as of June 30, 2021, and its equity at risk did not exceed 5% with any counterparty as of that date.

The following table provides information on the remaining term to maturity and original term to maturity for the Company's repurchase agreements as of the dates indicated:

	June 30, 2021			December 31, 2020		
Remaining Term to Maturity	**Balance**	**Weighted Average Rate**	**WAVG Original Term to Maturity**	**Balance**	**Weighted Average Rate**	**WAVG Original Term to Maturity**
Less than 30 days	$ 620,942	0.31 %	51	$ 1,416,608	0.37 %	53
30 to 90 days	1,115,526	0.19 %	97	845,394	0.31 %	35
91 to 180 days	530,975	0.12 %	165	175,161	0.22 %	13
180 days to 1 year	53,600	0.15 %	364	—	— %	—
Total	$ 2,321,043	0.21 %	106	$ 2,437,163	0.34 %	44

During the three months ended June 30, 2021, the Company renewed its agreement with Wells Fargo Bank, N.A. for its committed repurchase facility, which has an aggregate maximum borrowing capacity of $250,000 and a maturity date of June 8, 2023. As of June 30, 2021, the Company had $105,363 outstanding with this facility at a weighted average borrowing rate of 0.97%. The remaining repurchase facilities available to the Company are uncommitted with no guarantee of renewal or terms of renewal.

The Company's counterparties, as set forth in the master repurchase agreement with the counterparty, require the Company to comply with various customary operating and financial covenants, including, but not limited to, minimum net worth and earnings, maximum declines in net worth in a given period, and maximum leverage requirements as well as maintaining the Company's REIT status. In addition, some of the agreements contain cross default features, whereby default under an agreement with one lender simultaneously causes default under agreements with other lenders. To the extent that the Company fails to comply with the covenants contained in these financing agreements or is otherwise found to be in default under the terms of such agreements, the counterparty has the right to accelerate amounts due under the master repurchase agreement. The Company believes it was in full compliance with all covenants in master repurchase agreements under which there were amounts outstanding as of June 30, 2021.

(amounts in thousands except share data)

The Company's repurchase agreements are subject to underlying agreements with master netting or similar arrangements, which provide for the right of offset in the event of default or in the event of bankruptcy of either party to the transactions. The Company reports its repurchase agreements to these arrangements on a gross basis. The following table presents information regarding the Company's repurchase agreements as if the Company had presented them on a net basis as of June 30, 2021 and December 31, 2020:

				Gross Amount Not Offset in the Balance Sheet (1)		
	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet	Financial Instruments Posted as Collateral	Cash Posted as Collateral	Net Amount
June 30, 2021						
Repurchase agreements	$ 2,321,043	$ —	$ 2,321,043	$ (2,321,043)	$ —	$ —
December 31, 2020						
Repurchase agreements	$ 2,437,163	$ —	$ 2,437,163	$ (2,437,163)	$ —	$ —

(1) Amounts disclosed for collateral received by or posted to the same counterparty include cash and the fair value of MBS up to and not exceeding the net amount of the repurchase agreement liability presented in the balance sheet. The fair value of the total collateral received by or posted to the same counterparty may exceed the amounts presented.

Please see Note 5 for information related to the Company's derivatives, which are also subject to underlying agreements with master netting or similar arrangements.

NOTE 5 – DERIVATIVES

Types and Uses of Derivatives Instruments

Interest Rate Derivatives. The Company is currently using short positions in U.S. Treasury futures, put options on U.S. Treasury futures, and interest rate swaptions to mitigate the impact of changing interest rates on its book value.

TBA Transactions. The Company purchases TBA securities as a means of investing in non-specified fixed-rate Agency RMBS and may also periodically sell TBA securities as a means of economically hedging its book value exposure to Agency RMBS. The Company holds long and short positions in TBA securities by executing a series of transactions, commonly referred to as "dollar roll" transactions, which effectively delay the settlement of a forward purchase (or sale) of a non-specified Agency RMBS by entering into an offsetting TBA position, net settling the paired-off positions in cash, and simultaneously entering into an identical TBA long (or short) position with a later settlement date. TBA securities purchased (or sold) for a forward settlement date are generally priced at a discount relative to TBA securities settling in the current month. This discount, often referred to as "drop income" represents the economic equivalent of net interest income (interest income less implied financing cost) on the underlying Agency security from trade date to settlement date. The Company accounts for all TBAs (whether net long or net short positions, or collectively "TBA dollar roll positions") as derivative instruments because it cannot assert that it is probable at inception and throughout the term of an individual TBA transaction that its settlement will result in physical delivery of the underlying Agency RMBS, or that the individual TBA transaction will not settle in the shortest period possible.

(amounts in thousands except share data)

Gain (Loss) on Derivative Instruments, Net

The table below provides detail of the Company's "gain (loss) on derivative instruments, net" by type of derivative for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
Type of Derivative Instrument	**2021**	**2020**	**2021**	**2020**
Interest rate swaps	$ —	$ (1,672)	$ —	$ (183,852)
Interest rate swaptions	(19,062)	—	38,701	(573)
U.S. Treasury futures	(63,184)	(10,928)	32,464	(19,377)
Options on U.S. Treasury futures	(11,531)	(6,680)	1,086	(17,406)
TBA securities - long positions	40,837	8,688	(17,390)	27,119
TBA securities - short positions	—	2,029	—	(10,041)
(Loss) gain on derivative instruments, net	$ (52,940)	$ (8,563)	$ 54,861	$ (204,130)

The table below summarizes information about the carrying value by type of derivative instrument on the Company's consolidated balance sheets as of the dates indicated:

Type of Derivative Instrument	Balance Sheet Location	Purpose	June 30, 2021	December 31, 2020
Options on U.S. Treasury futures	Derivative assets	Economic hedging	$ 3,227	$ 1,094
Interest rate swaptions	Derivative assets	Economic hedging	8,781	1,360
TBA securities	Derivative assets	Investing	4,846	8,888
Total derivatives assets			$ 16,854	$ 11,342
Interest rate swaptions	Derivative liabilities	Economic hedging	$ —	$ (107)
U.S. Treasury futures	Derivative liabilities	Economic hedging	(27,140)	(1,527)
TBA securities	Derivative liabilities	Investing	(185)	—
Total derivatives liabilities			$ (27,325)	$ (1,634)

(amounts in thousands except share data)

The following table provides details on the Company’s interest rate swaptions held as of the dates indicated:

	Option		Underlying Payer Swap		
Average Months to Expiration	**Cost**	**Fair Value**	**Notional Amount**	**Average Fixed Pay Rate**	**Average Term in Years**
As of June 30, 2021:					
6 months or less	$ 6,688	$ 8,781	$ 500,000	1.16%	10
As of December 31, 2020:					
6 months or less	$ 6,312	$ 1,161	$ 750,000	1.02%	10
6-9 months	6,688	92	500,000	1.16%	10
	$ 13,000	$ 1,253	$ 1,250,000	1.07%	

The following table provides details on the Company’s U.S. Treasury futures and options on U.S. Treasury futures held as of the dates indicated:

	June 30, 2021			December 31, 2020:		
	Notional Amount Long (Short)	**Fair Value**	**Average Term to Expiration**	**Notional Amount Long (Short)**	**Fair Value**	**Average Term to Expiration**
Options on U.S. Treasury futures	$ 850,000	$ 3,227	3 months	$ 500,000	$ 1,094	1 month
U.S. Treasury futures	(3,250,000)	(27,140)	3 months	(825,000)	(1,527)	2 months

The following table summarizes information about the Company's long positions in TBA securities as of the dates indicated:

	June 30, 2021	**December 31, 2020**
Implied market value [(1)]	$ 2,355,426	$ 1,572,949
Implied cost basis [(2)]	2,350,765	1,564,061
Net carrying value [(3)]	$ 4,661	$ 8,888

(1) Implied market value represents the estimated fair value of the underlying Agency MBS as of the date indicated.
(2) Implied cost basis represents the forward price to be paid for the underlying Agency MBS as of the date indicated.
(3) Net carrying value is the amount included on the consolidated balance sheets within “derivative assets (liabilities)” and represents the difference between the implied market value and the implied cost basis of the TBA security as of the date indicated.

(amounts in thousands except share data)

Volume of Activity

The tables below summarize changes in the Company's derivative instruments for the six months ended June 30, 2021:

Type of Derivative Instrument	Beginning Notional Amount-Long (Short)	Additions	Settlements, Terminations, or Pair-Offs	Ending Notional Amount-Long (Short)
Interest rate swaptions	1,250,000	—	(750,000)	500,000
U.S. Treasury futures	(825,000)	(7,510,000)	5,085,000	(3,250,000)
Options on U.S. Treasury futures	500,000	2,350,000	(2,000,000)	850,000
TBA securities	1,515,000	13,600,000	(12,805,000)	2,310,000

Offsetting

The Company's derivatives are subject to underlying agreements with master netting or similar arrangements, which provide for the right of offset in the event of default or in the event of bankruptcy of either party to the transactions. The Company reports its derivative assets and liabilities subject to these arrangements on a gross basis. Please see Note 4 for information related to the Company's repurchase agreements, which are also subject to underlying agreements with master netting or similar arrangements. The following tables present information regarding those derivative assets and liabilities subject to such arrangements as if the Company had presented them on a net basis as of June 30, 2021 and December 31, 2020:

	Offsetting of Assets					
				Gross Amount Not Offset in the Balance Sheet (1)		
	Gross Amount of Recognized Assets	Gross Amount Offset in the Balance Sheet	Net Amount of Assets Presented in the Balance Sheet	Financial Instruments Received as Collateral	Cash Received as Collateral	Net Amount
June 30, 2021						
Options on U.S. Treasury futures	$ 3,227	$ —	$ 3,227	$ —	$ —	$ 3,227
Interest rate swaptions	8,781	—	8,781	—	(8,781)	—
TBA securities	4,846	—	4,846	—	—	4,846
Derivative assets	$ 16,854	$ —	$ 16,854	$ —	$ (8,781)	$ 8,073
December 31, 2020						
Interest rate swaptions	$ 1,360	$ —	$ 1,360	$ (107)	$ —	$ 1,253
Options on U.S. Treasury futures	1,094	—	1,094	—	—	1,094
TBA securities	8,888	—	8,888	—	(7,681)	1,207
Derivative assets	$ 11,342	$ —	$ 11,342	$ (107)	$ (7,681)	$ 3,554

(amounts in thousands except share data)

	Offsetting of Liabilities					
				Gross Amount Not Offset in the Balance Sheet (1)		
	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet	Financial Instruments Posted as Collateral	Cash Posted as Collateral	Net Amount
June 30, 2021						
U.S. Treasury futures-short positions	$ (27,140)	—	$ (27,140)	$ —	$ 27,140	$ —
TBA securities	(185)	—	(185)	—	185	—
Derivative liabilities	$ (27,325)	$ —	$ (27,325)	$ —	$ 27,325	$ —
December 31, 2020						
U.S. Treasury futures-short positions	$ (1,527)	—	$ (1,527)	$ —	$ 1,527	$ —
Interest rate swaptions	(107)	—	(107)	107	—	—
Derivative liabilities	$ (1,634)	$ —	$ (1,634)	$ 107	$ 1,527	$ —

(1) Amounts disclosed for collateral received by or posted to the same counterparty include cash and the fair value of MBS up to and not exceeding the net amount of the derivative asset or liability presented in the balance sheet. The fair value of the total collateral received by or posted to the same counterparty may exceed the amounts presented. Please refer to the consolidated balance sheets for the total fair value of financial instruments pledged as collateral for derivatives and repurchase agreements, which is shown parenthetically, and the total cash pledged or received as collateral which is disclosed in "cash collateral posted to/by counterparties."

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on the assumptions market participants would use when pricing an asset or liability and also considers all aspects of nonperformance risk, including the entity's own credit standing, when measuring fair value of a liability. ASC Topic 820 established a valuation hierarchy of three levels as follows:

- Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities as of the measurement date.
- Level 2 – Inputs include quoted prices in active markets for similar assets or liabilities; quoted prices in inactive markets for identical or similar assets or liabilities; or inputs either directly observable or indirectly observable through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 – Unobservable inputs are supported by little or no market activity. The unobservable inputs represent management's best estimate of how market participants would price 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.

The following table presents the Company's financial instruments that are measured at fair value on the Company's consolidated balance sheet by their valuation hierarchy levels as of the dates indicated:

(amounts in thousands except share data)

	June 30, 2021				December 31, 2020			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets carried at fair value:								
MBS	$ 2,995,502	$ —	$ 2,994,500	$ 1,002	$ 2,596,255	$ —	$ 2,594,980	$ 1,275
Mortgage loans held for investment	5,146	—	—	5,146	6,264	—	—	6,264
Derivative assets:								
Options on U.S. Treasury futures	3,227	3,227	—	—	1,094	1,094	—	—
Interest rate swaptions	8,781	—	8,781	—	1,360	—	1,360	—
TBA securities-long position	4,846	—	4,846	—	8,888	—	8,888	—
Total assets carried at fair value	$ 3,017,502	$ 3,227	$ 3,008,127	$ 6,148	$ 2,613,861	$ 1,094	$ 2,605,228	$ 7,539
Liabilities carried at fair value:								
U.S. Treasury futures	$ 27,140	$ 27,140	$ —	$ —	$ 1,527	$ 1,527	$ —	$ —
Interest rate swaptions	—	—	—	—	107	—	107	—
TBA securities-long position	185	—	185	—	—	—	—	—
Total liabilities carried at fair value	$ 27,325	$ 27,140	$ 185	$ —	$ 1,634	$ 1,527	$ 107	$ —

The fair value measurements for the Company's MBS are considered Level 2 when there are substantially similar securities actively trading or for which there has been recent trading activity in their respective markets and are based on prices received from pricing services and quotes from brokers. In valuing a security, the pricing service uses either a market approach, which uses observable prices and other relevant information that is generated by market transactions of identical or similar securities, or an income approach, which uses valuation techniques to convert future amounts to a single, discounted present value amount. The Company reviews the prices it receives from its pricing sources as well as the assumptions and inputs utilized by its pricing sources for reasonableness. Examples of these observable inputs and assumptions include market interest rates, credit spreads, and projected prepayment speeds, among other things.

The Company owns other non-Agency MBS and mortgage loans that are considered Level 3 assets because there has been no recent trading activity of similar instruments upon which their fair value can be measured. The fair value for these Level 3 assets is measured by discounting the estimated future cash flows derived from cash flow models using significant inputs which are determined by the Company when market observable inputs are not available. Information utilized in those pricing models include the security's credit rating, coupon rate, estimated prepayment speeds, expected weighted average life, collateral composition, estimated future interest rates, expected credit losses, and credit enhancement as well as certain other relevant information. The Company used a constant prepayment rate assumption of 10%, default rate of 2%, loss severity of 20%, and a discount rate of 7.0% in measuring the fair value of its Level 3 assets as of June 30, 2021. Significant changes in any of these inputs in isolation may result in a significantly different fair value measurement. Level 3 assets are generally most sensitive to the default rate and severity assumptions.

The activity of the Company's Level 3 assets during the three and six months ended June 30, 2021 is presented in the following table:

(amounts in thousands except share data)

	Three Months Ended June 30, 2021		Six Months Ended June 30, 2021	
	Other Non-Agency MBS	Mortgage Loans	Other Non-Agency MBS	Mortgage Loans
Balance as of beginning of period	$ 1,143	$ 5,749	$ 1,275	$ 6,264
Change in fair value (1)	(47)	88	(104)	68
Principal payments	(158)	(683)	(303)	(1,171)
Accretion (amortization)	64	(8)	134	(15)
Balance as of end of period	$ 1,002	$ 5,146	$ 1,002	$ 5,146

(1) Change in fair value for mortgage loans is recorded within "unrealized gain (loss) on investments, net" in net income and change in fair value for other non-Agency MBS is recorded as unrealized gain (loss) in "other comprehensive income".

U.S. Treasury futures and options on U.S. Treasury futures are valued based on closing exchange prices on these contracts and are classified accordingly as Level 1 measurements. The fair value of interest rate swaptions is based on the fair value of the underlying interest rate swap and time remaining until its expiration and is carried on the balance sheet net of any deferred premium to be paid upon expiration. The fair value of TBA securities is estimated using methods similar those used to fair value the Company's Level 2 MBS.

NOTE 7 – SHAREHOLDERS' EQUITY AND SHARE-BASED COMPENSATION

Preferred Stock. The Company's Board of Directors has designated 6,600,000 shares of the Company's preferred stock for issuance as Series C Preferred Stock, of which the Company has 4,460,000 of such shares outstanding as of June 30, 2021. The Series C Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption, and will remain outstanding indefinitely unless redeemed or otherwise repurchased or converted into common stock pursuant to the terms of the Series C Preferred Stock. Except under certain limited circumstances described in Article IIIC of the Company's Restated Articles of Incorporation, the Company may not redeem the Series C Preferred Stock prior to April 15, 2025. On or after that date, the Series C Preferred Stock may be redeemed at any time and from time to time at the Company's option at a cash redemption price of $25.00 per share plus any accumulated and unpaid dividends. Because the Series C Preferred Stock is redeemable only at the option of the issuer, it is classified as equity on the Company's consolidated balance sheet.

The Series C Preferred stock pays a cumulative cash dividend equivalent to 6.900% of the $25.00 liquidation preference per share each year until April 15, 2025 upon which date and thereafter, the Company will pay cumulative cash dividends at a percentage of the $25.00 liquidation value per share equal to an annual floating rate of three-month LIBOR plus a spread of 5.461%. The Company paid its regular quarterly dividend of $0.43125 per share of Series C Preferred Stock on July 15, 2021 to shareholders of record as of July 1, 2021.

During the first quarter of 2021, the Company redeemed the remaining 2,788,330 outstanding shares of its 7.625% Series B Cumulative Redeemable Preferred Stock at an aggregate redemption price of approximately $25.15 per share, which included accumulated and unpaid dividends declared as of the redemption date February 15, 2021. The excess of the $25.00 liquidation price per share over the carrying value of the preferred stock redeemed resulted in a charge of $(2,987) to net income to common shareholders for the six months ended June 30, 2021.

Common Stock. During the three months ended June 30, 2021, the Company issued 3,463,708 shares of its common stock through its ATM offering ("ATM") program at an aggregate value of $68,303, net of $865 in broker commissions and fees.

(amounts in thousands except share data)

Share-Based Compensation. Total share-based compensation expense recognized by the Company for the three and six months ended June 30, 2021 was $544 and $995, respectively, compared to $424 and $731, respectively, for the three and six months ended June 30, 2020. The following tables present a rollforward of share-based awards for the periods indicated:

	Six Months Ended June 30, 2021					
	Restricted Stock		RSUs		PSUs	
	Shares	Weighted Average Grant Date Fair Value Per Share	Shares	Weighted Average Grant Date Fair Value Per Share	Shares	Weighted Average Grant Date Fair Value Per Share
Awards outstanding, beginning of period	281,761	$ 14.74	—	$ —	—	$ —
Granted	40,027	19.02	55,019	19.40	110,040	19.04
Vested	(124,194)	15.28	—	—	—	—
Awards outstanding, end of period	197,594	$ 15.27	55,019	$ 19.40	110,040	$ 19.04

	Six Months Ended June 30, 2020					
	Restricted Stock		RSUs		PSUs	
	Shares	Weighted Average Grant Date Fair Value Per Share	Shares	Weighted Average Grant Date Fair Value Per Share	Shares	Weighted Average Grant Date Fair Value Per Share
Awards outstanding, beginning of period	119,213	$ 18.56	—	$ —	—	$ —
Granted	240,293	13.88	—	—	—	—
Vested	(65,749)	18.61	—	—	—	—
Awards outstanding, end of period	293,757	$ 14.72	—	$ —	—	$ —

The following table discloses the grant date fair value of the Company's remaining unvested awards as of June 30, 2021, which will be amortized into compensation expense over the period disclosed:

	June 30, 2021	
	Remaining Compensation Cost	WAVG Period of Recognition (in Years)
Restricted stock	$ 2,632	1.7
RSUs	1,035	2.7
PSUs	2,028	2.5
Total	$ 5,695	2.2

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

The following discussion should be read in conjunction with our unaudited consolidated financial statements and the accompanying notes included in Part I, Item 1 "Financial Statements" in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the accompanying notes included in Part II, Item 8 in our 2020 Form 10-K. References herein to "Dynex," the "Company," "we," "us," and "our" include Dynex Capital, Inc. and its consolidated subsidiaries, unless the context otherwise requires. In addition to current and historical information, the following discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our future business, financial condition or results of operations. For a description of certain factors that may have a significant impact on our future business, financial condition or results of operations, see "Forward-Looking Statements" at the end of this discussion and analysis.

For more information about our business including our operating policies, investment philosophy and strategy, financing and hedging strategies, and other important information, please refer to Part I, Item 1 of our 2020 Form 10-K.

EXECUTIVE OVERVIEW

Dynex Capital, Inc. is an internally managed mortgage real estate investment trust, or mortgage REIT, which primarily invests in residential and commercial mortgage-backed securities ("MBS") on a leveraged basis. We finance our investments principally with borrowings under repurchase agreements. Our objective is to provide attractive risk-adjusted returns to our shareholders over the long term that are reflective of a leveraged, high quality fixed income portfolio with a focus on capital preservation. We seek to provide returns to our shareholders primarily through the payment of regular dividends and also potentially through capital appreciation of our investments.

