UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K

(Mark One)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1996
OR
|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-9819

RESOURCE MORTGAGE 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 I.D. No.)

10900 Nuckols Road, Third Floor, Glen Allen, Virginia	23060
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: Title of each class Name of each exchange on which registered Common Stock, $.01 par value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Title of each class Name of each exchange on which registered Series A 9.75% Cumulative Convertible Nasdaq National Market Preferred Stock, $.01 par value Series B 9.55% Cumulative Convertible Nasdaq National Market Preferred Stock, $.01 par value Series C 9.73% Cumulative Convertible Nasdaq National Market Preferred Stock, $.01 par value

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 XX No___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |X|

As of February 28, 1997, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $606,673,975 (20,055,338 shares at a closing price on The New York Stock Exchange of $30.25). Common stock outstanding as of February 28, 1997 was 20,890,742 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement to be filed pursuant to Regulation 14A within 120 days from December 31, 1996, are incorporated by reference into Part III.

<TABLE>
<CAPTION>

RESOURCE MORTGAGE CAPITAL, INC.
1996 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

</TABLE>

Item 1. BUSINESS

General

Resource Mortgage Capital, Inc. (the "Company") is a mortgage and consumer finance company which uses its production operations to create investments for its portfolio. Currently, the Company's primary production operations include the origination of mortgage loans secured by multi-family properties and the origination of loans secured by manufactured homes. The Company intends to expand its production sources in the future to include other financial products, such as commercial real estate loans. The Company will generally securitize the loans funded as collateral for collateralized bonds, limiting its credit risk and providing long-term financing for its portfolio. The majority of the Company's current investment portfolio is comprised of loans or securities (ARM loans or ARM securities) that have coupon rates which adjust over time (subject to certain limitations) in conjunction with changes in short-term interest rates. The Company has elected to be treated as a real estate investment trust (REIT) for federal income tax purposes and, as such, must distribute substantially all of its taxable income to shareholders and will generally not be subject to federal income tax.

The Company's principal sources of earnings are net interest income on its investment portfolio. The Company's investment portfolio consists principally of collateral for collateralized bonds, ARM securities and loans held for securitization. The Company funds its portfolio investments with both borrowings and cash raised from the issuance of equity. For the portion of the portfolio investments funded with borrowings, the Company generates net interest income to the extent that there is a positive spread between the yield on the earning assets and the cost of borrowed funds. For that portion of the balance sheet that is funded with equity, net interest income is primarily a function of the yield generated from the interest-earning asset. The cost of the Company's borrowings may be increased or decreased by interest rate swap, cap, or floor agreements.

Business Focus and Strategy

The Company strives to create a diversified portfolio of investments that in the aggregate generates stable income for the Company in a variety of interest rate environments and preserves the capital base of the Company. The Company seeks to generate growth in earnings and dividends per share in a variety of ways, including (i) developing production capabilities to originate and acquire financial assets in order to create attractively priced investments for its portfolio, as well as controlling the underwriting and servicing of such financial assets; (ii) adding investments to its portfolio when opportunities in the market are favorable and (iii) increasing the efficiency with which the Company utilizes its equity capital over time. To increase potential returns to shareholders, the Company also employs leverage through the use of secured borrowings (such as collateralized bonds) and repurchase agreements to fund a portion of its portfolio investments. As mentioned previously, the Company's current production operations are comprised primarily of multi-family and manufactured housing lending. The Company's strategy is to expand these production sources as well as to diversify into other financial products such as commercial real estate loans. The Company also intends to selectively purchase single-family loans in bulk with the intent to securitize such loans as collateral for collateralized bonds. By pursuing these strategies, the Company believes it can create investments for its portfolio at a lower effective cost than if investments of comparable risk profiles were purchased in the market, although there can be no assurance that the Company will be successful in accomplishing this strategy.

The Company expects to fund the majority of the future growth in its investment portfolio by the issuance of collateralized bonds, which are debt securities collateralized by a pool of mortgage and/or manufactured housing loans. The loans which collateralize the collateralized bonds are treated as assets of the Company and the collateralized bonds are treated as liabilities of the Company. The Company generates net interest income to the extent that there is a positive spread between the yield on the loans which collateralize the collateralized bonds and the cost of the collateralized bond financing. The net interest spread will be directly impacted by the level of prepayments and credit losses on the underlying loans. The collateralized bond structure utilized by the Company generally limits its credit risk to the overcollateralization portion in each securitization, represented primarily by its net investment in the securitization (collateral for collateralized bonds less the collateralized bonds) and which amounts to between 2% and 5% of the initial loan pool. In addition, the collateralized bonds are non-recourse to the Company, although the Company may invest in a portion of the collateralized bonds issued. The Company may issue collateralized bonds from time to time based on its current portfolio management strategy, loan funding volume, market conditions and other factors.