Market Conditions and Recent Activity

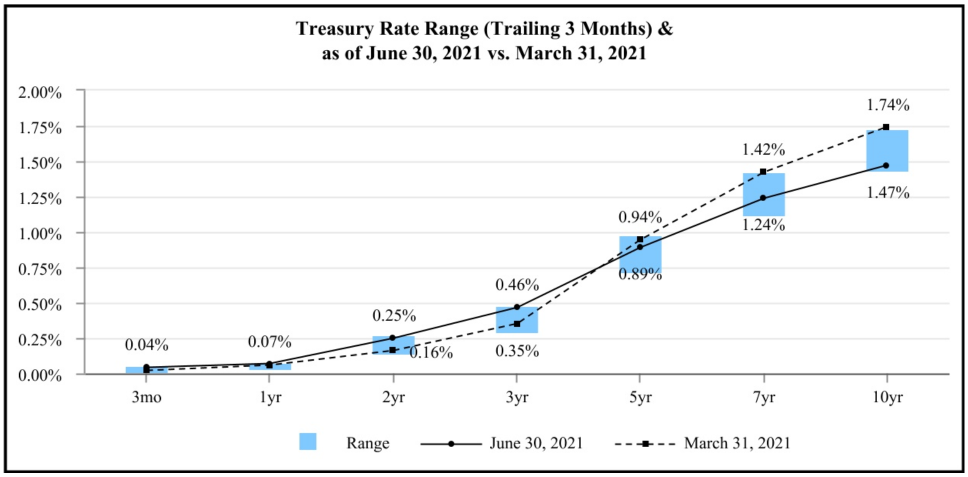
Economic conditions during the second quarter of 2021 reversed direction from the first quarter's recovery as the yield curve flattened and credit spreads widened for Agency RMBS. Markets began to price the impact of potentially tighter monetary conditions after commentary made by Federal Reserve officials at the conclusion of its Federal Open Market Committee ("FOMC") meeting in June indicated they were discussing the possibility of tapering its purchases of assets including Agency RMBS. In addition, the concern over the impact of variants of COVID-19 on real economic activity, along with technicals in the UST market, drove yields lower during the second quarter, and the curve has continued to flatten further so far into the third quarter of 2021. The 2-year U.S. Treasury ("UST") rate rose 9 basis points while the 10-year fell 27 basis points during the second quarter of 2021 and has dropped further since June 30, 2021.

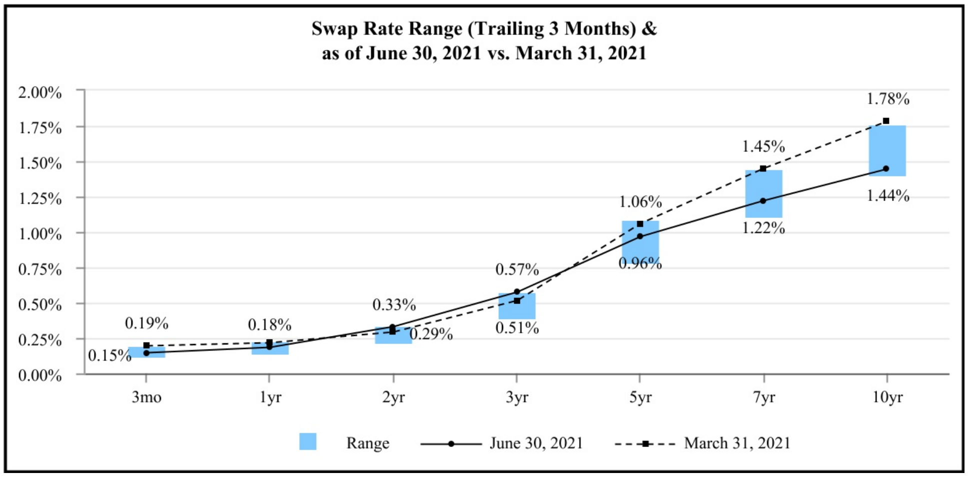
The table below shows changes in market spreads in basis points for certain investment types in our MBS portfolio during the three months ended June 30, 2021:

Investment Type:	Second Quarter 2021 Change in Spreads	As of June 30, 2021	As of March 31, 2021
Agency RMBS: (1)			
2.0% coupon	14	(6)	(20)
2.5% coupon	17	1	(16)
3.0% coupon	25	27	2
3.5% coupon	32	40	8
4.0% coupon	43	54	11
Agency DUS (Agency CMBS) (2)	(4)	18	22
Freddie K AAA IO (Agency CMBS IO) (2)	(30)	65	95
AAA CMBS IO (Non-Agency CMBS IO) (2)	(25)	105	130

(1) Option adjusted spreads are based on Company estimates using third-party models and market data.
(2) Data represents the spread to swap rate on newly issued securities and is sourced from JP Morgan.

The charts below show the highest and lowest U.S. Treasury and swap rates during the three months ended June 30, 2021 as well as the rates as of June 30, 2021 and March 31, 2021:





We stated our expectations last quarter for a range-bound interest rate environment with bouts of volatility and a potential for wider MBS spreads, which largely played out during the second quarter of 2021. In response to this volatility, we continued to focus on our leverage position and management of our capital. Early in the second quarter, we reduced our investment portfolio when spreads were tighter, reducing our leverage a full turn. Later in the second quarter, we partially re-leveraged our balance sheet, using a portion of the $68.3 million in capital we raised through ATM issuances to re-invest in lower coupon Agency RMBS as spreads were widening. As discussed further below in “Current Outlook”, we believe market fundamentals and technicals remain positive toward a steepening yield curve with longer-term interest rates moving higher as the economy continues recovery in the medium term.

Second Quarter 2021 Performance

The decline in our book value of $(1.32) per common share during the second quarter was the result of a comprehensive loss to common shareholders of $(31.4) million, which was primarily comprised of hedge losses of $(93.8) million due to the yield curve flattening. Partially offsetting the hedge losses, the fair value of the Company's investments including TBA securities increased $58.2 million as a result of the decline in longer-term interest rates. The majority of this increase is from our investment in TBA securities, which are highly liquid and continue to provide substantial returns at a lower implied cost of financing. In addition to the flattening yield curve, Agency RMBS credit spreads widened versus benchmarks. Though the widening offset a portion of the gains in fair value of MBS from declining longer-term rates, it also provided opportunities for us to purchase approximately $1.0 billion in specified pools and increase our average TBA investments by approximately $0.5 billion in the latter half of the second quarter. In addition to benefiting from an increase in fair value when spreads tighten, the premiums paid for securities are generally lower when spreads are wider, which results in lower premium amortization expense and higher yields on these securities.

Net interest income of $12.1 million for the second quarter of 2021 was relatively unchanged from the first quarter of 2021, and net interest spread was flat at 1.87% versus the prior quarter. Interest income declined by $0.5 million due primarily to a smaller average balance of MBS at lower effective yields and a decline of $0.3 million in net prepayment penalty income from CMBS IO from the prior quarter. Though we purchased Agency RMBS of $0.8 million, net of sales, in the latter half of the second quarter, interest income for the period includes one month or less of interest earnings as these purchases settled either in June or were pending settlement as of June 30, 2021. The decline in interest income was mostly offset by the decline of $0.4 million in interest expense from repurchase agreement financing costs. Our overall effective yield on investments declined to 2.10%, but was offset by a corresponding decline in the cost of financing on our repurchase agreements used to finance our investments.

Core net operating income to common shareholders, a non-GAAP measure, increased $3.9 million to $16.3 million due to higher drop income from TBA securities and lower preferred stock dividends as a result of our redemption of the remaining shares of our Series B Preferred Stock in the first quarter of 2021. Our implied funding cost for TBA dollar roll transactions was approximately 49 basis points lower than our repurchase agreement financing rate for Agency RMBS during the second quarter of 2021, an increase of 10 basis points in specialness relative to the prior quarter. As a result, TBA dollar roll transactions contributed an 8 basis point increase to adjusted net interest spread, a non-GAAP measure, which was 1.95% for the second quarter of 2021.

Current Outlook

Our outlook for market conditions and the Company has not changed from the prior quarter. We believe that the global economy is still evolving through varied consequences of the pandemic coupled with the impact of massive fiscal and monetary stimulus. For the next few quarters, we believe rates will remain relatively range-bound near current levels. Over the next six-to-twelve months, we believe that the 10-year UST rate will most likely move higher in the range as we anticipate a global transition to a more fully reopened economy, a higher percentage of vaccinated populations, stable or rising inflation, and a rising supply of global sovereign bonds from central bank purchase tapering, continued deficit spending, and fiscal stimulus. In the intermediate term, we believe tapering of asset purchases by the Federal Reserve will cause spreads to widen across all asset classes, but especially spreads on lower quality assets. This is because asset tapering, while still growing the size of the Federal Reserve’s balance sheet, represents a reduction of monetary stimulus.

From a borrowing cost perspective, the Federal Reserve has indicated that the U.S. Federal Funds Target Rate will remain near zero until at least 2023, which means our financing costs should remain at current low levels until then. An environment where borrowing costs are anchored and the yield curve is reasonably steep with rates range-bound supports our ability to generate solid total economic returns to our shareholders. While there are risks that the 10-year UST rate moves outside the range or there is a sudden change in Federal Reserve policy, we believe the probability of either occurring in the near-term is relatively low.

We have planned for other potential scenarios that may unfold, including the risk of an exogenous event, which we believe remains high. As a result, we are maintaining a lower leveraged capital structure, a highly liquid position, and are investing in highly liquid Agency RMBS and TBAs. We believe that we are entering a period where there will be opportunity to invest capital at wider spreads, and we are positioned with relatively low leverage on our capital with ample liquidity to add assets at attractive return profiles. Longer term, we maintain our belief that the demographics behind the housing sector continue to support our investment thesis of investing in high quality, highly liquid U.S.-based housing assets, and we maintain our focus on capital preservation while generating returns over the long term.

Non-GAAP Financial Measures

In addition to the Company's operating results presented in accordance with GAAP, the information presented within Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q contains the following non-GAAP financial measures: core net operating income to common shareholders (including per common share), adjusted net interest income and the related metric adjusted net interest spread. Because these measures are used in the Company's internal analysis of financial and operating performance, management believes that they provide greater transparency to our investors of management's view of our economic performance. Management also believes the presentation of these measures, when analyzed in conjunction with the Company's GAAP operating results, allows investors to more effectively evaluate and compare the performance of the Company to that of its peers, although the Company's presentation of its non-GAAP measures may not be comparable to other similarly-titled measures of other companies. Reconciliations of core net operating income to common shareholders and adjusted net interest income to the related GAAP financial measures are provided below and within "Results of Operations".

Management views core net operating income to common shareholders as an estimate of the Company's financial performance based on the effective yield of its investments, net of financing costs and other normal recurring operating income/expense, net. In addition to the non-GAAP reconciliation set forth below, which derives core net operating income to common shareholders from GAAP comprehensive income (loss) to common shareholders, core net operating income to common shareholders can also be determined by adjusting net interest income to include interest rate swap periodic interest benefit/cost, drop income on TBA securities, general and administrative expenses, and preferred dividends. Drop income generated by TBA dollar roll positions, which is included in "gain (loss) on derivatives instruments, net" on the Company's consolidated statements of comprehensive income, is included in core net operating income and in adjusted net interest income because management views drop income as the economic equivalent of net interest income (interest income less implied financing cost) on the underlying Agency security from trade date to settlement date. Management also includes interest rate swap periodic interest benefit/cost, which is also included in "gain (loss) on derivatives instruments, net", in adjusted net interest income because interest rate swaps are used by the Company to economically hedge the impact of changing interest rates on its borrowing costs from repurchase agreements, and therefore represent a cost of financing in addition to GAAP interest expense. However, these non-GAAP measures do not provide a full perspective on our results of operations, and therefore, their usefulness is limited. For example, these non-GAAP measures do not include the changes in fair value of investments or changes in fair value of and costs of terminating derivative instruments used by management to economically hedge the impact of changing interest rates on the fair value of the Company's portfolio and book value per common share. As a result, these non-GAAP measures should be considered as a supplement to, and not as a substitute for, the Company's GAAP results as reported on its consolidated statements of comprehensive income.

	Three Months Ended	
Reconciliations of GAAP to Non-GAAP Financial Measures:	**June 30, 2021**	**March 31, 2021**
($s in thousands except per share data)		
Comprehensive (loss) income to common shareholders	$ (31,412)	$ 47,227
Less:		
Change in fair value of investments [1]	(17,362)	61,439
Change in fair value of derivative instruments, net [2]	65,117	(99,233)
Preferred stock redemption charge	—	2,987
Core net operating income to common shareholders	$ 16,343	$ 12,420
Average common shares outstanding	31,973,587	26,788,693
Comprehensive income per common share	$ (0.98)	$ 1.76

Core net operating income per common share	$	0.51	$	0.46
Net interest income	$	12,118	$	12,259
TBA drop income [3]		12,177		8,568
Adjusted net interest income	$	24,295	$	20,827
Other operating expense, net		(323)		(380)
General and administrative expenses		(5,706)		(5,468)
Preferred stock dividends		(1,923)		(2,559)
Core net operating income to common shareholders	$	16,343	$	12,420

(1) Amount includes realized and unrealized gains and losses recorded in net income and OCI due to changes in the fair value of the Company's MBS and other investments.

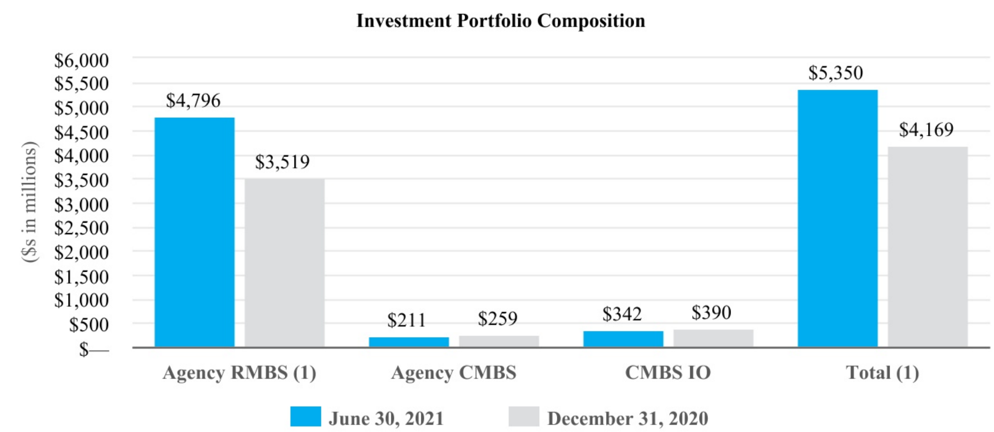
(2) Amount includes unrealized gains and losses from changes in fair value of derivatives and realized gains and losses on terminated derivatives and excludes TBA drop income.

(3) TBA drop income is calculated by multiplying the notional amount of the TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates. The impact of TBA drop income on adjusted net interest spread includes the implied average funding cost of TBA dollar roll transactions during the periods indicated.

FINANCIAL CONDITION

Investment Portfolio

The following chart compares the composition of our MBS portfolio including TBA securities as of the dates indicated:



(1) Includes TBA positions at their implied market value, as if settled, of $2.4 billion and $1.6 billion, respectively. TBA securities are recorded within "derivative assets (liabilities)" on our consolidated balance sheet at their net carrying value, which represents the difference between the implied market value and the implied cost basis of the TBA security as of the date indicated.

RMBS. As of June 30, 2021, the majority of our investments in RMBS were Agency-issued pass-through securities collateralized primarily by pools of fixed-rate single-family mortgage loans. Monthly payments of principal and interest made by the individual borrowers on the mortgage loans underlying the pools are "passed through" to the security holders, after deducting GSE or U.S. Government agency guarantee and servicer fees. Mortgage pass-through certificates generally distribute cash flows from the underlying collateral on a pro-rata basis among the security holders. Security holders also receive guarantor advances of principal and interest for delinquent loans in the mortgage pools. In addition to specified pools of Agency RMBS, we are also currently investing in TBA securities. Please refer to Notes 1 and 5 of the Notes to the Consolidated Financial Statements for a description of these transactions and information regarding their accounting treatment.

As noted in the table below, as of June 30, 2021, we are invested in lower coupon securities to mitigate the risk of loss of premiums due to early prepayment. Our lower coupon investments also have lower premiums relative to higher coupon assets which further protects our earnings when prepayments occur. Our investment in TBA securities has increased relative to prior periods as implied financing rates for dollar roll transactions have been lower than the financing rates for repurchase agreement borrowings we typically use to finance specified pools. Because TBA securities have higher relative liquidity, these transactions allow more flexibility should we decide or find it necessary to reduce leverage.

The following tables compare our fixed-rate Agency RMBS investments including TBA dollar roll positions as of the dates indicated:

	June 30, 2021					
				Weighted Average		
Coupon	Par/Notional-Long (Short)	Amortized Cost/ Implied Cost Basis (1)(3)	Fair Value (2)(3)	Loan Age (in months)(4)	3 Month CPR (4)(5)	Estimated Duration (6)
30-year fixed-rate:		*($s in thousands)*				
2.0%	$ 907,767	$ 925,875	$ 919,889	10	13.2 %	7.60
2.5%	1,244,081	1,298,263	1,295,851	9	16.0 %	6.78
4.0%	208,875	215,146	225,168	39	44.8 %	3.24
TBA 2.0%	915,000	922,078	923,683	n/a	n/a	7.51
TBA 2.5%	820,000	845,214	847,390	n/a	n/a	5.63
15-year fixed-rate:						
TBA 1.5%	375,000	377,864	378,267	n/a	n/a	5.07
TBA 2.0%	200,000	205,609	206,086	n/a	n/a	4.48
Total	$ 4,670,723	$ 4,790,049	$ 4,796,334	12	19.0 %	6.47

	December 31, 2020					
				Weighted Average		
Coupon	Par/Notional-Long (Short)	Amortized Cost/ Implied Cost Basis (1)(3)	Fair Value (2)(3)	Loan Age (in months)(4)	3 Month CPR (4)(5)	Estimated Duration (6)
30-year fixed-rate:		*($s in thousands)*				
TBA 2.0%	$ 765,000	$ 789,945	$ 792,957	n/a	n/a	4.89
2.0%	620,238	635,096	646,744	8	7.7 %	5.31
2.5%	938,334	973,116	995,889	10	13.5 %	3.53
4.0%	280,474	288,831	303,758	33	46.8 %	2.48
15-year fixed-rate:						
TBA 1.5%	250,000	255,068	257,305	n/a	n/a	4.73
TBA 2.0%	500,000	519,047	522,687	n/a	n/a	3.09
Total	$ 3,354,046	$ 3,461,103	$ 3,519,340	13	17.1 %	4.10

(1) Implied cost basis of TBAs represents the forward price to be paid for the underlying Agency MBS.
(2) Fair value of TBAs is the implied market value of the underlying Agency security as of the end of the period.

(3) TBAs are included on the consolidated balance sheet within "derivative assets/liabilities" at their net carrying value which is the difference between their implied market value and implied cost basis. Please refer to Note 5 of the Notes to the Consolidated Financial Statements for additional information.
(4) TBAs are excluded from this calculation as they do not have a defined weighted-average loan balance or age until mortgages have been assigned to the pool.
(5) Constant prepayment rate ("CPR") represents the 3-month CPR of Agency RMBS held as of date indicated. Securities with no prepayment history are excluded from this calculation.
(6) Duration measures the sensitivity of a security's price to the change in interest rates and represents the percent change in price of a security for a 100-basis point increase in interest rates. We calculate duration using third-party financial models and empirical data. Different models and methodologies can produce different estimates of duration for the same securities.

CMBS. Substantially all of our CMBS investments as of June 30, 2021 were fixed-rate Agency-issued securities backed by multifamily housing loans. The loans underlying CMBS are generally fixed-rate with scheduled principal payments generally assuming a 30-year amortization period, but typically requiring balloon payments on average approximately 10 years from origination. These loans typically have some form of prepayment protection provisions (such as prepayment lock-out) or prepayment compensation provisions (such as yield maintenance or prepayment penalty), which provide us compensation if underlying loans prepay prior to us earning our expected return on our investment. Yield maintenance and prepayment penalty requirements are intended to create an economic disincentive for the loans to prepay, which we believe makes the fair value of CMBS less costly to hedge relative to RMBS.

The following table presents information about our CMBS investments by year of origination as of the dates indicated:

	June 30, 2021				December 31, 2020			
($s in thousands)	Par Value	Amortized Cost	Months to Estimated Maturity (1)	WAC (2)	Par Value	Amortized Cost	Months to Estimated Maturity (1)	WAC (2)
Year of Origination:								
Prior to 2009 (3)	$ 6,457	$ 6,273	18	5.76 %	$ 9,132	$ 8,964	36	5.69 %
2009 to 2012	11,281	11,851	41	5.56 %	11,424	12,085	65	5.56 %
2013 to 2014	9,759	9,904	42	3.61 %	9,865	10,033	44	3.61 %
2015	118,870	120,126	62	2.88 %	155,760	157,137	69	2.85 %
2017	30,858	31,215	86	3.18 %	30,907	31,294	91	3.18 %
2019	19,702	19,976	146	3.13 %	19,702	19,988	151	3.12 %
	$ 196,927	$ 199,345	70	3.24 %	$ 236,790	$ 239,501	77	3.19 %

(1) Months to estimated maturity is an average weighted by the amortized cost of the investment.
(2) The weighted average coupon ("WAC") is the gross interest rate of the security weighted by the outstanding principal balance.
(3) The Company has one non-Agency CMBS originally issued in 1998 with an amortized cost and fair value of less than $1.0 million as of June 30, 2021 and December 31, 2020.

CMBS IO. CMBS IO are interest-only securities issued as part of a CMBS securitization and represent the right to receive a portion of the monthly interest payments (but not principal cash flows) on the unpaid principal balance of the underlying pool of commercial mortgage loans. We invest in both Agency-issued and non-Agency issued CMBS IO. Agency-issued CMBS IO pools are backed by multifamily housing loans, and our non-Agency issued CMBS IO are backed by loans secured by a number of different property types including office buildings, hospitality, and retail, among others. Since CMBS IO securities have no principal associated with them, the interest payments received are based on the unpaid principal balance of the underlying pool of mortgage loans, which is often referred to as the notional amount. Yields on CMBS IO securities are dependent upon the performance of the underlying loans. Similar to CMBS described above, the Company receives prepayment compensation as most loans in these securities have some form of prepayment protection from early repayment; however, there are no prepayment protections if the loan defaults and is partially or wholly repaid earlier because of loss mitigation actions taken by the underlying loan servicer. Because Agency CMBS IO generally contain higher credit quality loans, they have a lower risk of default than non-Agency CMBS IO. The majority of our CMBS IO investments are investment grade-rated with the majority rated 'AAA' by at least one of the nationally recognized statistical rating organizations.

The following tables present our CMBS IO investments by year of origination as of the dates indicated:

	June 30, 2021					
	Agency			Non-Agency		
($s in thousands)	**Amortized Cost**	**Fair Value**	**Remaining WAL (1)**	**Amortized Cost**	**Fair Value**	**Remaining WAL (1)**
Year of Origination:						
2010-2012	$ 6,241	$ 6,106	5	$ 1,486	$ 1,505	5
2013	16,070	18,210	9	8,213	8,291	10
2014	20,567	21,495	18	41,931	43,169	16
2015	27,246	28,623	22	46,599	48,430	22
2016	20,647	21,667	27	14,975	15,163	16
2017	24,590	25,977	38	7,000	7,260	30
2018	3,589	3,922	57	—	—	—
2019	84,391	89,018	56	—	—	—
2020	3,028	3,105	48	—	—	—
2021	526	542	78	—	—	—
	$ 206,895	$ 218,665	37	$ 120,204	$ 123,818	20

	December 31, 2020					
	Agency			Non-Agency		
($s in thousands)	**Amortized Cost**	**Fair Value**	**Remaining WAL (1)**	**Amortized Cost**	**Fair Value**	**Remaining WAL (1)**
Year of Origination:						
2010-2012	$ 12,037	$ 11,932	9	$ 3,237	$ 3,263	8
2013	22,367	24,165	13	10,875	10,912	15
2014	24,841	25,749	22	50,777	51,175	20
2015	31,875	33,404	26	53,176	54,020	27
2016	23,072	24,203	31	16,705	16,906	16
2017	26,493	27,952	42	7,733	7,808	34
2018	3,792	3,983	62	—	—	—
2019	88,757	91,303	60	—	—	—
2020	3,203	3,264	53	—	—	—
	$ 236,437	$ 245,955	39	$ 142,503	$ 144,084	24

(1) Remaining weighted average life ("WAL") represents an estimate of the number of months of contractual cash flows remaining for the investments by year of origination.

The weighted average interest coupon rate for our CMBS IO was 0.64% as of June 30, 2021 and 0.56% as of December 31, 2020. Effective yields on CMBS IO securities are dependent upon the performance of the underlying loans. Our return on these investments may be negatively impacted if the loans default, resulting in foreclosures, or liquidations of the loan collateral. Non-Agency-issued securities are generally expected to have a higher risk of default than Agency CMBS IO. We are mostly invested in senior tranches of these securities where we have evaluated the credit profile of the underlying loan pool and can monitor credit performance in order to mitigate our exposure to losses. The majority of our non-Agency CMBS IO investments are investment grade-rated with the majority rated 'AAA' by at least one of the nationally recognized statistical rating organizations. All of our non-Agency CMBS IO were originated prior to 2017, the majority of which we believe have had underlying property value appreciation.

Since the economic impacts of COVID-19 began in 2020, servicers are reporting an increase in delinquencies on loans underlying our non-Agency CMBS IO and have taken loss mitigation actions including loan forbearance or allowing the borrower to make loan payments using replacement reserve or similar property related funds. Most of the increases in delinquencies thus far have been in the retail and hotel sectors and have nominally impacted cash flows and yields on the securities. Considering the characteristics of our non-Agency CMBS IO and the actions taken by servicers so far to work with borrowers through various relief measures, we have not seen evidence of and do not currently expect a material adverse effect on our future cash flows for non-Agency CMBS IO. However, the ultimate impact of COVID-19 on the global economy and on the loans underlying any of our securities remains uncertain and cannot be predicted at this time.

The property type for the loans securing our non-Agency CMBS IO, which has not changed materially since December 31, 2020, are shown in the table below as of June 30, 2021:

	June 30, 2021	
($s in thousands)	Fair Value	Percentage of Portfolio
Property Type:		
Retail	$ 34,811	28.1 %
Office	26,907	21.7 %
Multifamily	20,834	16.8 %
Hotel	16,641	13.4 %
Mixed use	8,561	6.9 %
Other [1]	16,064	13.1 %
Total non-Agency CMBS IO	$ 123,818	100.0 %

(1) Other property types collateralizing non-Agency CMBS IO do not comprise more than 5% individually.

Repurchase Agreements

We use leverage to enhance the returns on our invested capital by pledging our investments as collateral for borrowings primarily through the use of uncommitted repurchase agreements with major financial institutions and broker-dealers. Repurchase agreements generally have original terms to maturity of overnight to six months, though in some instances we may enter into longer-dated maturities depending on market conditions. We pay interest on our repurchase agreement borrowings based on short-term rate indices that historically closely track LIBOR and are fixed for the term of the borrowing.

Please refer to Note 4 of the Notes to the Consolidated Financial Statements contained within this Quarterly Report on Form 10-Q as well as “Results of Operations” and “Liquidity and Capital Resources” contained within this Item 2 for additional information relating to our repurchase agreement borrowings.

Derivative Assets and Liabilities

We use derivative instruments to economically hedge our exposure to adverse changes in interest rates resulting from our ownership of primarily fixed-rate investments financed with short-term repurchase agreements. Changes in interest rates can impact net interest income, the market value of our investments, and book value per common share. We regularly monitor and frequently adjust our hedging portfolio in response to many factors including, but not limited to, changes in our investment portfolio as well as our expectation of future interest rates, including the absolute level of rates and the slope of the yield curve versus market expectations. As of June 30, 2021, approximately 86% of our MBS portfolio including TBA securities were hedged using short positions in U.S. Treasury futures, put options on U.S. Treasury futures, and interest rate swaptions compared to approximately 62% as of December 31, 2020. Please refer to Note 5 of the Notes to the Consolidated Financial Statements for details on our interest rate derivative instruments as well as “Quantitative and Qualitative Disclosures about Market Risk” in Part I, Item 3 of this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

The discussion below includes both GAAP and non-GAAP financial measures that management utilizes in its internal analysis of financial and operating performance. Please read the section "Non-GAAP Financial Measures" contained in "Executive Overview" of Part I, Item 2 of this Quarterly Report on Form 10-Q for additional important information about these financial measures.

Three Months Ended June 30, 2021 Compared to the Three Months Ended March 31, 2021

The following table summarizes the results of operations for the periods indicated:

	Three Months Ended	
$s in thousands	**June 30, 2021**	**March 31, 2021**
Net interest income	$ 12,118	$ 12,259
Realized gain on sale of investments, net	2,008	4,697
Unrealized gain (loss) on investments, net	1,084	(980)
(Loss) gain on derivative instruments, net	(52,940)	107,801
General and administrative expenses	(5,706)	(5,468)
Other operating expenses, net	(323)	(380)
Preferred stock dividends	(1,923)	(2,559)
Preferred stock redemption charges	—	(2,987)
Net (loss) income to common shareholders	(45,682)	112,383
Other comprehensive income (loss)	14,270	(65,156)
Comprehensive (loss) income to common shareholders	$ (31,412)	$ 47,227

Net Interest Income

Net interest income was relatively stable for the three months ended June 30, 2021 compared to the three months ended March 31, 2021, and net interest spread was flat at 1.87% versus the prior quarter. Interest income declined $(0.5) million for the second quarter of 2021 compared to the prior quarter due to a smaller average balance of assets at lower effective yields and a decline of $0.3 million in net prepayment penalty income from CMBS IO. Though we purchased Agency RMBS of $0.8 million, net of sales, in the latter half of the second quarter, interest income for the period includes one month or less of interest earnings as these purchases settled either in June or were pending settlement as of June 30, 2021. The decline in interest income was mostly offset by the decline of $0.4 million in interest expense from repurchase agreement financing costs.

The following table presents certain information about our interest-earning assets and interest-bearing liabilities and their performance for the periods indicated:

($s in thousands)	Three Months Ended					
	June 30, 2021			March 31, 2021		
	Interest Income/Expense	Average Balance [1] [2]	Effective Yield/ Cost of Funds [3][4]	Interest Income/Expense	Average Balance [1] [2]	Effective Yield/ Cost of Funds [3][4]
Interest-earning assets:						
Agency RMBS	$ 7,373	$ 1,863,420	1.58 %	$ 7,381	$ 1,821,920	1.62 %
Agency CMBS	1,959	233,815	2.97 %	1,832	238,158	2.91 %
CMBS IO [5]	3,918	339,288	4.24 %	4,516	365,891	4.33 %
Non-Agency MBS and other investments	143	6,617	6.94 %	163	7,304	7.15 %
Total:	$ 13,393	$ 2,443,140	2.10 %	$ 13,892	$ 2,433,273	2.17 %
Interest-bearing liabilities: [6]	(1,275)	2,155,200	(0.23)%	(1,633)	2,158,121	(0.30)%
Net interest income/net interest spread	$ 12,118		1.87 %	$ 12,259		1.87 %

(1) Average balance for assets is calculated as a simple average of the daily amortized cost and excludes unrealized gains and losses as well as securities pending settlement if applicable.
(2) Average balance for liabilities is calculated as a simple average of the daily borrowings outstanding during the period.
(3) Effective yield is calculated by dividing the sum of gross interest income and scheduled premium amortization/discount accretion (both of which are annualized for any reporting period less than 12 months) and prepayment compensation and premium amortization/discount accretion adjustments (collectively, "prepayment adjustments"), which are not annualized, by the average balance of asset type outstanding during the reporting period.
(4) Cost of funds is calculated by dividing annualized interest expense by the total average balance of borrowings outstanding during the period with an assumption of 360 days in a year.
(5) Includes Agency and non-Agency issued securities.
(6) Interest-bearing liabilities consist primarily of repurchase agreement borrowings.

The following table presents the estimated impact on our net interest income due to changes in rate (effective yield/cost of funds) and changes in volume (average balance) of our interest-earning assets and interest-bearing liabilities for the periods indicated:

($s in thousands)	Three Months Ended June 30, 2021 Compared to March 31, 2021			
	Increase (Decrease) Due to Change In			Total Change in Interest Income/Expense
	Rate	Volume	Prepayment Adjustments [1]	
Interest-earning assets:				
Agency RMBS	$ (176)	$ 168	$ —	$ (8)
Agency CMBS	(4)	(14)	145	127
CMBS IO [2]	(12)	(278)	(308)	(598)
Non-Agency MBS and other investments	(7)	(9)	(4)	(20)
Change in interest income	(199)	(133)	(167)	(499)
Change in interest expense	(349)	(9)	—	(358)
Total net change in net interest income	$ 150	$ (124)	$ (167)	$ (141)

(1) Prepayment adjustments represent effective interest amortization adjustments related to changes in actual prepayment speeds and prepayment compensation, net of amortization adjustments for CMBS and CMBS IO.
(2) Includes Agency and non-Agency issued securities.

As mentioned previously, CMBS and CMBS IO typically have some form of prepayment protection provisions (such as prepayment lock-out) or prepayment compensation provisions (such as yield maintenance or prepayment penalty), which provide us compensation if underlying loans prepay prior to us earning our expected return on our investment. We earned $1.2 million in gross prepayment compensation for the three months ended June 30, 2021 compared to $0.8 million for the three months ended March 31, 2021. These amounts were offset by additional premium amortization adjustments of $(0.5) million and $0.1 million, respectively, resulting in net prepayment penalty income of $0.7 million for the three months ended June 30, 2021 and $0.9 million for the three months ended March 31, 2021.

Adjusted Net Interest Income

Please refer to "Non-GAAP Financial Measures" at the end of the "Executive Overview" section of this Quarterly Report on Form 10-Q for additional information about this financial measure used by management to evaluate results of operations.

	Three Months Ended			
	June 30, 2021		March 31, 2021	
($s in thousands)	Amount	Rate	Amount	Rate
Net interest income	$ 12,118	1.87 %	$ 12,259	1.87 %
Add: TBA drop income (1) (2)	12,177	0.08 %	8,568	— %
Adjusted net interest income	$ 24,295	1.95 %	$ 20,827	1.87 %

(1) TBA drop income is calculated by multiplying the notional amount of the TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.

(2) The impact of TBA drop income on adjusted net interest spread includes the implied average funding cost of TBA dollar roll transactions during the periods indicated.

Adjusted net interest income increased for the three months ended June 30, 2021 compared to the three months ended March 31, 2021 because we increased our average investment in TBA securities by approximately 29% during the second quarter, resulting in higher TBA drop income. The financing cost imputed in TBA dollar roll transactions continues to be lower than the average repurchase agreement financing rate, which is commonly referred to in the industry as TBA dollar rolls "trading special" or "dollar roll specialness." Dollar roll specialness happens primarily as a result of supply/demand imbalances or volatility in market prepayment expectations, and in management's view, the pace of bank and Federal Reserve purchases is currently resulting in an implied financing costs dropping below 0%. The implied financing rate for our TBA long positions was (0.36)% compared to our repurchase agreement financing cost for specified pools of Agency RMBS of 0.13% for the three months ended June 30, 2021, an increase of 10 basis points in dollar roll specialness versus the prior quarter. As a result, TBA dollar roll transactions contributed 8 basis points to adjusted net interest spread of 1.95% for the second quarter of 2021.

Changes in Fair Value of Investments

Changes in the fair value of our investments result in realized and unrealized gains and losses. The fair value of our investments are impacted by a number of factors including, among others, market volatility, changes in credit spreads, spot and forward interest rates, actual and anticipated prepayments, and supply/demand dynamics which are in turn impacted by, among other things, interest rates, capital flows, economic conditions, and government policies and actions, such as purchases and sales by the Federal Reserve Bank of New York.

The following table provides details on unrealized gains and losses on our investments recorded within "unrealized gain (loss) on investments, net" and "other comprehensive income (loss)" for the periods indicated:

($s in thousands)	Three Months Ended June 30, 2021	Three Months Ended March 31, 2021
MBS purchased after December 31, 2020	$ 997	$ (960)
Mortgage loans held for investment	86	(35)
Other	1	15
Unrealized gain (loss) on investments, net	1,084	(980)
Agency RMBS	12,429	(60,175)
Agency CMBS	(259)	(7,046)
CMBS IO	2,148	2,121
Non-Agency other	(48)	(56)
Other comprehensive income (loss)	14,270	(65,156)
Total unrealized gains (losses)	$ 15,354	$ (66,136)

Sales of our investments happen in the ordinary course of business as we manage our risk, capital and liquidity profiles, and as we reallocate capital to various investments. The following table provides information related to our “realized gains (losses) on sales of investments, net” for the periods indicated:

	Three Months Ended			
	June 30, 2021		March 31, 2021	
($s in thousands)	Amortized cost sold	Realized Gain	Amortized cost sold	Realized Gain
Agency RMBS-designated as AFS	$ 213,339	$ (759)	$ 70,132	$ 4,697
Agency CMBS-designated as AFS	35,106	2,767	—	—
Total	$ 248,445	$ 2,008	$ 70,132	$ 4,697

Gain (Loss) on Derivative Instruments, Net

Changes in the fair value of derivative instruments are impacted by changing market interest rates and adjustments that we may make to our hedging positions in any given period. Because of the changes made to our derivatives portfolio from one reporting period to the next, results of any given reporting period are generally not comparable to results of another.

The yield curve flattened during the second quarter of 2021 as longer-term interest rates declined. However, we maintained our hedge position for a steeper yield curve given management's macroeconomic view that market fundamentals remain positive and point toward continued economic recovery in the medium term. The following table provides information on our financial instruments accounted for as derivative instruments for the periods indicated:

($s in thousands)	Three Months Ended June 30, 2021	Three Months Ended March 31, 2021
Change in fair value of interest rate hedges:		
Interest rate swaptions	$ (19,062)	$ 57,763
U.S. Treasury futures	(63,184)	95,647
Options on U.S. Treasury futures	(11,531)	12,617
Total (loss) gain on interest rate hedges	(93,777)	166,027
TBA dollar roll positions:		
Change in fair value [1]	28,660	(66,794)
TBA drop income [2]	12,177	8,568
Total TBA dollar roll gain (loss), net	40,837	(58,226)
Total (loss) gain on derivative instruments, net	$ (52,940)	$ 107,801

(1) Changes in fair value for TBA dollar roll positions include unrealized gains (losses) from open TBA contracts and realized gains (losses) on paired off or terminated positions.
(2) TBA drop income represents a portion of the change in fair value and is calculated by multiplying the notional amount of the net TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.

The following table provides information regarding realized gains (losses) on derivative instruments for the periods indicated:

($s in thousands)	Three Months Ended June 30, 2021	Three Months Ended March 31, 2021
Interest rate swaptions	$ —	$ 31,173
U.S. Treasury futures	36,679	21,397
Options on U.S. Treasury futures	(3,633)	1,872
TBA long positions	16,309	(29,471)
Total realized gains (losses) on derivative instruments	$ 49,355	$ 24,971

General and Administrative Expenses

General and administrative expenses increased $0.2 million for the three months ended June 30, 2021 compared to the three months ended March 31, 2021. This increase is attributable to a $0.1 million increase in compensation and benefits due to an increase in the accrual for annual bonuses based on company performance during the first six months of 2021 and a $0.1 million increase in other general and administrative expenses due to an increase in consulting expenses related to planning for implementation of new investment software, partially offset by a decline in accounting and legal fee expenses.

Six Months Ended June 30, 2021 Compared to the Six Months Ended June 30, 2020

Net Interest Income

Net interest income declined $(8.3) million for the six months ended June 30, 2021 compared to the six months ended June 30, 2020 because we held a smaller average balance of lower yielding investments during the first half of 2021 compared to the first half of 2020. Net interest spread increased 34 basis points for the six months ended June 30, 2021 compared to the six months ended June 30, 2020 as the decline in our repurchase agreement borrowing costs was higher than the decline in the effective yield earned on our investments. The following table presents information about our interest-earning assets and interest-bearing liabilities and their performance for the periods indicated:

($s in thousands)	Six Months Ended June 30, 2021 Interest Income/Expense	Average Balance [(1)(2)]	Effective Yield/ Cost of Funds [(3)(4)]	2020 Interest Income/Expense	Average Balance [(1)(2)]	Effective Yield/ Cost of Funds [(3)(4)]
Interest-earning assets:						
Agency RMBS	$ 14,754	$ 1,842,785	1.60 %	$ 28,895	$ 2,073,379	2.79 %
Agency CMBS	3,792	235,974	3.03 %	19,922	1,309,637	3.00 %
CMBS IO [(5)]	8,434	352,516	4.45 %	9,968	461,988	4.03 %
Non-Agency MBS and other investments [(6)]	305	6,959	7.44 %	891	9,944	7.83 %
Total:	$ 27,285	$ 2,438,234	2.17 %	$ 59,676	$ 3,854,948	3.02 %
Interest-bearing liabilities: [(7)]	(2,908)	2,156,652	(0.27)%	(26,952)	3,642,871	(1.46)%
Net interest income/net interest spread	$ 24,377		1.90 %	$ 32,724		1.56 %

(1) Average balance for assets is calculated as a simple average of the daily amortized cost and excludes unrealized gains and losses as well as securities pending settlement if applicable.
(2) Average balance for liabilities is calculated as a simple average of the daily borrowings outstanding during the period.
(3) Effective yield is calculated by dividing the sum of gross interest income and scheduled premium amortization/discount accretion (both of which are annualized for any reporting period less than 12 months) and prepayment compensation and premium amortization/discount accretion adjustments (collectively, "prepayment adjustments"), which are not annualized, by the average balance of asset type outstanding during the reporting period.
(4) Cost of funds is calculated by dividing annualized interest expense by the total average balance of borrowings outstanding during the period with an assumption of 360 days in a year.
(5) Includes Agency and non-Agency issued securities.
(6) Interest income for non-Agency and other investments for the six months ended June 30, 2020 includes $0.5 million of interest income from cash and cash equivalents. Average balance and effective yield for non-Agency MBS and other investments excludes cash and cash equivalents.
(7) Interest-bearing liabilities consist primarily of repurchase agreement borrowings.