The Company's collateralized bond securitization strategy differs from the more common pass-through securitization structure used by other companies and also used primarily by the Company prior to 1995. As mentioned above, collateralized bond securitizations are recorded as financing transactions and, as such, there is no gain on sale recognition at securitization. Rather, income from these securities is recognized over their lives as net interest margin, which is generally not taxable to the Company as a REIT. Conversely, prior to 1995, income was primarily recognized as gain on sale of mortgage loans and was generated primarily by a taxable affiliated entity and, as such, was fully taxable. The Company believes that recognizing income over time as a result of utilizing the Company's current collateralized bond securitization strategy will reduce the earnings volatility that could have been experienced by utilizing former securitization strategies.

Production Operations

The Company's current production operations consist primarily of the origination and purchase of loans, and the securitization of such loans. The production operations enable the Company to enhance its return on shareholders' equity (ROE) by earning a favorable net interest spread while loans are being accumulated for securitization and creating investments for its portfolio at a lower cost than if such investments were purchased from third parties. The creation of investments involves the issuance of collateralized bonds or pass-through securities collateralized by the loans generated from the Company's production activities and the retention of one or more classes of the collateralized bonds or securities relating to such issuance. The issuance of collateralized bonds and pass-through securities generally limits the Company's credit and interest rate risk in contrast to retaining loans in its investment portfolio in whole-loan form.

Until May 1996, the Company's production operations were comprised mainly of its single-family mortgage operations that concentrated on the "non-conforming" segment of the residential loan market. The Company funded its single-family loans directly through mortgage brokers (wholesale) and purchased loans through a network of mortgage companies (correspondents). The single-family loans which were originated or purchased by the Company were secured by properties that were geographically-diversified throughout the United States. The Company built this single-family production operation from a start-up in 1988, funding $18.2 billion in principal amount of loans since inception. Loans originated through the Company's former single-family mortgage operations constitute the majority of loans underlying the securities that comprise the Company's current investment portfolio.

On May 13, 1996, the Company sold its single-family mortgage operations to Dominion Mortgage Services, Inc. (Dominion), a wholly-owned subsidiary of Dominion Resources, Inc. (NYSE:D), for $68 million. Included in the sale of the single-family mortgage operations were the Company's single-family correspondent, wholesale and servicing operations. The sale resulted in a gain of $17.3 million, which was net of a provision of $31.0 million for possible losses on single-family loans where the Company has retained a portion of the credit risk and where prior to the sale the Company had serviced such single-family loans. The terms of the sale included an initial cash payment of $20.5 million, with the remainder of the purchase price to be paid evenly over the next five years pursuant to a note agreement. As a result of the sale, the Company is precluded from originating certain types of single-family mortgage loans through either correspondents or a wholesale network for a period of five years from the date of the sale. The Company may acquire single-family mortgage loans through bulk purchases of $25 million or more.

Since the sale, the Company's primary production operations have been focused on multi-family lending and manufactured housing lending. The Company is currently broadening its multi-family lending capabilities to include other types of commercial real estate loans and to expand its manufactured housing lending to include inventory financing to manufactured housing dealers. The Company may also purchase single-family loans on a "bulk" basis from time to time and may originate such loans on a retail basis.

The Company believes that it has been successful in operating its production activities. Since its initial public offering in February 1988, the Company's average total ROE has been 17%. The Company estimates that its ROE has averaged 4% higher than it would have otherwise been as a result of its production operations. For purposes of the above percentages, ROE was calculated on a weighted average basis prior to unrealized gains or losses on available-for-sale mortgage securities. The single-family operations have contributed $62 million to the Company's net earnings since 1988, including the $17.3 million of net gain recorded in May 1996, and have produced a positive mark-to-market on related single-family investments of $65.2 million as of December 31, 1996.

While there can be no assurances in this regard, the Company believes that its future production activities will continue to have a favorable impact on its ROE and to create investments for its portfolio at a lower all-in cost than if investments with comparable risk profiles were purchased from third parties.