The following table presents the estimated impact on our net interest income due to changes in rate (effective yield/cost of funds) and changes in volume (average balance) of our interest-earning assets and interest-bearing liabilities for the periods indicated:

($s in thousands)	Six Months Ended June 30, 2021 Compared to June 30, 2020			
	Increase (Decrease) Due to Change In			Total Change in Interest Income/Expense
	Rate	Volume	Prepayment Adjustments (1)	
Interest-earning assets:				
Agency RMBS	$ (10,933)	$ (3,208)	$ —	$ (14,141)
Agency CMBS	(166)	(16,277)	313	(16,130)
CMBS IO (2)	658	(2,045)	(147)	(1,534)
Non-Agency MBS and other investments	(59)	(501)	(26)	(586)
Change in interest income	$ (10,500)	$ (22,031)	$ 140	$ (32,391)
Change in interest expense	(12,959)	(11,085)	—	(24,044)
Total net change in net interest income	$ 2,459	$ (10,946)	$ 140	$ (8,347)

(1) Prepayment adjustments represent effective interest amortization adjustments related to changes in actual prepayment speeds and prepayment compensation, net of amortization adjustments for CMBS and CMBS IO.
(2) Includes Agency and non-Agency issued securities.

<u>*Adjusted Net Interest Income*</u>

Please refer to "Non-GAAP Financial Measures" at the end of the "Executive Overview" section of this Quarterly Report on Form 10-Q for additional information about this financial measure used by management to evaluate results of operations.

($s in thousands)	Six Months Ended June 30,			
	2021		2020	
	Amount	Rate	Amount	Rate
Net interest income	$ 24,377	1.90 %	$ 32,724	1.56 %
Add: TBA drop income (1) (2)	20,745	0.03 %	2,535	— %
Add: net periodic interest benefit (3)	—	— %	1,957	0.10 %
Adjusted net interest income	$ 45,122	1.93 %	$ 37,216	1.66 %

(1) TBA drop income is calculated by multiplying the notional amount of the TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.
(2) The impact of TBA drop income on adjusted net interest spread includes the implied average funding cost of TBA dollar roll transactions during the periods indicated.
(3) Amount represents net periodic interest cost/benefit of effective interest rate swaps outstanding during the period and excludes realized and unrealized gains and losses from changes in fair value of derivatives.

The increase of $7.9 million in adjusted net interest income for the six months ended June 30, 2021 compared to the six months ended June 30, 2020 is due to our increased investment in TBA securities at lower implied funding costs relative to the six months ended June 30, 2020, which resulted in an increase in TBA drop income of $18.2 million. This increase in TBA drop income offset the decline of $(8.3) million in net interest income and $(2.0) million in net periodic interest benefit from interest rate swaps. As discussed previously, we have increased our investment in TBA securities relative to prior periods due to dollar roll specialness, and also given the current market environment. TBA securities allow us more flexibility should we decide or find it necessary to reduce leverage. The decline in net periodic interest benefit from interest rate swaps is because we are not currently using interest rate swaps to hedge our interest rate risk.

The following table discloses net premium amortization by MBS type for the periods indicated:

($s in thousands)	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Agency RMBS	$ (7,450)	$ (6,540)
Agency CMBS	(419)	(974)
CMBS IO	(52,310)	(56,372)
Non-Agency MBS	134	180
Total net premium amortization	$ (60,045)	$ (63,706)

Prepayment compensation from CMBS and CMBS IO was $2.0 million for the six months ended June 30, 2021 compared to $0.9 million for the six months ended March 31, 2021.

Changes in Fair Value of Investments

The following table provides details on unrealized gains or losses on our investments recorded within "unrealized gain (loss) on investments, net" and "other comprehensive income (loss)" for the periods indicated:

($s in thousands)	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
MBS purchased after December 31, 2020	$ 37	$ —
Mortgage loans held for investment	50	(20)
Other	17	(20)
Unrealized gain (loss) on investments, net	104	(40)
Agency RMBS	(47,746)	(28,154)
Agency CMBS	(7,305)	(54,251)
CMBS IO	4,270	(9,495)
Non-Agency other	(105)	(175)
Other comprehensive loss	(50,886)	(92,075)
Total unrealized losses	$ (50,782)	$ (92,115)

The following table provides information related to our "realized gains (losses) on sales of investments, net" for the periods indicated:

	Six Months Ended			
	June 30, 2021		June 30, 2020	
($s in thousands)	Amortized cost sold	Realized Gain	Amortized cost sold	Realized Gain
Agency RMBS-designated as AFS	$ 283,471	$ 3,938	$ 2,112,633	$ 75,823
Agency CMBS-designated as AFS	35,106	2,767	1,991,853	202,059
Total	$ 318,577	$ 6,705	$ 4,104,486	$ 277,882

Gain (Loss) on Derivative Instruments, Net

The following table provides information on our financial instruments accounted for as derivative instruments for the periods indicated:

($s in thousands)	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Change in fair value of interest rate hedges:		
Interest rate swaps (1)	$ —	$ (183,852)
Interest rate swaptions	38,701	(573)
U.S. Treasury futures	32,464	(19,377)
Options on U.S. Treasury futures	1,086	(17,406)
Total gain (loss) on interest rate hedges	72,251	(221,208)
TBA dollar roll positions:		
Change in fair value (2)	(38,135)	14,543
TBA drop income (3)	20,745	2,535
Total TBA dollar roll (loss) gain, net	(17,390)	17,078
Total gain (loss) on derivative instruments, net	$ 54,861	$ (204,130)

(1) Amount for interest rate swaps for six months ended June 30, 2020 is net of periodic interest benefit of $2.0 million.

(2) Changes in fair value for TBA dollar roll positions include unrealized gains (losses) from open TBA contracts and realized gains (losses) on paired off or terminated positions.

(3) TBA drop income represents a portion of the change in fair value and is calculated by multiplying the notional amount of the net TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.

The following table provides information regarding realized gains (losses) on derivative instruments for the periods indicated:

($s in thousands)	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Interest rate swaps	$ —	$ (183,773)
Interest rate swaptions	—	(1,934)
U.S. Treasury futures	58,076	(15,168)
Options on U.S. Treasury futures	(1,761)	(13,234)
TBA long positions	(13,162)	23,196
TBA short positions	—	(11,016)
Total realized gains (losses) on derivative instruments	$ 43,153	$ (201,929)

General and Administrative Expenses

General and administrative expenses increased $1.7 million for the six months ended June 30, 2021 compared to the six months ended June 30, 2020 due primarily to higher bonus accruals based on the Company’s year-to-date performance and consulting fees related to planning for implementation of new investment software.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity include borrowings under repurchase arrangements and monthly principal and interest payments we receive on our investments. Additional sources may also include proceeds from the sale of investments, equity offerings, and payments received from counterparties for derivative instruments. We use our liquidity to purchase investments and to pay our operating expenses and dividends on our common and preferred stock. We also use our liquidity to meet margin requirements for our repurchase agreements and derivative transactions, including TBA contracts, under the terms of the related agreements. We may also periodically use liquidity to repurchase shares of the Company's stock.

Our liquidity fluctuates based on our investment activities, our financing and capital raising activities, and changes in the fair value of our investments and derivative instruments. Our most liquid assets include unrestricted cash and cash equivalents and unencumbered Agency RMBS, CMBS, and CMBS IO which were $517.9 million as of June 30, 2021 compared to $415.3 million as of December 31, 2020.

We analyze our liquidity under various scenarios based on changes in the fair value of our investments and derivative instruments due to market factors such as changes in the absolute level of interest rates and the shape of the yield curve, credit spreads, lender haircuts, and prepayment speeds. In performing these analyses, we will also consider the current state of the fixed income markets and the repurchase agreement markets in order to determine if market forces such as supply-demand imbalances or structural changes to these markets could change the liquidity of MBS or the availability of financing. The objective of our analyses is to assess the adequacy of our liquidity to withstand potential adverse events, such as the current COVID-19 pandemic. We may change our leverage targets based on market conditions and our perceptions of the liquidity of our investments. Our leverage, which we calculate using total liabilities plus the cost basis of TBA long positions, was 6.7x shareholders' equity as of June 30, 2021 compared to 6.3x as of December 31, 2020. The increase in leverage during the first six months of 2021 resulted from a 50% increase in the cost basis of our investment in TBA securities as of June 30, 2021 compared to December 31, 2020. This increase was partially offset by a 19% increase in our equity, which increased primarily as a result of capital raises during the first half of 2021. We include our TBA long positions in evaluating the Company's leverage because it is possible under certain market conditions that it may be uneconomical for us to roll a TBA long position into future months, which may result in us having to take physical delivery of the underlying securities and use cash or other financing sources to fund our total purchase commitment. Management expects leverage to increase modestly over the next 6 months given current expectations of market conditions. In general, our leverage will increase if we are able to purchase investments with higher expected returns than currently exist today.

Our repurchase agreement borrowings are principally uncommitted with terms renewable at the discretion of our lenders and have short-term maturities. As such, we attempt to maintain unused capacity under our existing repurchase agreement credit lines with multiple counterparties, which helps protect us in the event of a counterparty's failure to renew existing repurchase agreements. As part of our continuous evaluation of counterparty risk, we maintain our highest counterparty exposures with broker dealer subsidiaries of regulated financial institutions or primary dealers whom we believe are better capitalized and more durable counterparties.

The following table presents information regarding the balances of our repurchase agreement borrowings as of and for the periods indicated:

	Repurchase Agreements		
($s in thousands)	**Balance Outstanding As of Quarter End**	**Average Balance Outstanding For the Quarter Ended**	**Maximum Balance Outstanding During the Quarter Ended**
June 30, 2021	$ 2,321,043	$ 2,155,200	$ 2,415,037
March 31, 2021	2,032,089	2,158,121	2,437,163
December 31, 2020	2,437,163	2,500,639	2,594,683
September 30, 2020	2,594,683	2,984,946	3,314,991
June 30, 2020	3,314,991	2,580,296	4,408,106
March 31, 2020	4,408,106	4,701,010	4,917,731
December 31, 2019	4,752,348	4,806,826	4,891,341

For our repurchase agreement borrowings, we are required to post and maintain margin to the lender (i.e., collateral in excess of the repurchase agreement financing) in order to support the amount of the financing. This excess collateral is often referred to as a "haircut" and is intended to provide the lender some protection against fluctuations in fair value of the collateral and/or the failure by us to repay the borrowing at maturity. Lenders have the right to change haircut requirements at maturity of the repurchase agreement (if the term is renewed) and may change their haircuts based on market conditions and the perceived riskiness of the collateral pledged. If the fair value of the collateral falls below the haircut required by the lender, the lender has the right to demand additional margin, or collateral, to increase the haircut back to the initial amount. These demands are typically referred to as “margin calls”, and if we fail to meet any margin call, our lenders have the right to terminate the repurchase agreement and sell any collateral pledged. Declines in the fair value of investments occur for any number of reasons including but not limited to changes in interest rates, changes in ratings on an investment, changes in actual or perceived liquidity of the investment, or changes in overall market risk perceptions. Additionally, Fannie Mae and Freddie Mac announce principal payments on Agency MBS in advance of their actual remittance of principal payments, and repurchase agreement lenders generally make margin calls for an amount equal to the product of their advance rate on the repurchase agreement and the announced principal payments on the Agency RMBS. A margin call made by a lender reduces our liquidity until we receive the principal payments from Fannie Mae and Freddie Mac. The weighted average haircut for our borrowings collateralized with Agency RMBS and Agency CMBS typically averages less than 5% while CMBS IO averages between 13-16%.

The collateral we post in excess of our repurchase agreement borrowing with any counterparty is also typically referred to by us as “equity at risk”, which represents the potential loss to the Company if the counterparty is unable or unwilling to return collateral securing the repurchase agreement borrowing at its maturity. The counterparties with whom we have the greatest amounts of equity at risk may vary significantly during any given period due to the short-term and generally uncommitted nature of the repurchase agreement borrowings. As of June 30, 2021, the Company had repurchase agreement amounts outstanding with 23 of its 37 available repurchase agreement counterparties and did not have more than 5% of equity at risk with any counterparty or group of related counterparties.

We have various financial and operating covenants in certain of our repurchase agreements including, among other things, requirements that we maintain minimum shareholders' equity (usually a set minimum, or a percentage of the highest amount of shareholders' equity since the date of the agreement), limits on maximum decline in shareholders' equity (expressed as a percentage decline in any given period), limits on maximum leverage (as a multiple of shareholders' equity), and requirements to maintain our status as a REIT under the Internal Revenue Code of 1986 and the corresponding provisions of state law and to maintain our listing on the New York Stock Exchange. Violations of one or more of these covenants could result in the lender declaring an event of default which would result in the termination of the repurchase agreement and immediate acceleration of amounts due thereunder. In addition, some of the agreements contain cross default features, whereby default with one lender simultaneously causes default under agreements with other lenders. Violations could also restrict us from paying dividends or engaging in other transactions that are necessary for us to maintain our REIT status.

We monitor and evaluate on an ongoing basis the impact these customary financial covenants may have on our operating and financing flexibility. Currently, we do not believe we are subject to any covenants that materially restrict our financing flexibility. We were in full compliance with our debt covenants as of June 30, 2021, and we are not aware of any circumstances which could potentially result in our non-compliance in the foreseeable future.

Derivative Instruments

We use certain types of financial instruments that are accounted for as derivative instruments, including interest rate swaps, futures, options, and long and short positions in TBA securities. Certain of these derivative instruments may require us to post initial margin at inception and daily variation margin based on subsequent changes in their fair value. The collateral posted as margin by us is typically in the form of cash or Agency MBS. Counterparties may have to post variation margin to us. Generally, as interest rates decline, we will be required to post collateral with counterparties on our interest rate derivatives and vice versa as interest rates increase. As of June 30, 2021, we had received cash collateral of $9.3 million from our counterparties under these agreements.

Our TBA contracts are subject to master securities forward transaction agreements published by the Securities Industry and Financial Markets Association as well as supplemental terms and conditions with each counterparty. Under the terms of these agreements, we may be required to pledge collateral to, or have the right to receive collateral from, our counterparties when initiated or in the event the fair value of our TBA contracts declines. As of June 30, 2021, we had cash of $85.3 million posted as collateral under these agreements. Declines in the fair value of TBA contracts are generally related to such factors as rising interest rates, increases in expected prepayment speeds, or widening spreads. Our TBA contracts generally provide that valuations for our TBA contracts and any pledged collateral are to be obtained from a generally recognized source agreed to by both parties. However, in certain circumstances, our counterparties have the sole discretion to determine the value of the TBA contract and any pledged collateral. In such instances, our counterparties are required to act in good faith in making determinations of value. In the event of a margin call, we must generally provide additional collateral on the same business day.

Dividends

As a REIT, we are required to distribute to our shareholders amounts equal to at least 90% of our REIT taxable income for each taxable year after certain deductions. We generally fund our dividend distributions through our cash flows from operations. If we make dividend distributions in excess of our operating cash flows during the period, whether for purposes of meeting our REIT distribution requirements or other strategic reasons, those distributions are generally funded either through our existing cash balances or through the return of principal from our investments (either through repayment or sale). Please refer to "Federal Income Tax Considerations" within Part I, Item 1, "Business" as well as Part I, Item 1A, “Risk Factors” of our 2020 Form 10-K for additional important information regarding dividends declared on our taxable income.

Contractual Obligations and Other Matters

As of June 30, 2021, we do not have any material contractual obligations other than the short-term repurchase agreement amounts discussed above, nor do we believe that any off-balance sheet arrangements exist that are reasonably likely to have a material effect on our current or future financial condition, results of operations, or liquidity other than as discussed above. In addition, we do not have any material commitments for capital expenditures and have not obtained any commitments for funds to fulfill any capital obligations.

RECENT ACCOUNTING PRONOUNCEMENTS

There were no accounting pronouncements issued during the six months ended June 30, 2021 that are expected to have a material impact on the Company’s financial condition or results of operations. Please refer to Note 1 of the Notes to the Consolidated Financial Statements contained within Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of our financial condition and results of operations are based in large part upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. We base these estimates and judgments on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual results, however, may differ from the estimated amounts we have recorded.

Critical accounting estimates are defined as those that require management's most difficult, subjective or complex judgments, and which may result in materially different results under different assumptions and conditions. Our critical accounting estimates are discussed in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2020 Form 10-K under “Critical Accounting Estimates.” There have been no significant changes in our critical accounting estimates during the three months ended June 30, 2021.

FORWARD-LOOKING STATEMENTS

Certain written statements in this Quarterly Report on Form 10-Q that are not historical facts 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”). Statements in this report addressing expectations, assumptions, beliefs, projections, future plans and strategies, future events, developments that we expect or anticipate will occur in the future, and future operating results, capital management, and dividend policy are forward-looking statements. Forward-looking statements are based upon management’s beliefs, assumptions, and expectations as of the date of this report regarding future events and operating performance, taking into account all information currently available to us, and are applicable only as of the date of this report. Forward-looking statements generally can be identified by use of words such as “believe”, “expect”, “anticipate”, “estimate”, “plan”, “may”, “will”, “intend”, “should”, “could” or similar expressions. We caution readers not to place undue reliance on our forward-looking statements, which are not historical facts and may be based on projections, assumptions, expectations, and anticipated events that do not materialize. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statement whether as a result of new information, future events, or otherwise.

Forward-looking statements in this Quarterly Report on Form 10-Q may include, but are not limited to statements about:

- Our business and investment strategy including our ability to generate acceptable risk-adjusted returns and our target investment allocations, and our views on the future performance of MBS and other investments;
- Our views on the macroeconomic environment, monetary and fiscal policy, and conditions in the investment, credit, and derivatives markets;
- Our views on the effect of actual or proposed actions of the Federal Reserve, the FOMC, or other central banks with respect to monetary policy (including the targeted Federal Funds Rate), and the potential impact of these actions on interest rates, inflation or unemployment;
- The effect of regulatory initiatives of the Federal Reserve (including the FOMC), the FHFA, other financial regulators, and other central banks;
- Our financing strategy including our target leverage ratios, our use of TBA dollar roll transactions, and anticipated trends in financing costs including TBA dollar roll transaction costs, and our hedging strategy including changes to the derivative instruments to which we are a party, and changes to government regulation of hedging instruments and our use of these instruments;
- Our investment portfolio composition and target investments;
- Our investment portfolio performance, including the fair value, yields, and forecasted prepayment speeds of our investments;
- The impact of the COVID-19 pandemic on the economy, as well as certain actions taken by federal, state and local governments in response to the pandemic, and on delinquencies in loans underlying our investments;
- Our liquidity and ability to access financing, and the anticipated availability and cost of financing;
- Our capital stock activity including the impact of stock issuances and repurchases;
- The amount, timing, and funding of future dividends;
- Our use of our tax NOL carryforward and other tax loss carryforwards;;
- The status of pending litigation;
- The competitive environment in the future, including competition for investments and the availability of financing;
- Estimates of future interest expenses, including related to the Company’s repurchase agreements and derivative instruments;
- The status and effect of legislative reforms and regulatory rule-making or review processes, and the status of reform efforts and other business developments in the repurchase agreement financing market;
- Market, industry and economic trends, and how these trends and related economic data may impact the behavior of market participants and financial regulators;
- The financial position and credit worthiness of the depository institutions in which the Company’s MBS and cash deposits are held;
- The impact of applicable tax and accounting requirements on the us including our tax treatment of derivative instruments such as TBAs, interest rate swaps, options and futures;
- Our future compliance with covenants in our master repurchase agreements, ISDA agreements, and debt covenants in our other contractual agreements;
- Market interest rates and market spreads; and
- Possible future effects of the COVID-19 pandemic.

Forward-looking statements are inherently subject to risks, uncertainties and other factors that could cause our actual results to differ materially from historical results or from any results expressed or implied by such forward-looking statements. Not all of these risks and other factors are known to us. New risks and uncertainties arise over time, and it is not possible to predict those events or how they may affect us. The projections, assumptions, expectations or beliefs upon which the forward-looking statements are based can also change as a result of these risks or other factors. If such a risk or other factor materializes in future periods, our business, financial condition, liquidity and results of operations may vary materially from those expressed or implied in our forward-looking statements.

While it is not possible to identify all factors that may cause actual results to differ from historical results or from any results expressed or implied by forward-looking statements, or that may cause our projections, assumptions, expectations or beliefs to change, some of those factors include the following:

- the risks and uncertainties referenced in this Quarterly Report on Form 10-Q, especially those incorporated by reference into Part II, Item 1A, “Risk Factors,” and in particular, adverse effects of the ongoing COVID-19 pandemic and any governmental or societal responses thereto, including the efficacy, distribution, availability and adoption rates of vaccines for COVID-19 and variants thereof;
- our ability to find suitable reinvestment opportunities;
- changes in domestic economic conditions;
- changes in interest rates and interest rate spreads, including the repricing of interest-earning assets and interest-bearing liabilities;
- our investment portfolio performance particularly as it relates to cash flow, prepayment rates and credit performance;
- the impact on markets and asset prices from changes in the Federal Reserve’s policies regarding the purchases of Agency RMBS, Agency CMBS, and U.S. Treasuries;
- actual or anticipated changes in Federal Reserve monetary policy or the monetary policy of other central banks;
- adverse reactions in U.S. financial markets related to actions of foreign central banks or the economic performance of foreign economies including in particular China, Japan, the European Union, and the United Kingdom;
- uncertainty concerning the long-term fiscal health and stability of the United States;
- the cost and availability of financing, including the future availability of financing due to changes to regulation of, and capital requirements imposed upon, financial institutions;
- the cost and availability of new equity capital;
- changes in our use of leverage;
- changes to our investment strategy, operating policies, dividend policy or asset allocations;
- the quality of performance of third-party servicer providers of our loans and loans underlying our securities;
- the level of defaults by borrowers on loans underlying MBS that we have purchased, or on loans which we have securitized;
- changes in our industry;
- increased competition;
- changes in government regulations affecting our business;
- changes or volatility in the repurchase agreement financing markets and other credit markets;
- changes to the market for interest rate swaps and other derivative instruments, including changes to margin requirements on derivative instruments;
- uncertainty regarding continued government support of the U.S. financial system and U.S. housing and real estate markets, or to reform the U.S. housing finance system including the resolution of the conservatorship of Fannie Mae and Freddie Mac;
- the composition of the Board of Governors of the Federal Reserve System;
- systems failures or cybersecurity incidents; and
- exposure to current and future claims and litigation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to losses resulting from changes in market factors. Our business strategy exposes us to a variety of market risks, including interest rate, spread, prepayment, credit, liquidity, and reinvestment risks. These risks can and do cause fluctuations in our liquidity, comprehensive income and book value as discussed below.

Interest Rate Risk

Investing in interest-rate sensitive investments such as MBS and TBA securities subjects us to interest rate risk. Interest rate risk results from investing in securities that have a fixed coupon or when the coupon may not immediately adjust for changes in interest rates. Interest rate risk also results from the mismatch between the duration of our assets versus the duration of our liabilities and hedges. The amount of the impact will depend on the composition of our portfolio, our hedging strategy, the effectiveness of our hedging instruments as well as the magnitude and the duration of the increase in interest rates.

We attempt to manage our exposure to changes in interest rates by entering into interest rate hedging instruments to mitigate the impact of changing interest rates on the market value of our assets. In prior periods, we have also used interest rate hedges to mitigate the impact of changing interest rates on our interest expense from repurchase agreements used to finance our investments. Given current FOMC monetary policy, management anticipates funding costs to remain low and stable in the near-term, and as such, we are not currently hedging our repurchase agreement financing costs.

We manage interest rate risk within tolerances set by our Board of Directors. Our hedging techniques are highly complex and are partly based on assumed levels of prepayments of our assets. If prepayments are slower or faster than assumed, the maturity of our investments will also differ from our expectations, which could reduce the effectiveness of our hedging strategies and may cause losses on such transactions and adversely affect our cash flow. Estimates of prepayment speeds can vary significantly by investor for the same security, and therefore estimates of security and portfolio duration can vary significantly.

Changes in types of our investments, the returns earned on these investments, future interest rates, credit spreads, the shape of the yield curve, the availability of financing, and/or the mix of our investments and financings including derivative instruments may cause actual results to differ significantly from the modeled results shown in the tables below. There can be no assurance that assumed events used to model the results shown below will occur, or that other events will not occur, that will affect the outcomes; therefore, the modeled results shown in the tables below and all related disclosures constitute forward-looking statements.

The table below shows the projected sensitivity of our net interest income as of the dates indicated assuming an instantaneous parallel shift in interest rates and no changes in the composition of our investment portfolio:

	Projected Change in Net Interest Income Due To			
	Decrease in Interest Rates of		Increase in Interest Rates of	
	50 Basis Points	25 Basis Points	25 Basis Points	50 Basis Points
June 30, 2021	(1)	1.9 %	(7.3)%	(15.6)%
December 31, 2020	(1)	0.4 %	(5.9)%	(12.9)%

(1) Because the Company does not assume financing rates will be less than 0%, a parallel downward shift in interest rates of 50 basis points is not presented.

The projected sensitivity to changes in interest rates on our net interest income shown in the table above as of June 30, 2021 has increased compared to December 31, 2020 because the higher interest rates as of June 30, 2021 result in the projected prepayment speed for our Agency RMBS not slowing as much as it did as of December 31, 2020, which decreased the benefit of lower amortization expense compared to December 31, 2020.

The table below shows the projected sensitivity of the market value of our financial instruments and the percentage change in shareholders' equity assuming an instantaneous parallel shift in market interest rates as of the dates indicated:

	June 30, 2021							
	Decrease in Interest Rates of				Increase in Interest Rates of			
	100 Basis Points		50 Basis Points		50 Basis Points		100 Basis Points	
Type of Instrument (1)	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity
RMBS	3.7 %	17.1 %	2.4 %	11.1 %	(3.0)%	(13.7)%	(6.1)%	(28.4)%
CMBS	0.3 %	1.5 %	0.2 %	0.8 %	(0.2)%	(0.8)%	(0.3)%	(1.6)%
CMBS IO	0.2 %	0.9 %	0.1 %	0.6 %	(0.1)%	(0.6)%	(0.3)%	(1.2)%
TBAs	2.8 %	13.0 %	2.0 %	9.2 %	(2.7)%	(12.4)%	(5.6)%	(25.9)%
Interest rate hedges	(9.9)%	(46.0)%	(5.2)%	(24.1)%	5.8 %	27.0 %	11.9 %	55.3 %
Total	(2.9)%	(13.5)%	(0.5)%	(2.4)%	(0.2)%	(0.5)%	(0.4)%	(1.8)%

	December 31, 2020							
	Decrease in Interest Rates by				Increase in Interest Rates by			
	100 Basis Points		50 Basis Points		50 Basis Points		100 Basis Points	
Type of Instrument (1)	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity	% of Market Value	% of Common Equity
RMBS	1.1 %	6.5 %	0.9 %	5.5 %	(1.7)%	(10.1)%	(3.9)%	(22.5)%
CMBS	0.3 %	1.9 %	0.2 %	1.4 %	(0.3)%	(1.5)%	(0.5)%	(3.0)%
CMBS IO	0.2 %	0.9 %	0.1 %	0.8 %	(0.2)%	(1.1)%	(0.4)%	(2.1)%
TBAs	0.9 %	5.2 %	0.8 %	4.6 %	(1.5)%	(8.9)%	(3.4)%	(19.6)%
Interest rate hedges	(3.4)%	(19.6)%	(1.9)%	(11.0)%	3.4 %	19.9 %	7.5 %	43.4 %
Total	(0.9)%	(5.1)%	0.1 %	1.3 %	(0.3)%	(1.7)%	(0.7)%	(3.8)%

(1) Changes in market value of our financings are excluded because they are not carried at fair value on our balance sheet. The projections for market value do not assume any change in credit spreads.

The projected sensitivity of the market value of our portfolio to a downward parallel shift in interest rates increased as of June 30, 2021 compared to December 31, 2020 because we held a higher notional balance of hedges as of June 30, 2021 to help cushion a loss in fair value of our assets in a steepening yield curve environment. Please refer to "Executive Overview" in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for information on management's economic outlook.

Management also considers changes in the shape of the interest rate curves in assessing and managing portfolio interest rate risk. Often interest rates do not move in a parallel fashion from quarter to quarter (as can be seen by the graphs for U.S, Treasury and swap rates in Item 2. "Executive Overview"). The table below shows the percentage change in projected market value of our financial instruments for instantaneous changes in the shape of the U.S. Treasury ("UST") curve (with similar changes to the interest rate swap curves) as of the dates indicated:

Basis Point Change in		June 30, 2021 Percentage Change in		December 31, 2020 Percentage Change in	
2-year UST	10-year UST	Market Value of Investments (1)	Common Equity	Market Value of Investments (1)	Common Equity
+25	+50	(0.3)%	(1.6)%	(0.1)%	(0.4)%
+50	+25	0.1 %	0.3 %	(0.5)%	(2.7)%
+50	+100	(1.0)%	(4.5)%	(0.2)%	(1.2)%
0	-25	0.1 %	0.4 %	0.1 %	0.8 %
-10	-50	(0.1)%	(0.2)%	0.3 %	1.9 %
-25	-75	(0.8)%	(3.6)%	0.2 %	1.1 %

(1) Includes changes in market value of our investments and derivative instruments, including TBA securities, but excludes changes in market value of our financings which are not carried at fair value on our balance sheet due to their short-term maturities. The projections for market value do not assume any change in credit spreads.

Spread Risk

Spread risk is the risk of loss from an increase in the market spread between the yield on an investment versus its benchmark index. Changes in market spreads represent the market's valuation of the perceived riskiness of an asset relative to risk-free rates, and widening spreads reduce the market value of our investments as market participants require additional yield to hold riskier assets. Market spreads could change based on macroeconomic or systemic factors as well as the factors specific to a particular security such as prepayment performance or credit performance. Other factors that could impact credit spreads include technical issues such as supply and demand for a particular type of security or FOMC monetary policy. Likewise, most of our investments are fixed-rate or reset in rate over a period of time, and as interest rates rise, we would expect the market value of these investments to decrease. We do not hedge spread risk given the complexity of hedging credit spreads and in our opinion, the lack of liquid instruments available to use as hedges.

Fluctuations in spreads typically vary based on the type of investment. Sensitivity to changes in market spreads is derived from models that are dependent on various assumptions, and actual changes in market value in response to changes in market spreads could differ materially from the projected sensitivity if actual conditions differ from these assumptions.

The Company's exposure to changes to market spreads did not materially shift as of June 30, 2021 versus December 31, 2020. The table below shows the projected sensitivity of the market value of our investments given the indicated change in market spreads as of the dates indicated:

	June 30, 2021 Percentage Change in		December 31, 2020 Percentage Change in	
Basis Point Change in Market Spreads	Market Value of Investments (1)	Common Equity	Market Value of Investments (1)	Common Equity
+20/+50 (2)	(2.3)%	(10.9)%	(1.6)%	(9.5)%
+10	(1.1)%	(5.2)%	(0.8)%	(4.4)%
-10	1.1 %	5.2 %	0.8 %	4.4 %
-20/-50 (2)	2.3 %	10.9 %	1.6 %	9.5 %

(1) Includes changes in market value of our MBS investments, including TBA securities.
(2) Assumes a 20-basis point shift in Agency and non-Agency RMBS and CMBS and a 50-basis point shift in Agency and non-Agency CMBS IO.

Prepayment Risk

Prepayment risk is the risk of an early, unscheduled return of principal on an investment. We are subject to prepayment risk from premiums paid on investments, which are amortized as a reduction in interest income using the effective yield method under GAAP. Our comprehensive income and book value per common share may also be negatively impacted by prepayments if the fair value of the investment materially exceeds the par balance of the underlying security. Principal prepayments on our investments are influenced by changes in market interest rates and a variety of economic, geographic, government policy and other factors beyond our control, including GSE policy with respect to loan forbearance and delinquent loan buy-outs.

Loans underlying our CMBS and CMBS IO securities typically have some form of prepayment protection provisions (such as prepayment lock-outs) or prepayment compensation provisions (such as yield maintenance or prepayment penalties). Because CMBS IO consist of rights to interest on the underlying commercial mortgage loan pools and do not have rights to principal payments on the underlying loans, prepayment risk on these securities is particularly acute without these prepayment protection provisions. There are no prepayment protections if the loan defaults and is partially or wholly repaid earlier as a result of loss mitigation actions taken by the underlying loan servicer. Loans in non-Agency CMBS IO securities which are collateralized by income producing properties such as retail shopping centers, hotels, multifamily apartments and office buildings are at a higher risk of default as a result of the economic impact of the COVID-19 pandemic. Over the last several years, we have not experienced material defaults on CMBS IO loans in our portfolio; however, the ultimate impact on the economy and commercial real estate performance and market values from the COVID-19 pandemic, and correspondingly loan defaults, is currently unknown. Please refer to Item 2, “Financial Condition-CMBS IO” for additional information on the composition of the Company’s investment in CMBS IO.

We seek to manage our prepayment risk on our MBS by diversifying our investments, seeking investments which we believe will have superior prepayment performance, and investing in securities which have some sort of prepayment prohibition or yield maintenance (as is the case with CMBS and CMBS IO). With respect to RMBS, we have invested substantially in lower coupon securities with approximately 85% of our capital in securities with a coupon of 2.5% or lower as of June 30, 2021. We also tend to favor securities in which we believe the underlying borrowers have some disincentive to refinance as a result of the size of each loan’s principal balance, credit characteristics of the borrower, or geographic location of the property, among other factors, which we estimate represents approximately 90% of our Agency RMBS investment as of June 30, 2021.

Credit Risk

Credit risk is the risk that we will not receive all contractual amounts due on investments that we own due to default by the borrower or due to a deficiency in proceeds from the liquidation of the collateral securing the obligation. Credit losses on loans could result in lower or negative yields on our investments.

Agency RMBS and Agency CMBS have credit risk to the extent that Fannie Mae or Freddie Mac fails to remit payments on the MBS for which they have issued a guaranty of payment. Given the improved financial performance and conservatorship of these entities and the continued support of the U.S. government, we believe this risk is low.

Agency and non-Agency CMBS IO represent the right to excess interest and not principal on the underlying loans. These securities are exposed to the loss of investment basis in the event a loan collateralizing the security liquidates without paying yield maintenance or prepayment penalty. This will typically occur when the underlying loan is in default and proceeds from the disposition of the loan collateral are insufficient to pay the prepayment consideration. To mitigate credit risk of investing in CMBS IO, we invest in primarily AAA-rated securities in senior tranches, which means we receive the highest payment priority and are the last to absorb losses in the event of a shortfall in cash flows.

Liquidity Risk

We have liquidity risk principally from the use of recourse repurchase agreements to finance our ownership of securities. Our repurchase agreements are renewable at the discretion of our lenders and do not contain guaranteed roll-over terms. If we fail to repay the lender at maturity, the lender has the right to immediately sell the collateral and pursue us for any shortfall if the sales proceeds are inadequate to cover the repurchase agreement financing. In addition, declines in the market value of our investments pledged as collateral for repurchase agreement borrowings may result in counterparties initiating margin calls for additional collateral.

Our use of TBA long positions as a means of investing in and financing Agency RMBS also exposes us to liquidity risk in the event that we are unable to roll or terminate our TBA contracts prior to their settlement date. If we are unable to roll or terminate our TBA long positions, we could be required to take physical delivery of the underlying securities and settle our obligations for cash, which could negatively impact our liquidity position or force us to sell assets under adverse conditions if financing is not available to us on acceptable terms.

For further information, including how we attempt to mitigate liquidity risk and monitor our liquidity position and in particular, during the current economic crisis, please refer to “Liquidity and Capital Resources” in Item 2 of this Quarterly Report on Form 10-Q.

Reinvestment Risk

We are subject to reinvestment risk as a result of the prepayment, repayment and sales of our investments. In order to maintain our investment portfolio size and our earnings, we need to reinvest capital received from these events into new interest-earning assets or TBA securities. Market yields on new investments are substantially lower than the investments we sold in March. As such, we expect new assets that we add at lower yields than the investments sold will lower our interest income in the near future. In addition, based on market conditions, our leverage, and our liquidity profile, we may decide to not reinvest the cash flows we receive from our investment portfolio even when attractive reinvestment opportunities are available, or we may decide to reinvest in assets with lower yield but greater liquidity. If we retain capital or pay dividends to return capital to shareholders rather than reinvest capital, or if we invest capital in lower yielding assets for liquidity reasons, the size of our investment portfolio and the amount of income generated by our investment portfolio will likely decline.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2021 to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended June 30, 2021 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

With respect to the claim of $11.3 million against the Company discussed in the Company's 2020 Form 10-K (the "Receiver Litigation") which alleges that the Company breached a litigation cost sharing agreement, there were no material developments during the three months ended June 30, 2021.

The Company records a contingent liability when, in the opinion of management, the likelihood of loss is probable and the amount of the loss can be reasonably estimated. After consultation with litigation counsel, the Company believes, based upon information currently available and its evaluation of applicable state law that the likelihood of loss in connection with the Receiver Litigation is not probable, and given the range of potential claims for damages by the Company to offset the Receiver's claims, the amount of possible loss in the Receiver Litigation cannot be reasonably estimated and, therefore, no contingent liability has been recorded for either matter.

The Company believes that the Receiver Litigation will be resolved without a material adverse effect on the Company's consolidated financial statements as a whole. The outcome, however, of any legal proceeding, including this matter, cannot be predicted with certainty. As such, no assurances can be given that the Company will be successful in its defense of this action on the merits or otherwise. If the Company is not successful in its defense efforts, the resolution of this matter could have a material adverse effect on the Company's consolidated financial statements in a future reporting period.

Other than as described above, to the Company's knowledge, there are no pending or threatened legal proceedings, the resolution of which, in management's opinion, individually or in the aggregate, could have a material adverse effect on the Company's results of operations or financial condition.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors discussed in Part I, Item 1A, "Risk Factors" of our 2020 Form 10-K. Risks and uncertainties identified in our forward-looking statements contained in this Quarterly Report on Form 10-Q together with those previously disclosed in the 2020 Form 10-K or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See "Forward-Looking Statements" contained in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report on Form 10-Q as well as Part I, Item 1A, "Risk Factors" in our 2020 Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The Company's Board of Directors has authorized the repurchase of up to $40 million of the Company's outstanding shares of common stock and up to $40 million of the Company's Series C Preferred Stock through March 31, 2022. Subject to applicable securities laws and the terms of the Series C Preferred Stock, which are contained in our Restated Articles of Incorporation, future repurchases of common stock will be made at times and in amounts as the Company deems appropriate, provided that the repurchase price per share is less than the Company's estimate of the current net book value of a share of common stock. Repurchases may be suspended or discontinued at any time. The following table summarizes repurchases of our common stock that occurred during the three months ended June 30, 2021:

Issuer Purchases of Equity Securities

	Total Number of Shares	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
				($s in thousands)
April 1 - 30, 2021	—	$ —	—	$ 39,834
May 1 - 31, 2021 [(1)]	22,016	—	—	39,834
June 1 - 30, 2021	—	—	—	39,834
	22,016	$ —	—	

(1) These shares were withheld from certain employees to satisfy tax withholding obligations arising upon the vesting of restricted shares. Accordingly, these shares are not included in the calculation of approximate dollar value of shares that may yet be purchased under the $40 million repurchase plan authorized by the Company's Board of Directors.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Restated Articles of Incorporation, effective May 14, 2021 (incorporated herein by reference to Exhibit 3.1 to Dynex's Current Report on Form 8-K filed May 18, 2021).
3.2	Amended and Restated Bylaws, effective as of May 11, 2021 (incorporated herein by reference to Exhibit 3.2 to Dynex's Current Report on Form 8-K filed May 12, 2021).
4.1	Specimen of Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to Dynex's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019).
4.3	Specimen of 6.900% Series C Fixed-to-Floating Rate Cumulative Redeemable Preferred Stock Certificate (incorporated herein by reference to Exhibit 4.4 to Dynex's Registration Statement on Form 8-A12B filed February 18, 2020).
10.23.7	Amendment No. 7 to Master Repurchase and Securities Contract dated as of June 8, 2021 between Issued Holdings Capital Corporation, Dynex Capital, Inc. (as guarantor) and Wells Fargo Bank, N.A. (incorporated herein by reference to Exhibit 10.23.7 to Dynex's Current Report on Form 8-K filed June 9, 2021).
10.40	Dynex Capital, Inc. Annual Cash Incentive Plan, amended and restated effective as of January 1, 2021 (filed herewith).
10.41.1	Form of Restricted Stock Agreement for Non-Employee Directors (approved May 11, 2021) under the Dynex Capital, Inc. 2020 Stock and Incentive Plan (filed herewith).
10.41.2	Form of Restricted Stock Unit Award Agreement for Executive Officers (for awards on or after May 26, 2021) under the Dynex Capital, Inc. 2020 Stock and Incentive Plan (filed herewith).
10.41.3	Form of Performance Unit Award Agreement for Executive Officers (for awards on or after May 26, 2021) under the Dynex Capital, Inc. 2020 Stock and Incentive Plan (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).
101	The following materials from Dynex Capital, Inc.'s Quarterly Report on Form 10-Q for the three months ended June 30, 2021, formatted in iXBRL (Inline Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to the Consolidated Financial Statements.
104	The cover page from Dynex Capital, Inc.'s Quarterly Report on Form 10-Q for the three months ended June 30, 2021, formatted in iXBRL (Inline Extensible Business Reporting Language) (included with Exhibit 101).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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:	August 2, 2021	/s/ Byron L. Boston
		Byron L. Boston Chief Executive Officer, Co-Chief Investment Officer, and Director (Principal Executive Officer)
Date:	August 2, 2021	/s/ Stephen J. Benedetti
		Stephen J. Benedetti Executive Vice President, Chief Financial Officer and Chief Operating Office (Principal Financial Officer)

DYNEX CAPITAL, INC.
ANNUAL CASH INCENTIVE PLAN
(amended and restated effective as of January 1, 2021)

1. Purpose. The purpose of the Dynex Capital, Inc. Annual Cash Incentive Plan (the "Plan") is to attract, retain and motivate key employees by providing annual incentive awards to designated employees of Dynex Capital, Inc. (the "Company") and its subsidiaries. The Plan is designed to align key employee interests with the interests of the Company's shareholders and to create value by providing appropriate annual incentives to key employees to achieve corporate and individual performance goals, while appropriately balancing risk with reward.