Multi-family Lending Operations

The Company currently originates multi-family mortgage loans which are secured by apartment properties that have qualified for low-income housing tax credits (LIHTCs) under Section 42 of the Internal Revenue Code. Since 1992, the Company has funded approximately $355 million of multi-family mortgage loans through a brokerage arrangement with Multi-Family Capital Markets (MCM), a Richmond, Virginia-based company which the Company acquired in August 1996 for $4 million. The Company believes the acquisition of MCM will complement the Company's current strategy of expanding its multi-family lending activities and will improve its competitive position in the marketplace for such loans. The Company plans to broaden its income property lending beyond LIHTC apartment properties during 1997. Such properties may include apartment properties that have not received LIHTCs, assisted living and retirement housing, limited and full service hotels, urban or suburban office buildings, retail shopping strips and centers, light industrial buildings and manufactured housing parks. The Company contemplates that it would service and securitize such loans in its multi-family production.

As of December 31, 1996, the Company had $208.2 million in principal balance of multi-family loans held for securitization. Such loans had an average principal balance of $3.6 million, and ranged in size from $0.6 million to $11.0 million. The Company has commitments to fund loans through 1998 of approximately $522 million as of December 31, 1996. As of such date, the Company had 17 employees directly involved in its multi-family lending operations.

Current federal law provides that each state receive an annual allocation of LIHTCs. Each state then allocates portions of its LIHTC allocation to various developers for the purpose of constructing or rehabilitating low-income housing apartment properties. Based upon current allocation amounts, approximately 110,000 apartment units nationwide are constructed or rehabilitated annually. For property owners to be eligible for, and remain in compliance with the LIHTC regulations, owners must "set aside" at least 20% of the units for rental to families with income of 50% or less of the median income for the locality as determined by the Department of Housing and Urban Development (HUD), or at least 40% of the units to families with income of 60% or less of the HUD median income. Most owners elect the "40-60 set-aside" and designate 100% of the units in the project as LIHTC units. Additionally, rents cannot exceed 30% of the annual HUD median income adjusted for the unit's designated "family size."

Generally, the LIHTCs are sold by the developers to investors prior to construction in order to provide additional equity for the project. The sale of the LIHTCs typically provides funds equal to approximately 50% of the construction costs of the project. The multi-family loans made by the Company normally fund the difference between the project cost (including a fee to the developer) and the funds generated from the sale of the LIHTCs. In addition to providing substantial equity for the apartment project, the Company believes the LIHTCs provide a strong on-going incentive to the owner of the property to maintain the property and meet its debt service obligations, since the owner, upon foreclosure, would lose any LIHTCs not already taken and may be subject to recapture of a portion of the LIHTCs already taken.

With the acquisition of MCM, the multi-family mortgage loans originated by the Company are now sourced through the Company's direct relationships with developers and syndicators. There are no correspondent or broker relationships. Once a sufficient volume of multi-family loans are accumulated, the Company plans to securitize such loans through the issuance of collateralized bonds. The Company anticipates that the issuance of the collateralized bonds will limit the Company's future credit and interest rate risk on such multi-family loans. The Company presently intends to accumulate approximately $250 million of multi-family loans for a collateralized bond series to be issued during the first half of 1997. The Company has previously issued one series of collateralized bonds backed by multi-family loans. See "Loan Securitization Strategy."

Underwriting. The Company underwrites all multi-family loans it originates. Among other criteria, the Company underwrites each multi-family loan to a minimum debt service coverage ratio of 1.15 times the property's net operating income, with a maximum loan to value of 80% of appraised value. The Company believes that such criteria are consistent with general underwriting standards for LIHTC multi-family properties. The Company's underwriting criteria are designed to assess the particular property's current and future capacity to make all debt service payments on a current basis and to ensure that adequate collateral value exists to support the loan. Each multi-family loan funded by the Company is approved by an internal loan committee, with a majority of its members not directly related to the lending function.

Because the Company funds the loans at fixed-interest rates and also commits to funding future loans at fixed-interest rates, the Company is exposed to interest rate risk to the extent that interest rates increase in the future. The Company strives to mitigate such risk by the use of futures contracts and forward contracts of US treasury securities with duration characteristics similar to the multi-family loans and commitments.

Manufactured Housing Lending Operations

The Company began to build the infrastructure of its manufactured housing lending operations during the fourth quarter of 1995 and commenced funding loans on manufactured homes during the second quarter of 1996. The Company believes that manufactured housing is a growing market with strong customer demand. The Company entered this business primarily to diversify its existing product line and to increase its overall production. Manufactured housing lending complements the Company's residential lending and securitization expertise.