2. Annual Plan. The Plan is an annual plan and shall remain in effect until terminated by the independent directors of the Board of Directors (the "Independent Directors"). A new plan year shall commence on each January 1 and shall end each December 31. A new incentive opportunity, with a performance period that is the same as the plan year (January 1 through December 31), will be granted under the Plan each plan year only to individuals who are eligible Participants for such plan year (as determined pursuant to Section 4).

3. Administration. The Plan shall be administered by the Compensation Committee (the "Committee") of the Board of Directors (the "Board") of the Company. The Committee will have the power and authority to interpret the Plan, establish (except to the extent fixed by the Plan) the corporate/individual objectives, and respective weightings of each, and the minimum, target and maximum targets and applicable weightings of the other performance goals, determine the achievement of performance goals and assess individual performance, determine individual bonus amounts, determine rules for the operation and administration of the Plan and make all other necessary or advisable determinations with respect to the Plan. Subject to the provisions of Section 11, any interpretation or determination by the Committee under the Plan shall be binding on all parties.

4. Participation. Only those individuals who are serving as executive officers as of the first quarter Board meeting each year are eligible to participate in the Plan for that plan year (the "Participants"). In the case of a promotion, an individual must have been promoted to "executive officer" by such first quarter Board meeting in order to participate in the Plan for that plan year.

5. Bonus Opportunity. Each plan year, the Participant will be granted an incentive opportunity equal to the following percentages of his/her base salary as of January 1 of that plan year:

Executive	Target Incentive Opportunity	Maximum Incentive Opportunity
CEO	200%	400%
President	175%	350%
EVP	150%	300%

6. Performance Goals. Bonuses under the Plan will be earned by the Participants based on the achievement of performance goals established by the Committee for the applicable performance period. Except to the extent fixed by the Plan, no later than February 28 each plan year (except for the 2020 plan year), the Committee will establish performance goals, targets and weightings for the Participants for the performance period beginning in that plan year. The incentive opportunity will consist of the following performance goals for the performance period, weighted as follows:

Metric	Weighting (of incentive opportunity)
Return on Equity (ROE)	0% - 40%
Book value per common share	0% - 40%
Corporate/individual objectives	0% - 45%
	100%

(a) "Return on Equity" shall be computed as the Company's core net operating income per basic common share (as defined by the Company for the fourth quarter earnings release for the performance period), divided by the Company's book value per common share at December 31 of the year before the performance period. The Committee will establish the weighting of this goal, as well as minimum, target and maximum targets for this goal for each plan year.

(b) "Book value per common share" shall be computed in accordance with GAAP. The Committee will establish the weighting of this goal, as well as minimum, target and maximum targets for this goal, expressed as a percentage of the prior year end book value per common share and/or in actual dollar amounts, for each plan year. If the prior year end book value per common share amount is restated after the Committee establishes the targets for the plan year, then the Committee shall approve a change to the current year targets to reflect the restated amount.

(c) Corporate/individual objectives. The Committee will establish corporate and individual goals and their respective weightings for each Participant for each plan year. The corporate and individual goals for each Participant will account for up to 45% of each Participant's incentive opportunity for the plan year but may be different for each Participant. The corporate and individual goals may consist of quantitative or qualitative Company or individual goals, including but not limited to the following: annual and/or longer-term performance versus a benchmark and/or a select group of peers; general and administrative expense efficiency ratio; attainment of Company strategic objectives; and attainment of personal objectives. For each corporate and individual goal, the Committee will also establish the criteria for determining minimum, target and maximum performance with respect to such goal.

7. Determination of Performance. Following the end of the performance period, and no later than its first quarter Committee meeting held on or before March 10, the Committee will

determine and certify the level of performance achieved with respect to each of the performance goals for the performance period just ended.

(a) Management will calculate the Company's performance against the previously-established quantitative objectives and targets and present preliminary calculations of the same to the Committee for its review.

(b) Performance with respect to the ROE and Book value per common share goals will be calculated as follows:

(i) If performance is equal to or below the minimum target for the goal, the performance level achieved is 0%.

(ii) If performance is equal to the target for the goal, the performance level achieved is 100%.

(iii) If performance is equal to or above the maximum target for the goal, the performance level achieved is 200%.

(iv) If performance is between the minimum target and target or between the target and maximum target, the performance level achieved will be determined by applying linear interpolation to the performance interval.

(c) Performance (which can range from 0% - 200%) with respect to the corporate/individual objectives will be calculated by the Committee in its good faith discretion in accordance with the weightings and criteria previously established.

(d) The Committee certification of performance will occur no later than March 10 immediately following the end of the performance period but not before the results for the Company have been finalized for the prior year.

8. Determination of Bonus Amounts Payable Each Year. Following the end of the performance period, and no later than its first quarter Committee meeting held on or before March 10, the Committee will determine the bonus amount for each Participant based on the Committee's certification of the performance level achieved during the performance period. The bonus amount will be based on the performance level achieved for the relevant performance goal (from 0% - 200%) for the performance period, multiplied by the relevant weighting (of incentive opportunity) for such goal established for the performance period, multiplied by the target incentive opportunity percentage for the Participant in Section 5, multiplied by the Participant's applicable base salary amount.

Example: Bonus Amount = ([performance level % achieved for ROE] x [weighting] x [target incentive opportunity %] x [applicable base salary]) + ([performance level % achieved for Book value per share] x [weighting] x [target incentive opportunity %] x [applicable base salary]) + ([performance level % achieved for each corp/indiv.

objective] x [weighting for each corp/indiv. objective] x [target incentive opportunity %] x [applicable base salary]).

9. Payment of the Bonus Amount. All bonus amounts earned under the Plan will be paid in cash. The bonus amount for each performance period ending on December 31 of any plan year shall be paid to the Participant (each, a "Payment Date") during the period that begins on January 1 and ends on March 15 of the calendar year immediately following the end of the performance period (the "Designated Payment Period") on such date that is determined by the Committee at the same time the Committee determines the bonus amounts for the performance period. All bonus amounts paid under this Plan shall be subject to all applicable federal, state or local taxes required by law to be withheld.

10. Termination of Employment. Subject to Section 15 to the extent applicable, the following provisions shall apply in the event the Participant's employment terminates prior to a Payment Date under the Plan:

(a) Except as otherwise provided in Section 10(b), the bonus amounts under the Plan shall be paid upon a termination of a Participant's employment as follows:

(i) In the event of termination of the Participant's employment (A) by the Company other than for Cause or (B) by the Participant voluntarily or (C) due to the Participant's death, after the end of the performance period but prior to the Payment Date for such performance period, any bonus amounts for any such completed performance periods will be paid to the Participant in a lump sum cash payment on the earlier of: (1) 60 days following the termination of Participant's employment or (2) the Payment Date.

(ii) In the event of termination of the Participant's employment (A) by the Company for any reason other than for Cause or (B) due to the Participant's death, before the end of the performance period (but only if the termination occurs no earlier than the last day of the first quarter of the performance period), a pro-rata bonus (based on the period of the performance period during which the Participant was employed) will be paid to the Participant in a lump sum cash payment for the performance period based upon: (x) with respect to the ROE and Book value per common share goals, actual performance through the calendar quarter ending on or immediately prior to the date of the Participant's termination and (y) with respect to the corporate/individual objectives, , the Participant's maximum incentive opportunity for such corporate/individual objectives under the Plan for the performance period. The pro-rata bonus will be paid in a lump sum cash payment on the earlier of: (1) 60 days following the termination of Participant's employment or (2) the Payment Date.

(iii) In the event of termination of the Participant's employment (A) by the Company before the last day of the first quarter of the performance period or (B) a voluntary termination by the Participant at any time during a performance period, no bonus amounts will be paid to the Participant for such performance period.

(iv) In the event of termination of the Participant's employment for Cause, all rights under the Plan shall be immediately forfeited and no bonus amounts will be paid to the Participant following such termination.

(b) If the Participant has an employment agreement, or if the Participant does not have an employment agreement, a severance agreement (either, an "Employment Agreement") in place at time of termination of employment, then the Participant's right to receive bonus amounts under the Plan (if any) shall be governed by the Employment Agreement and, in the event of a conflict between the Plan and the Participant's Employment Agreement, the Participant's Employment Agreement shall control; provided, however, that the time and form of payment of any bonus amount payable under the Plan shall not be changed by the Employment Agreement to the extent such change would either violate Code Section 409A (as defined in Section 15) or cause an otherwise exempt payment to be subject to Code Section 409A.

(c) Cause. For purposes of the Plan, if not defined in the Participant's Employment Agreement, "Cause" shall mean any of the following:

(i) the willful and continued failure of the Participant to substantially perform the Participant's duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness), if, within 30 days of receiving a written demand for substantial performance from the Board or the CEO that specifically identifies the manner in which the Participant has not substantially performed his duties, the Participant shall have failed to cure such non-performance or to take measures to cure the non-performance;

(ii) the willful engaging by the Participant in gross misconduct that is materially and demonstrably injurious to the Company or any subsidiary;

(iii) the willful disclosure to an external party by the Participant without authorization of any confidential information of the Company or any subsidiary; or

(iv) the arrest of the Participant of a felony.

For purposes of this definition, no act or failure to act, on the part of the Participant, shall be considered "willful" unless it is done, or omitted to be done, by the Participant in bad faith or without reasonable belief that the Participant's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or a committee thereof, or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Participant in good faith and in the best interests of the Company. The termination of employment of the Participant shall not be deemed to be for Cause unless and until there shall have been delivered to the Participant a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Participant and the Participant is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the

Board, the Participant is guilty of conduct described in subparagraph (i), (ii) or (iii) above, and specifying the particulars thereof in detail.

11. Review Procedure. Any Participant with an issue regarding bonus amounts or the administration of the Plan may file a claim in writing to the Committee within 90 days of the date on which the Participant first knows (or should have known) of the facts on which the claim is based. The Committee shall consider the claim and notify the Participant in writing of the determination and resolution of the issue. The determination of the Committee as to any complaint or dispute will be final and binding.

12. Deferral. Bonus amounts under the Plan may be deferred by the Participant in accordance with any deferred compensation plan adopted by the Company that is available to executive officers, except to the extent such deferral would violate Code Section 409A.

13. Nonassignability. Bonus amounts may not be transferred, alienated or assigned. To the extent any bonus amounts are payable under the terms of the Plan following a Participant's death, such bonus amounts will be paid to the Participant's estate.

14. Nonexclusive Plan. The adoption of the Plan shall not be construed as creating any limitations on the power of the Company or any subsidiary to adopt such other incentive arrangements as it may deem desirable, and such arrangements may be either generally applicable or applicable only in specific cases.

15. Code Section 409A Compliance.

(a) The Plan is intended to comply with Section 409A of the Code and applicable guidance issued thereunder ("Code Section 409A") or comply with an exemption from the application of Code Section 409A and, accordingly, all provisions of the Plan and any award agreements under which any amounts are paid under the Plan (for purposes of this Section 15, the Plan and any applicable award agreement are collectively referred to as the "Plan") shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Code Section 409A. Any right or benefit which is provided pursuant to or in connection with the Plan which is considered to be nonqualified deferred compensation subject to Code Section 409A is hereinafter referred to as a "409A Benefit".

(b) A 409A Benefit shall be provided and paid in a manner, and at such time and in such form, as to comply with Code Section 409A. Notwithstanding any other provision of the Plan, a 409A Benefit shall be paid at the earliest to occur of the following (but in all events subject to any forfeiture provisions if such 409A Benefit is not vested at the time of the payment event): (i) a fixed payment date as set forth in Section 9 , separation from service of the Participant as defined under Code Section 409A (see Section 15(c) below), death of the Participant, disability of the Participant as defined under Code Section 409A, or a change with respect to the Participant in the ownership or effective control of the Company or in the ownership of a substantial portion of its assets of the Company as defined under Code Section 409A or, in the discretion of the Committee or its delegate. Neither a Participant nor the

Company shall take any action to accelerate or delay a 409A Benefit in any matter that would not be in compliance with Code Section 409A.

(c) A termination of employment shall not be deemed to have occurred for purposes of any provision of the Plan providing for the form or timing of payment of any 409A Benefit and that are paid upon or following a termination of employment unless such termination is also a "separation from service" (within the meaning of Code Section 409A) and, for purposes of any such provision of the Plan under which (and to the extent) a 409A Benefit is paid, references to a "termination" or "termination of employment" or "resign" or "resignation" or like references shall mean separation from service. If the Participant is deemed on the date of separation from service with the Company and any subsidiary to be a "specified employee", within the meaning of that term under Code Section 409A(a)(2)(B) and using the identification methodology selected by the Company from time to time, or if none, the default methodology, then with regard to any 409A Benefit that is required to be delayed in compliance with Code Section 409A(a)(2)(B), payment of any such amounts shall not be made or provided prior to the earlier of (i) the expiration of the six-month period measured from the date of Participant's separation from service or (ii) the date of the Participant's death.

(d) For purposes of determining the application of Code Section 409A and any exemptions from Code Section 409A, each bonus amount determined for each performance period shall be treated as a separate payment and, to the extent paid in installments, each installment shall be considered a separate payment.

(e) When, if ever, a payment under the Plan specifies a payment period with reference to a number of days (e.g., "payment shall be made within 10 days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company or Committee. For any bonus amount exempt from the requirements of Code Section 409A, payment shall in all events be made by the 15^{th} day of the third month following the end of the first calendar year during which the bonus amount is no longer subject to a substantial risk of forfeiture, subject to the provisions of Treas. Reg. §1.409A-1(b)(4)(ii) (regarding certain allowed delayed payments). For the avoidance of any doubt, any cash bonus amount payable for any performance period is intended to be exempt from Code Section 409A and shall be administered consistent with that intention.

(f) Notwithstanding any of the provisions of the Plan, the Company shall not be liable to the Participant if any payment which is to be provided pursuant to the Plan and which is considered deferred compensation subject to Code Section 409A otherwise fails to comply with, or be exempt from, the requirements of Code Section 409A.

16. Amendment and Termination. The Plan may only be amended or terminated by approval of the Independent Directors, based on the recommendation of the Committee. The Committee shall review the Plan periodically and recommend any amendments thereto which it deems appropriate or desirable, for approval by the Independent Directors. Upon recommendation of the Committee, the Independent Directors may amend or terminate this Plan at any time. Any amendment or termination of the Plan shall be implemented in a manner which complies with any applicable provisions under Code Section 409A (as defined in Section 15).

17. Effectiveness of the Plan. The Plan shall first be effective on January 1, 2020 and shall continue indefinitely, subject to the Independent Directors' right to terminate the Plan.

18. Plan Not a Contract. The Plan shall not be deemed to constitute a contract between the Company and any employee, and nothing contained in the Plan shall confer upon an employee any right to continued employment, nor interfere with the right of the Company or any subsidiary to terminate a Participant's employment with the Company or subsidiary.

19. Clawback. Any bonus amount that a Participant receives under the Plan is subject to repayment to (i.e., clawback by) the Company or a related entity as determined in good faith by the Independent Directors or the Board in the event repayment is required by the terms of the Company's recoupment, clawback or similar policy as may be in effect from time to time or by applicable federal or state law or regulation or stock exchange requirement, but in no event with a look-back period of more than three (3) years, unless in the opinion of counsel satisfactory to Participant required by applicable federal or state law or regulation or stock exchange requirement. Any recovery of any bonus amount subject to the requirements of Code Section 409A (as defined in Section 15) shall be implemented in a manner which complies with Code Section 409A.

20. Governing Law. The Plan shall be construed and interpreted under the laws of the Commonwealth of Virginia.

Approved by the Independent Directors of the Board of Directors on May 26, 2021.

Exhibit 10.41.1

DYNEX CAPITAL, INC.
2020 STOCK AND INCENTIVE PLAN

FORM OF
RESTRICTED STOCK AGREEMENT
FOR NON-EMPLOYEE DIRECTORS

THIS AGREEMENT, dated this <<grant date>> is entered into by and between DYNEX CAPITAL, INC. (the “Company”), and <<name>> (“Participant”). Capitalized terms used in this Agreement shall have the meanings assigned to such terms in the Dynex Capital, Inc. 2020 Stock and Incentive Plan (the “Plan”), unless this Agreement provides, or the context requires, otherwise.

WHEREAS, pursuant to the Plan, the Committee wishes to promote the identification of Participant’s personal interests with the long-term financial success of the Company and with growth in shareholder value, consistent with the Company’s risk management practices, by the award of restricted shares of the Company’s Common stock, par value $0.01 per share (“Common Stock”) to Participant; and

WHEREAS, Participant desires to accept said award in accordance with the terms and provisions of the Plan and this Agreement.

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter set forth, the Company and Participant agree as follows:

1. Award of Restricted Stock.

Subject to the terms and conditions of the Plan and to the terms and conditions set forth herein, the Company hereby awards to Participant effective as of the date of this Agreement (“Date of Award”), <<number of shares>> shares of Common Stock (“Restricted Stock”).

2. Vesting of Restricted Stock.

(a) Except as otherwise provided in this Agreement, the Restricted Stock is nontransferable and is subject to a substantial risk of forfeiture.

(b) Subject to subsections (c), (d), and (e) of this Section 2, the Restricted Stock shall become fully transferable and nonforfeitable (“Vested”) on the earlier of: <<insert vesting schedule>>, provided Participant’s service as a member of the Board of Directors of the Company or a Subsidiary continues through such date.

(c) The Restricted Stock, to the extent not already fully Vested, shall immediately be fully Vested upon a Change of Control of the Company as that term is defined in the Plan if such

Change of Control occurs while Participant is a member of the Board of Directors of the Company or a Subsidiary.

(d) The Restricted Stock, to the extent not already fully Vested, shall immediately be fully Vested upon Participant's termination of his or her membership on the Board of Directors of the Company and its Subsidiaries because of his or her disability, as determined by the Company in its sole discretion, or upon the death of Participant, in each case only if such disability or death occurs while Participant is a member of the Board of Directors of the Company or a Subsidiary. In the event of Participant's death, Participant's designated beneficiary or, if none, the executor or administrator of Participant's estate shall have the right to direct delivery of the Restricted Stock in accordance with Section 3 below.

(e) To the extent the Restricted Stock is not already fully Vested pursuant to subsections (b), (c), or (d) of this Section 2 on or prior to such date, the Restricted Stock shall be fully forfeited and Participant shall have no further rights hereunder on the date Participant ceases to be a member of the Board of Directors of the Company and its Subsidiaries. Notwithstanding the immediately preceding sentence, the Committee may, in its sole discretion, waive the forfeiture of any or all of the unvested Restricted Stock and provide for such vesting as it deems appropriate, provided the Committee takes such action prior to the date Participant ceases to be a member of the Board of Directors of the Company and its Subsidiaries.

3. <u>Custody of Certificates</u>.

If the Restricted Stock is issued in certificated form, custody of the certificate(s) evidencing the Restricted Stock shall be retained by the Company so long as the Restricted Stock is not Vested. The Company reserves the right to place a legend on each certificate noting the restrictions on the transferability of the shares evidenced by the certificate. Upon vesting, Participant will have the right, but not the obligation, to direct the Company to deliver the Vested shares in certificated form to Participant, or in book-entry form to a registered broker-dealer of his or her choice. Notices directing such delivery should be delivered to Dynex Capital, Inc., at its Corporate headquarters, Attention: Chief Financial Officer.

4. <u>Shareholders Rights</u>.

Beginning on the Date of Award, Participant will have all the rights of a shareholder of the Company with respect to the Restricted Stock, including the right to receive currently all dividends and other distributions paid on the Restricted Stock and to exercise full voting rights with respect to the Restricted Stock; provided, however, that until the Restricted Stock becomes Vested (i) Participant may not sell, transfer, pledge, assign or otherwise alienate or hypothecate the Restricted Stock, (ii) the Company shall retain custody of any certificates evidencing the shares of Restricted Stock as provided in Section 3, (iii) if any dividends or distributions paid on the Restricted Stock are paid in shares of Common Stock, such shares of Common Stock shall be subject to the same restrictions on transferability as the shares of Restricted Stock with respect to which they were paid, and (iv) the stock power set forth in Section 5 shall apply.

5. Stock Power.

By execution of this Agreement, Participant hereby appoints the Secretary of the Company, with full power of substitution, as Participant's attorney in fact with power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including without limitation stock powers, which may be necessary to cancel any shares of Restricted Stock that do not become Vested.

6. Certain Tax Matters.

Participant shall provide the Company with a copy of any election made pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code"), and similar provision of state law (collectively, an "83(b) Election"). If Participant decides to make an 83(b) Election, he or she must do so within a limited period of time. (For federal tax purposes, currently, an 83(b) Election must be filed within 30 days of the Date of Award of the Restricted Stock.) Participant should contact his or her tax advisor to determine if an 83(b) Election is appropriate.

Participant acknowledges by signing this Agreement that he or she is solely responsible for determining whether or not to make an 83(b) Election and for the payment of any taxes which may be due to any federal, state or local income tax authority, or employment tax authority, and the Company is under no obligation to ensure any such taxes are paid by Participant.

7. Nontransferability.

Unless Vested, the Restricted Stock shall be nontransferable except by will or the laws of descent and distribution; provided, however, that the Committee may permit, in its sole discretion, transfers of shares of Restricted Stock that are not Vested pursuant to a domestic relations order.

8. No Rights to Continued Service.

Nothing in this Agreement or in the Plan shall confer any right to continued affiliation with the Company or its Subsidiaries (including service on the Board of Directors of the Company or any Subsidiary) nor shall it interfere with any right of the Company or any Subsidiary to terminate Participant's service or other affiliation with the Company at any time.

9. Resolution of Disputes.

Any dispute or disagreement which shall arise under, or as a result of, or pursuant to, this Agreement shall be determined by the Board of Directors (without participation by Participant) in its absolute discretion, and any determination by the Board of Directors pursuant to this Agreement and any interpretation by the Board of Directors of the terms of this Agreement shall be final, binding and conclusive on all persons affected thereby.

10. Amendments.

The Committee shall have the right, in its absolute discretion but subject to the terms and provisions and within the limitations of the Plan, to amend or modify this Agreement in any manner, and any amendment or modification of this Agreement by the Committee shall, upon adoption thereof by the Committee, become and be binding and conclusive on all persons affected thereby without prior written notice to Participant. Written notice of any amendment or modification of this Agreement by the Committee will be provided to Participant as promptly as practical after the adoption thereof. Notwithstanding the foregoing provisions of this Section 10, but subject to the provisions of Articles XIII and XIV of the Plan, no amendment or modification of this Agreement shall be made that would adversely affect the rights or obligations of Participant without Participant's consent.

11. Construction.

This Agreement has been entered into in accordance with the terms of the Plan, and wherever a conflict may arise between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control.

12. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Virginia.

13. Plan and Prospectus.

A copy of the Plan, as well as a prospectus for the Plan, has been provided to Participant, and Participant acknowledges receipt thereof.

14. Electronic Delivery and Signatures.

Participant hereby consents and agrees to electronic delivery of share(s) of Stock, Plan documents, proxy materials, annual reports and other related documents. If the Company establishes procedures for an electronic signature system for delivery and acceptance of this Agreement, other Plan documents or other related documents, Participant hereby consents to such procedures and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature. Participant consents and agrees that any such procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed, via manual or electronic signature, by its duly authorized officer, and Participant has executed this Agreement, via manual or electronic signature, all on the day and year first above written.

DYNEX CAPITAL, INC.

By: ______________________________

PARTICIPANT

____

DYNEX CAPITAL, INC.

2020 STOCK AND INCENTIVE PLAN

FORM OF
RESTRICTED STOCK UNIT AWARD

This Restricted Stock Unit Award Agreement (this "**Agreement**") is made as of <<date>> (the "**Grant Date**"), by Dynex Capital, Inc., a Virginia corporation (the "**Company**"), to <<name>>, a Key Employee of the Company (the "**Participant**").

RECITALS

WHEREAS, the Dynex Capital, Inc. 2020 Stock and Incentive Plan (the "**Plan**") permits the grant of Restricted Stock Units in accordance with the terms and provisions of the Plan;

WHEREAS, the Company desires to grant Restricted Stock Units to the Participant, and the Participant desires to accept such Restricted Stock Units, on the terms and conditions set forth herein and in the Plan; and

WHEREAS, the applicable provisions of the Plan are incorporated into this Agreement by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein).

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Award of Restricted Stock Units.

The Company hereby awards to the Participant <<number>> Restricted Stock Units (hereinafter, the "**Restricted Stock Units**"), subject to the vesting and other conditions of this Agreement.

2. Vesting.

(a) **General Vesting Terms.**

(i) Provided the Participant remains employed by the Company or a Subsidiary through the applicable vesting date set forth in this Section 2 (the "**Vesting Date**") and meets all applicable requirements set forth in this Agreement, the Restricted Stock Units awarded pursuant to this Agreement shall vest as follows, except as set forth in Sections 2(b) and 2(c) below (the period over which the Restricted Stock Units vest is referred to as the "**Period of Restriction**"):

Vesting Date	Vested Restricted Stock Units
<<date>>	<<percent>>% of the awarded Restricted Stock Units
<<date>>	<<percent>>% of the awarded Restricted Stock Units
<<date>>	<<percent>>% of the awarded Restricted Stock Units

(ii) The vesting of the Restricted Stock Units is cumulative, but shall not exceed 100% of the Restricted Stock Units. If the foregoing schedule would produce fractional units, the number of Restricted Stock Units vesting shall be rounded up to the nearest whole unit, but not in excess of 100% of the Restricted Stock Units.

(b) **Involuntary Termination.**

(i) If the Participant terminates employment during the Period of Restriction because of an Involuntary Termination, whether before, on the date of, or after a Change of Control, the Participant's unvested Restricted Stock Units will automatically vest in full on the date of such termination of employment.

(ii) For purposes of this Agreement, the term "**Involuntary Termination**" shall mean the Participant's termination of employment from the Company and its Subsidiaries on account of a termination by the Company or a Subsidiary without Cause, other than on account of death or Disability, or the Participant's termination of employment from the Company and its Subsidiaries on account of a termination by the Participant for Good Reason, in either case; provided the Participant signs and does not revoke a release and waiver of claims in favor of the Company and its Affiliates in a form provided by the Company (a "**Release**").

(c) **Death or Disability.** In the event of the Participant's death or termination of employment on account of a Disability while employed by the Company or a Subsidiary during the Period of Restriction, the Participant's unvested Restricted Stock Units will automatically vest in full on the date of the Participant's death or termination of employment on account of Disability; provided that in the event the termination of employment is on account of Disability, the Participant signs and does not revoke a Release. For purposes of this Agreement, the term **"Disability"** shall have the meaning ascribed to such term in the Participant's employment agreement with the Company.

(d) **Retirement.** In the event of the Participant's Retirement from the Company and its Subsidiaries during the Period of Restriction, the Participant's unvested Restricted Stock Units will automatically vest in full on the date of the Participant's Retirement; provided that the Participant signs and does not revoke a Release. For purposes of this Agreement, the term "**Retirement**" shall mean termination of employment other than for Cause after attaining age 65 with 10 years of service with the Company.

(e) **Other Termination.** Except as provided in Sections 2(b), 2(c) and 2(d), in the event of a termination of employment, the Participant will forfeit all Restricted Stock Units that do not vest either on or before the termination date. No Restricted Stock Units will vest after the Participant's employment with the Company or a Subsidiary has terminated for any reason. For clarification purposes, in the event the Participant's employment is terminated by the Company or a Subsidiary for Cause, the outstanding Restricted Stock Units (whether vested or unvested) held by such Participant shall immediately terminate and be of no further force or effect.

3. Restricted Stock Units Account.

The Company shall establish a bookkeeping account on its records for the Participant and shall credit the Participant's Restricted Stock Units to the bookkeeping account.

4. Dividend Equivalents.

Dividend equivalents shall accrue with respect to the Participant's Restricted Stock Units and shall be payable subject to the same vesting terms and other conditions as the Restricted Stock Units to which they relate. Dividend equivalents shall be credited on the Restricted Stock Units when dividends are declared on shares of Stock from the Grant Date until the payment date for the vested Restricted Stock Units. The Company will keep records of dividend equivalents in a non-interest-bearing bookkeeping account for the Participant. No interest will be credited to any such account. Vested dividend equivalents shall be paid in cash at the same time and subject to the same terms as the underlying vested Restricted Stock Units. If and to the extent that the underlying Restricted Stock Units are forfeited, all related dividend equivalents shall also be forfeited.

5. Conversion of Restricted Stock Units.

(a) Except as otherwise provided in this Section 5, if the Restricted Stock Units vest in accordance with Section 2(a), the Participant shall be entitled to receive payment of the vested Restricted Stock Units within 60 days after the applicable Vesting Date.

(b) If the Restricted Stock Units vest in accordance with Section 2(b) (Involuntary Termination), Section 2(c) (death or Disability), or Section 2(d) (Retirement), the Participant shall receive payment of the vested Restricted Stock Units within 60 days after the date of the Participant's termination of employment on account of Involuntary Termination, death, Disability, or Retirement, as applicable, subject to the six month delay under Section 409A of the Internal Revenue Code, if applicable, as described in Section 16 below.

(c) On the applicable payment date, each vested Restricted Stock Unit credited to the Participant's account shall be settled in whole shares of Stock of the Company equal to the number of vested Restricted Stock Units, subject to (i) the limitation of subsection (d) below, (ii) compliance with the six-month delay described in Section 16 below, if applicable, and (iii) the payment of any federal, state and local withholding taxes as described in Section 12 below. The obligation of the Company to distribute shares of Stock shall be subject to the rights of the Company as set forth in the Plan and to all applicable laws, rules, regulations, and such approvals by governmental agencies as may be deemed appropriate by the Committee, including as set forth in Section 14 below.

(d) For the avoidance of doubt, the Participant will forfeit all Restricted Stock Units if the Participant's employment is terminated for Cause prior to the payment date under this Section 5.

6. <u>Certain Corporate Changes.</u>

In the event of a stock dividend, stock split or combination of shares, spin-off, recapitalization or merger in which the Company is the surviving corporation, or other change in the Company's capital stock (including, but not limited to, the creation or issuance to shareholders generally of rights, options or warrants for the purchase of common stock or preferred stock of the Company), the Committee shall adjust, as provided in the Plan, the number and class of shares or securities of the Company underlying the Restricted Stock Units held by the Participant, the maximum number of shares of Stock for which the Restricted Stock Units may vest, in each case, as appropriate to reflect the effect of such event or change in the Company's capital structure in such a way as to preserve the value of the Restricted Stock Units. Any adjustment that occurs under the terms of this Section 6 or the Plan will not change the timing or form of payment with respect to any Restricted Stock Units except in accordance with Code Section 409A.

7. <u>No Stockholder Rights.</u>

The Participant has no voting rights and no other ownership rights and privileges of a stockholder with respect to the shares of Stock subject to the Restricted Stock Units, except as otherwise provided in Section 4.

8. <u>Retention Rights.</u>

Neither the award of Restricted Stock Units, nor any other action taken with respect to the Restricted Stock Units, shall confer upon the Participant any right to continue in the employ or service of the Company or a Subsidiary or shall interfere in any way with the right of the Company or a Subsidiary to terminate Participant's employment or service at any time.

9. <u>Amendment, Modification or Substitution.</u>

This award may be amended, modified or substituted by the Committee, in whole or in part, in accordance with Section 15.1 of the Plan.

10. <u>Notice.</u>

Any notice to the Company provided for in this Agreement shall be addressed to it in care of the Chief Financial Officer of the Company, or in his or her absence, the Secretary of the Company, 4991 Lake Brook Drive, Suite 100, Glen Allen, VA 23060, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll system of the Company or a Subsidiary thereof, or to such other address as the Participant may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail, or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail, or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of this Agreement, the Participant hereby consents to the delivery of information (including without limitation, information required to be delivered to the Participant pursuant to the applicable securities laws) regarding the Company, the Plan, and the Restricted Stock Units via the Company's electronic mail system or other electronic delivery system.

11. Incorporation of Plan by Reference.

This Agreement is made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Participant's receipt of the Restricted Stock Units awarded under this Agreement constitutes the Participant's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, this Agreement, and/or the Restricted Stock Units shall be final and binding on the Participant, his or her beneficiaries, and any other person having or claiming an interest in such Restricted Stock Units. The settlement of any award with respect to Restricted Stock Units is subject to the provisions of the Plan and to interpretations, regulations, and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan.

12. Income Taxes; Withholding Taxes.

The Participant agrees, as a condition of receiving the Restricted Stock Units, to pay to the Company or a Subsidiary, as applicable, or make arrangement satisfactory to the Company regarding the payment of, all applicable federal, state and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to the Restricted Stock Units. The Participant is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the Restricted Stock Units pursuant to this Agreement. At the time of taxation, the Company shall have the right to deduct from amounts payable with respect to the Restricted Stock Units, including by withholding shares of Stock, an amount equal to the federal (including FICA), state and local income and payroll taxes and other amounts as may be required by law to be withheld with respect to the Restricted Stock Units. Without limiting the foregoing, upon payment of the Restricted Stock Units, the Company shall withhold shares subject to the vested Restricted Stock Units to cover any of the applicable withholding for related FICA tax and income tax liabilities at the minimum applicable tax rate.

13. Governing Law.

The validity, construction, interpretation, and effect of this instrument shall exclusively be governed by, and determined in accordance with, the applicable laws of the Commonwealth of Virginia, excluding any conflicts or choice of law rule or principle.

14. Award Subject to Applicable Laws and Company Policies.

This Agreement shall be subject to any required approvals by any governmental or regulatory agencies. This award of Restricted Stock Units shall be subject to repayment to (i.e., clawback by) the Company or a related entity as determined in good faith by the Committee or the Board in the event repayment is required by the terms of the Company's recoupment, clawback or similar policy as may be in effect from time to time or by applicable federal or state law or regulation or applicable listing standard of any national securities exchange or system on which the Stock is then listed or reported, but in no event with a look-back period of more than three years, unless in the opinion of counsel satisfactory to the Participant required by applicable federal or state law or regulation or applicable listing standard.

15. Assignment.

This Agreement shall bind and inure to the benefit of the successors and assignees of the Company. The Participant may not sell, assign, transfer, pledge, or otherwise dispose of the Restricted Stock Units, except in the event of the Participant's death.

16. Code Section 409A.

This award of Restricted Stock Units is intended to be exempt from or comply with the applicable requirements of Code Section 409A and shall be administered in accordance with Code Section 409A. Notwithstanding anything in this Agreement to the contrary, if the Restricted Stock Units constitute "deferred compensation" under Code Section 409A and the Restricted Stock Units become vested and settled upon the Participant's termination of employment, payment with respect to the Restricted Stock Units shall be delayed for a period of six months after the Participant's termination of employment if the Participant is a "specified employee" as defined under Code Section 409A (as determined by the Committee) and if required pursuant to Code Section 409A. If payment is delayed, the shares of Stock of the Company and accrued cash dividend equivalents shall be distributed within 30 days after the date that is the six-month anniversary of the Participant's termination of employment. If the Participant dies during the six-month delay, the shares of Stock and accrued cash dividend equivalents shall be distributed in accordance with the Participant's will or under the applicable laws of descent and distribution. Notwithstanding any provision to the contrary herein, payments made with respect to this award of Restricted Stock Units may only be made in a manner and upon an event permitted by Code Section 409A, and all payments to be made upon a termination of employment hereunder may only be made upon a "separation from service" as defined under Code Section 409A, and if required pursuant to Code Section 409A. To the extent that any provision of this Agreement would cause a conflict with the requirements of Code Section 409A, or would cause the administration of the Restricted Stock Units to fail to satisfy the requirements of Code Section 409A, such provision shall be deemed null and void to the extent permitted by applicable law. In no event shall the Participant, directly or indirectly, designate the calendar year of payment. If the Restricted Stock Units constitute "deferred compensation" under Code Section 409A and payment is subject to the execution of a Release, and if such payment could be made in more than one taxable year, payment shall be made in the later taxable year, if required by Code Section 409A.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute and attest this instrument, and the Participant has placed his or her signature hereon, effective as of the Grant Date set forth above.

DYNEX CAPITAL INC.

By:

Name:
Title:

By signing below, the Participant (a) acknowledges receipt of the Plan incorporated herein, (b) acknowledges that he or she has read this Agreement and understands the terms and conditions set forth herein, (c) accepts the award of the Restricted Stock Units described in this Agreement, (d) agrees to be bound by the terms of the Plan and this Agreement, and (e) agrees that all decisions and determinations of the Committee with respect to the Restricted Stock Units shall be final and binding.

Participant

____

Name:

Date:

DYNEX CAPITAL, INC.
2021 STOCK AND INCENTIVE PLAN

FORM OF
PERFORMANCE UNIT AWARD

This Performance Unit Award Agreement (this "**Agreement**") is made as of <<date>> (the "**Grant Date**"), by Dynex Capital, Inc., a Virginia corporation (the "**Company**"), to <<name>>, a Key Employee of the Company (the "**Participant**").

RECITALS

WHEREAS, the Dynex Capital, Inc. 2020 Stock and Incentive Plan (the "**Plan**") permits the grant of Performance Units that vest based on attainment of Performance Goals ("**Performance Units**") in accordance with the terms and provisions of the Plan;

WHEREAS, the Company desires to grant Performance Units to the Participant, and the Participant desires to accept such Performance Units, on the terms and conditions set forth herein and in the Plan;

WHEREAS, the Performance Units granted pursuant to this Agreement shall vest based on the attainment of Performance Goals related to Total Shareholder Return ("**TSR**") and Total Economic Return ("**TER**") and continued employment; and

WHEREAS, the applicable provisions of the Plan are incorporated into this Agreement by reference, including the definitions of terms contained in the Plan (unless such terms are otherwise defined herein).

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby, agree as follows:

1. **Award of Performance Units.** The Company hereby awards to the Participant, <<number>> Performance Units (hereinafter, the "**Target Award**"), subject to the vesting and other conditions of this Agreement. Payment of the Performance Units will be based on performance against the metrics forth in Schedule A (the "**Performance Goals**") and, except as otherwise provided herein, continued employment.

2. **Vesting.**

(a) **General Vesting Terms**. The Participant shall vest in a number of Performance Units with respect to the Target Award based on the attainment of the Performance Goals as of the end of the Performance Period (as defined below), provided that, except as set forth in Sections 2(b), 2(c) and 2(d), the Participant remains employed by the Company or a Subsidiary through <<date>> (the "**Vesting Date**"). The performance period is the period beginning on <<date>> and ending on <<date>>, unless earlier terminated in accordance with Sections 2(b), 2(c) or 2(d) below (the "**Performance Period**"). Except as specifically provided below in this Section 2, no Performance Units will vest for any reason prior to the Vesting Date, and in the event of a termination of the Participant's employment prior to the Vesting Date, the Participant will forfeit to the Company all Performance Units that have not yet vested as of the termination date.

(b) **Involuntary Termination.**

(i) Except as provided in Section 2(d) below, if the Participant incurs an Involuntary Termination prior to the Vesting Date, then on the date of such Involuntary Termination, the Participant will vest in a number of Performance Units based on attainment of the Performance Goals through the date of the Involuntary Termination as described in Schedule A. For purposes of calculating performance pursuant to this Section 2(b), the last day of the Performance Period shall be the date of the Involuntary Termination.

(ii) For purposes of this Agreement, the term "**Involuntary Termination**" shall mean the Participant's termination of employment from the Company and its Subsidiaries on account of a termination by the Company or a Subsidiary without Cause, other than on account of death or Disability, or the Participant's termination of employment from the Company and its Subsidiaries on account of a termination by the Participant for Good Reason, in either case, provided the Participant signs and does not revoke a release and waiver of claims in favor of the Company and its Affiliates in a form provided by the Company (a "**Release**").

(c) **Retirement, Death or Disability**.

(i) Except as provided in Section 2(d) below, if the Participant incurs a termination of employment on account of Retirement, death or Disability prior to the Vesting Date, then on the date of such termination of employment, the Participant will vest in a number of Performance Units based on the attainment of the Performance Goals through the date of such termination of employment as described in Schedule A, provided that in the event the termination of employment is on account of Retirement or Disability, the Participant signs and does not revoke a Release. For purposes of calculating performance pursuant to this Section 2(c), the last day of the Performance Period shall be the date of the termination of employment.

(ii) For purposes of this Agreement, the term "**Disability**" shall have the meaning ascribed to such term in the Participant's employment agreement with the Company.

(iii) For purposes of this Agreement, the term "**Retirement**" shall mean termination of employment other than for Cause after attaining age 65 with 10 years of service with the Company.

(d) **Change of Control**.

(i) If a Change of Control occurs on or before <<date>>, the number of Performance Units that may vest shall be determined as of the date of the Change of Control based on performance through the date of the Change of Control, and such Performance Units shall vest if the Participant remains employed through the Vesting Date. For purposes of calculating performance pursuant to this Section 2(d) as of the date of the Change of Control, the last day of the Performance Period shall be the date immediately prior to the Change of Control.

(ii) If the Participant's employment terminates on account of Involuntary Termination within six months prior to a Change of Control or on account of Involuntary Termination, Retirement, death or Disability upon or within 18 months following a Change of Control, the Participant will immediately vest in the Performance Units calculated as described in subsection (i) above.

(e) **Cause**. Notwithstanding anything in this Agreement to the contrary, in the event the Participant's employment is terminated by the Company or a Subsidiary for Cause, all outstanding Performance Units (whether vested or unvested) held by the Participant shall immediately terminate and be of no further force or effect.

(f) **Other Termination.** Except as provided in Sections 2(b), 2(c) and 2(d), in the event of a termination of employment prior to the Vesting Date, the Participant will forfeit all unvested Performance Units. No Performance Units will vest after the Participant's employment with the Company or a Subsidiary has terminated for any reason.

3. Performance Units Account.

The Company shall establish a bookkeeping account on its records for the Participant and shall credit the Participant's Performance Units to the bookkeeping account.

4. Dividend Equivalents.

Dividend equivalents shall accrue with respect to the Participant's Performance Units and shall be payable subject to the same vesting terms and other conditions as the Performance Units to which they relate. Dividend equivalents shall be credited on the Performance Units when dividends are declared on shares of Stock from the Grant Date until the payment date for the vested Performance Units. The Company will keep records of dividend equivalents in a non-interest-bearing bookkeeping account for the Participant. No interest will be credited to any such account. Vested dividend equivalents shall be paid in cash at the same time and subject to the same terms as the underlying vested Performance Units. If and to the extent that the underlying Performance Units are forfeited, all related dividend equivalents shall also be forfeited.

5. Conversion of Performance Units.

(a) Except as otherwise provided in this Section 5, if the Performance Units vest in accordance with this Agreement, the Participant shall be entitled to receive payment of the vested Performance Units within 60 days after the Vesting Date.

(b) If the Performance Units vest in accordance with Sections 2(b), 2(c), or 2(d)(ii) (i.e. Involuntary Termination, Retirement, Disability or death), the vested Performance Units shall be paid within 60 days after the date of the Participant's termination of employment, subject to the six-month delay described in Section 16 below, if applicable, or, if later, upon the Change of Control, consistent with Section 409A.

(c) On the applicable payment date, each vested Performance Unit credited to the Participant's account shall be settled in whole shares of Stock of the Company equal to the number of vested Performance Units, subject to (i) the limitation of subsection (d) below, (ii) compliance with the six-month delay described in Section 16 below, if applicable, and (iii) the payment of any federal, state and local withholding taxes as described in Section 12 below. The obligation of the Company to distribute shares of Stock shall be subject to the rights of the Company as set forth in the Plan and to all applicable laws, rules, regulations, and such approvals by governmental agencies as may be deemed appropriate by the Committee, including as set forth in Section 14 below.

(d) For the avoidance of doubt, the Participant will forfeit all Performance Units if the Participant's employment is terminated for Cause prior to the payment date under this Section 5.

6. Certain Corporate Changes.

In the event of a stock dividend, stock split or combination of shares, spin-off, recapitalization or merger in which the Company is the surviving corporation, or other change in the Company's capital stock (including, but not limited to, the creation or issuance to shareholders generally of rights, options or warrants for the purchase of common stock or preferred stock of the Company), the Committee shall adjust, as provided in the Plan, the number and class of shares or securities of the Company underlying the Performance Units held by the Participant, the maximum, target and threshold number of shares of Stock for which the Performance Units may vest, the Performance Goals, and the share price or class of Stock for purposes of the Performance Goals, in each case, as appropriate to reflect the effect of such event or change in the Company's capital structure in such a way as to preserve the value of the Performance Units. Any adjustment that occurs under the terms of this Section 6 or the Plan will not change the timing or form of payment with respect to any Performance Units except in accordance with Code Section 409A.

7. No Stockholder Rights.

The Participant has no voting rights and no other ownership rights and privileges of a stockholder with respect to the shares of Stock subject to the Performance Units, except as otherwise provided in Section 4.

8. Retention Rights.

Neither the award of Performance Units, nor any other action taken with respect to the Performance Units, shall confer upon the Participant any right to continue in the employ or service of the Company or a Subsidiary or shall interfere in any way with the right of the Company or a Subsidiary to terminate Participant's employment or service at any time.

9. Amendment; Modification or Substitution.

This award may be amended, modified or substituted by the Committee, in whole or in part, in accordance with Section 15.1 of the Plan.

10. Notice.

Any notice to the Company provided for in this Agreement shall be addressed to it in care of the Chief Financial Officer of the Company, 4991 Lake Brook Drive, Suite 100, Glen Allen, VA 23060, and any notice to the Participant shall be addressed to such Participant at the current address shown on the payroll system of the Company or a Subsidiary thereof, or to such other address as the Participant may designate to the Company in writing. Any notice provided for hereunder shall be delivered by hand, sent by telecopy or electronic mail, or enclosed in a properly sealed envelope addressed as stated above, registered and deposited, postage and registry fee prepaid in the United States mail, or other mail delivery service. Notice to the Company shall be deemed effective upon receipt. By receipt of this Agreement, the Participant hereby consents to the delivery of information (including without limitation, information required to be delivered to the Participant pursuant to the applicable securities laws) regarding the Company, the Plan, and the Performance Units via the Company's electronic mail system or other electronic delivery system.

11. Incorporation of Plan by Reference.

This Agreement is made pursuant to the terms of the Plan, the terms of which are incorporated herein by reference, and shall in all respects be interpreted in accordance therewith. The decisions of the Committee shall be conclusive upon any question arising hereunder. The Participant's receipt of the Performance Units awarded under this Agreement constitutes the Participant's acknowledgment that all decisions and determinations of the Committee with respect to the Plan, this Agreement, and/or the Performance Units shall be final and binding on the Participant, his or her beneficiaries, and any other person having or claiming an interest in such Performance Units. The settlement of any award with respect to Performance Units is subject to the provisions of the Plan and to interpretations, regulations, and determinations concerning the Plan as established from time to time by the Committee in accordance with the provisions of the Plan.

12. Income Taxes; Withholding Taxes.

The Participant agrees, as a condition of receiving the Performance Units, to pay to the Company or a Subsidiary, as applicable, or make arrangement satisfactory to the Company regarding the payment of, all applicable federal, state and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to the Performance Units. The Participant is solely responsible for the satisfaction of all taxes and penalties that may arise in connection with the Performance Units pursuant to this Agreement. At the time of taxation, the Company shall have the right to deduct from amounts payable with respect to the Performance Units, including by withholding shares of Stock, an amount equal to the federal (including FICA), state and local income and payroll taxes and other amounts as may be required by law to be withheld with respect to the Performance Units. Without limiting the foregoing, upon payment of the Performance Units, the Company shall withhold shares subject to the vested Performance Units to cover any of the applicable withholding for related FICA tax and income tax liabilities.

13. <u>Governing Law.</u>

The validity, construction, interpretation, and effect of this instrument shall exclusively be governed by, and determined in accordance with, the applicable laws of the Commonwealth of Virginia, excluding any conflicts or choice of law rule or principle.

14. <u>Award Subject to Applicable Laws and Company Policies.</u>

This Agreement shall be subject to any required approvals by any governmental or regulatory agencies. This award of Performance Units shall be subject to repayment to (*i.e.*, clawback by) the Company or a related entity as determined in good faith by the Committee or the Board in the event repayment is required by the terms of the Company's recoupment, clawback or similar policy as may be in effect from time to time or by applicable federal or state law or regulation or applicable listing standard of any national securities exchange or system on which the Stock is then listed or reported, but in no event with a look-back period of more than three years, unless in the opinion of counsel satisfactory to the Participant required by applicable federal or state law or regulation or applicable listing standard.

15. <u>Assignment.</u>

This Agreement shall bind and inure to the benefit of the successors and assignees of the Company. The Participant may not sell, assign, transfer, pledge, or otherwise dispose of the Performance Units, except in the event of the Participant's death.

16. <u>Code Section 409A.</u>

This award of Performance Units is intended to be exempt from or comply with the applicable requirements of Code Section 409A and shall be administered in accordance with Code Section 409A. Notwithstanding anything in this Agreement to the contrary, if the Performance Units constitute "deferred compensation" under Code Section 409A and the Performance Units become vested and settled upon the Participant's termination of employment, payment with respect to the Performance Units shall be delayed for a period of six months after the Participant's termination of employment if the Participant is a "specified employee" as defined under Code Section 409A (as determined by the Committee) and if required pursuant to Code Section 409A. If payment is delayed, the shares of Stock of the Company and accrued cash dividend equivalents shall be distributed within 30 days after the date that is the six-month anniversary of the Participant's termination of employment. If the Participant dies during the six-month delay, the shares of Stock and accrued cash dividend equivalents shall be distributed in accordance with the Participant's will or under the applicable laws of descent and distribution. Notwithstanding any provision to the contrary herein, payments made with respect to this award of Performance Units may only be made in a manner and upon an event permitted by Code

Section 409A, and all payments to be made upon a termination of employment hereunder may only be made upon a "separation from service" as defined under Code Section 409A, if required pursuant to Code Section 409A. To the extent that any provision of this Agreement would cause a conflict with the requirements of Code Section 409A, or would cause the administration of the Performance Units to fail to satisfy the requirements of Code Section 409A, such provision shall be deemed null and void to the extent permitted by applicable law. In no event shall the Participant, directly or indirectly, designate the calendar year of payment. If the Performance Units constitute "deferred compensation" under Code Section 409A and payment is subject to the execution of a Release, and if such payment could be made in more than one taxable year, payment shall be made in the later taxable year, if required by Code Section 409A.

[Signature Page Follows]

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute and attest this instrument, and the Participant has placed his or her signature hereon, effective as of the Grant Date set forth above.

DYNEX CAPITAL, INC.

By:
Name:
Title:

By signing below, the Participant (a) acknowledges receipt of the Plan incorporated herein, (b) acknowledges that he or she has read this Agreement and understands the terms and conditions set forth herein, (c) accepts the award of the Performance Units described in this Agreement, (d) agrees to be bound by the terms of the Plan and this Agreement, and (e) agrees that all decisions and determinations of the Committee with respect to the Performance Units shall be final and binding.

Participant

____
Name:
Date:

Schedule A

The Performance Units will vest based on the attainment of TSR and TER Performance Goals, as described in this Schedule A.

Relative Performance Goals

1. **Relative Performance Goals**.

(a) **Vesting**. Vesting of an aggregate <<percent>>% of the Performance Units will be based on attainment of the following performance results:

(i) <<percent>>% of the Target Award of Performance Units will vest based on the Company's relative TSR for the Performance Period ("**Relative TSR**") as compared to the Peer Group (as defined in Section 2(e) below) ("**Relative TSR Tranche**"), and

(ii) <<percent>>% of the Target Award of Performance Units will vest based on the Company's relative TER as compared to the TER for the Peer Group for the Performance Period ("**Relative TER**") ("**Relative TER Tranche**").

(b) **Relative TSR.** At the end of the Performance Period, the TSR for the Company, and for each company in the Peer Group, shall be calculated by dividing the Closing Average Share Value (as defined below) by the Opening Average Share Value (as defined below).

(i) The term "**Closing Average Share Value**" means the average value of the common stock, based on Accumulated Shares (as defined below), for the 20 trading days ending on the last trading day of the Performance Period (*i.e.*, the 20 trading days ending on and including the last day of the Performance Period), which shall be calculated as follows: (i) determine the closing price of the common stock on each trading date during the 20-day period, (ii) multiply each closing price by the Accumulated Shares as of that trading date, and (iii) average the amounts so determined for the 20-day period.

(ii) The term "**Opening Average Share Value**" means the average value of the common stock, based on Accumulated Shares, for the 20 trading days ending on the day immediately preceding the first day of the Performance Period (*i.e.*, the 20 trading days ending on and including <<date>>), which shall be calculated as follows: (i) determine the closing price of the common stock on each trading day during the 20-day period, (ii) multiply each closing price by the Accumulated Shares as of that trading date, and (iii) average the amounts so determined for the 20-day period. The Company's Opening Average Share Value is $<<price>>.

(iii) The term "**Accumulated Shares**" means, for a given trading day, the sum of (i) one share and (ii) a cumulative number of shares of the company's common stock deemed purchased with dividends declared on a company's common stock during the period described below, assuming same-day reinvestment of the dividends in the common stock of a company at the closing price on the ex-dividend date. The calculations under this Schedule A shall include ex-dividend dates during the period beginning <<date>> and ending on the applicable trading day.

(iv) If the TSR calculation is made as of the date of a Change of Control pursuant to Section 2(d) of the Agreement, the price per share of Stock for purposes of the Change of Control, as determined by the Committee, shall be used instead of the 20-day average for purposes of calculating the Closing Average Share Value for the Company's TSR.

(c) **Relative TER.** At the end of the Performance Period, the TER for the Company, and for each company in the Peer Group, is calculated as (A) (i) the company's Book Value per share of stock at the end of the Performance Period, plus (ii) the cumulative dividends declared by the company during the Performance Period, divided by (B) the Book Value per share of stock on the day immediately preceding the first day of the Performance Period (<<date>>). If the Performance Period ends on the Participant's termination of employment or a Change of Control occurring prior to the Vesting Date, as described in Section 2 of the Agreement, then TER performance will be determined as of the end of the calendar quarter ending on or immediately preceding such termination of employment or Change of Control, as applicable.

(d) "**Book Value**" per share of Stock is defined as the total common stockholders' equity, divided by the number of common shares of the company as of the applicable date, and shall be derived from the company's financial statements, prepared in accordance with GAAP. For avoidance of doubt, Book Value per common share will be calculated using the liquidation preference of any preferred stock outstanding as of the date of the computation. The Book Value per share of Stock on <<date>> was $<<price>>.

2. **Relative TSR and TER Vesting Percentage.**

(a) Subject to Section 3 below, the number of Performance Units that will vest for the Performance Period with respect to the Relative TSR Tranche shall be determined by multiplying <<percent>>% of the Target Award by the Relative TSR Vesting Percentage, as determined under this Section 2.

(b) Subject to Section 3 below, the number of Performance Units that will vest for the Performance Period with respect to the Relative TER Tranche shall be determined by multiplying <<percent>>% of the Target Award by the Relative TER Vesting Percentage, as determined under this Section 2.

(c) The Relative TSR Vesting Percentage and the Relative TER Vesting Percentage will be determined based on the Company's TSR and TER for the Performance Period as compared to the TSR and TER of the companies in the Peer Group for the Performance Period, as follows:

Performance Level*	**Relative TSR**	**Relative TSR Vesting Percentage**
Maximum	<<rank>> Percentile or above	<<percent>>%
Target	<<rank>> Percentile	<<percent>>%
Threshold	<<rank>> Percentile	<<percent>>%
Below Threshold	Below <<rank>> Percentile	<<percent>>%
Performance Level*	**Relative TER**	**Relative TER Vesting Percentage**
Maximum	<<rank>> Percentile or above	<<percent>>%
Target	<<rank>> Percentile	<<percent>>%
Threshold	<<rank>> Percentile	<<percent>>%
Below Threshold	Below <<rank>> Percentile	<<percent>>%

* If the Company's TSR rank or TER rank, as applicable, falls between the threshold and maximum measuring points, the Company's TSR or the TER rank, as applicable, will be rounded to the nearest whole percentage point.

(d) The companies in the Peer Group will be determined on the first day of the Performance Period for purposes of the Relative TSR and Relative TER calculations and will be changed only in accordance with Section 2(e) below. No company shall be added to the Peer Group during the Performance Period for purposes of the Relative TSR or Relative TER calculation.

(e) The term "**Peer Group**" means the companies listed on Exhibit A and will be subject to change as follows:

(i) In the event of a merger, acquisition or business combination transaction of a company in the Peer Group in which the company in the Peer Group is the surviving entity and remains publicly traded, the surviving entity shall remain a company in the Peer Group. Any entity involved in the transaction that is not the surviving company shall no longer be a company in the Peer Group.

(ii) In the event of a merger, acquisition or business combination transaction of a company in the Peer Group, a "going private" transaction or other event involving a company in the Peer Group or the liquidation of a company in the Peer Group, in each case where the company in the Peer Group is not the surviving entity or is no longer publicly traded, the company shall no longer be a company in the Peer Group.

(iii) Notwithstanding the foregoing, in the event of a bankruptcy of a company in the Peer Group where the company in the Peer Group is not publicly traded at the end of the Performance Period, such company shall remain a company in the Peer Group but shall be deemed to have a TSR of negative 100% (-100%).

3. **<u>Vesting Cap Based on Company Absolute TSR and Company Absolute TER Performance</u>**.

(a) After the Relative TSR Vesting Percentage and the Relative TER Vesting Percentage are determined, as described in Section 2 above, the Company Absolute TSR and the Company Absolute TER, respectively, for the Performance Period will be evaluated to determine the actual number of Performance Units that vest based on Relative TSR and Relative TER performance (the "**<u>Final Payout Percentage</u>**").

(b) If the Company Absolute TSR Performance is negative, the Final Payout Percentage with respect to the Relative TSR Tranche will not exceed <<percent>>% of the Target Award, even if the Relative TSR Vesting Percentage determined under Section 2 above is greater than target. If the Company Absolute TSR is zero or positive, the Final Payout Percentage for the Relative TSR Tranche will be the Relative TSR Vesting Percentage determined under Section 2 above.

(c) If the Company Absolute TER Performance is negative, the Final Payout Percentage with respect to the Relative TER Tranche will not exceed <<percent>>% of the Target Award, even if the Relative TER Vesting Percentage determined under Section 2 above is greater than target. If the Company Absolute TER is zero or positive, the Final Payout Percentage for the Relative TSR Tranche will be the Relative TER Vesting Percentage determined under Section 2 above.

<u>Absolute Performance Goals</u>

4. Vesting of <<percent>>% of the Target Award of Performance Units will be based on the Company's Absolute TER Performance over the Performance Period, as compared to the following reference points:

<u>Performance Level*</u>	**<u>TER Performance</u>**	**<u>TER Performance as a Percentage Increase</u>**	**<u>Absolute TER Vesting Percentage</u>**
Maximum	$<<price>>	<<percent>>%	<<percent>>%
Target	$<<price>>	<<percent>>%	<<percent>>%
Threshold	$<<price>>	<<percent>>%	<<percent>>%
Below Threshold		<<percent>>%	<<percent>>%

* If the Company's TER performance falls between the threshold and maximum measuring points, the Company's Absolute TER Performance will be rounded to the nearest whole percentage point.

(a) **<u>“Absolute TER Performance”</u>** is calculated by (A) (i) the Company’s Book Value per share of Stock at the end of the Performance Period, plus (ii) the cumulative dividends declared by the Company during the Performance Period, divided by (B) the Book Value per share of Stock on the day immediately preceding the first day of the Performance Period (*i.e.*, <<date>>) (which is $<<price>>). If the Performance Period ends on the Participant’s termination of employment or a Change of Control occurring prior to the Vesting Date, as described in Section 2 of the Agreement, then TER performance will be determined as of the end of the calendar quarter ending on or immediately preceding such termination of employment or Change of Control, as applicable, and the Committee shall prorate the absolute TER performance goal through the date as of which TER performance is determined, as the Committee deems appropriate.

(b) “**<u>Book Value</u>**” per share of Stock is defined as the total common stockholders' equity, divided by the number of common shares of the Company as of the applicable date and shall be derived from the Company’s financial statements, prepared in accordance with GAAP. For avoidance of doubt, Book Value per common share will be calculated using the liquidation preference of any preferred stock outstanding as of the date of the computation. The Book Value per share of Stock on <<date>> was $<<price>>.

<u>General Vesting Terms</u>

1. The actual number of Performance Units that vest will be based on the actual performance level achieved with respect to each Performance Goal. If the actual performance level achieved for any Performance Goal does not meet threshold performance for the applicable Performance Goal, then no Performance Units will be earned and vested for that Performance Goal pursuant to this Award. Threshold level performance may be achieved for one Performance Goal and not another based on the Company’s actual performance during the Performance Period. The actual number of Performance Units that vest will be determined by the Committee based on the actual performance level achieved with respect to each Performance Goal during the Performance Period, factoring in the weighting for each Performance Goal. The maximum number of Performance Units that may become earned and vested pursuant to this Award is capped at <<percent>>% of the Target Award.

2. Provided that threshold level performance is achieved, if actual performance is between threshold and maximum performance, the number of Performance Units that will vest with respect to the Performance Goal, if any, will be interpolated on a straight line basis for pro-rata achievement for performance between threshold and maximum.

3. Any fractional Performance Unit resulting from the vesting of the Performance Units in accordance with this Agreement shall be rounded down to the nearest whole number. Any portion of the Performance Units that does not vest as of the end of the Performance Period shall be forfeited as of the end of the Performance Period.

Exhibit A

<<peer group>>

Exhibit 31.1

CERTIFICATIONS

I, Byron L. Boston, 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: August 2, 2021

/s/ Byron L. Boston

Byron L. Boston
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: August 2, 2021

/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 three months ended June 30, 2021, 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:	August 2, 2021	/s/ Byron L. Boston
		Byron L. Boston Principal Executive Officer
Date:	August 2, 2021	/s/ Stephen J. Benedetti
		Stephen J. Benedetti Principal Financial Officer