A manufactured home is distinguished from a traditional single-family home in that the housing unit is constructed in a plant, transported to the site and secured to a foundation, whereas a single-family home is built on the site. Loans on manufactured homes may take the form of a consumer installment loan (i.e., a personal property loan) when the borrower rents or owns the lot underlying the manufactured home or a traditional mortgage loan when the borrower owns the lot. To date, the Company has only originated consumer installment loans on manufactured homes, but plans to originate mortgage loans in the future. The Company offers both fixed and adjustable rate loans with terms ranging from 7 to 30 years. As of December 31, 1996, the Company had $41 million in principal balance of manufactured housing loans in inventory and had commitments outstanding of approximately $15 million. The average funded amount per loan is approximately $37,000. As of December 31, 1996, the Company had 60 employees directly involved in its manufactured housing lending operations.

The rising cost of site built single-family housing in the United States has shifted consumer demand toward manufactured housing as an affordable alternative to traditional single-family homes. According to the December 1996 Manufacturing Report by the Manufactured Housing Institute, manufactured home sales, approximately 52% of which were multi-section homes, represented an estimated 24% of all new housing units produced in the United States in 1996. This represented a 7% increase in all new housing units produced in the United States since 1991. During 1996, approximately 363,000 manufactured homes were shipped to retailers (i.e., dealers) which then sell the homes to consumers, with the majority of such sales being financed as personal property loans using an installment sales contract. As the manufactured home is generally transported on public roads, each home is usually titled with the respective state department of motor vehicles.

The Company's manufactured housing lending business is operated out of the Company's main office in Glen Allen, Virginia (the "home" office) and is supported currently with regional offices in North Carolina, Georgia, Texas and Michigan. The Company is planning to establish a fifth regional office on the West Coast during the second quarter of 1997. Each regional office supports three to four district sales managers who establish and maintain relationships with manufactured housing dealers. By using the home/regional/district office structure, the Company has created a decentralized customer service and loan origination organization with centralized controls and support functions. The Company believes that this approach also provides the Company with a greater ability to maintain customer service, to respond to market conditions, to enter and exit local markets and to test new products.

The Company's current sources of originations are its dealer network and direct marketing to consumers. In the future, the Company plans to expand its sources of origination to nearly all sources for manufactured housing loans by establishing relationships with park owners, developers of manufactured housing communities, manufacturers of manufactured homes, brokers and correspondents. The Company currently advertises in trade publications to reach dealers and solicits loans through direct mail and telemarketing.

The Company's dealer qualification criteria includes minimum equity requirements, minimum years of experience for principal officers, acceptable historical financial performance and various business references. The dealer application package is submitted by the dealer to the regional office manager for review and approval. As of December 31, 1996, the Company had 480 approved dealers with 752 sales locations. The Company plans to continue to expand its dealer network.

Inventory Financing. The Company will offer inventory financing, or "lines of credit," to retail dealers for the purpose of purchasing manufactured housing inventory to display and sell to customers beginning in 1997. Under such arrangements, the Company will lend against the dealer's line of credit when an invoice representing the purchase of a manufactured home by a dealer is presented to the Company by the manufacturer of the manufactured home. Prior to approval of the line of credit for the dealer, the Company will perform a financial review of the manufacturer as well as the dealer. The Company will perform monthly inspections of the dealer's inventory financed by the Company and annual reviews of both the dealer and the manufacturer. Entrance into this area of financing is consistent with the Company's strategy to be a "full-service" provider to the manufactured housing industry.

Underwriting. The Company underwrites 100% of the manufactured housing loans it originates. The loans are underwritten at the regional offices based on guidelines established by the Company. Home office approvals are required when loan amounts exceed specified lines of credit authority. Turnaround for approvals are within four to twenty-four hours with fundings usually within twenty-four to forty eight hours of receipt of complete documentation.

Because of the decentralization of the Company's manufactured housing business, in addition to the Company's underwriting process and dealer approval program, the Company also plans to perform regional and district office reviews on a frequent basis to ensure that required procedures are being followed. These reviews will include the collections area, the remarketing of foreclosed or repossessed homes, underwriting, dealer performance and quality control. The periodic regional quality control reviews are performed to ensure that the underwriting guidelines are consistently applied. The Company also performs customer audits both before and after funding of the loan.

Manufactured housing loans are primarily fixed-interest rate with some adjustable-rate and step-rate loans. To reduce interest rate risk associated with fixed-rate products, the Company will mitigate such risks through the use of forward sales, futures and/or swaps until the pool of loans is securitized. As of December 31, 1996, 95.3% of the loans were fixed-rate.

The Company perfects its security interest on the loans that are in the form of installment sales contracts by filing title with the department of motor vehicles or UCC financing statements with the respective state. Such loans are eligible REIT assets.

Single-family Lending

Pursuant to the terms of the sale of the Company's single-family operations to Dominion during the second quarter of 1996, the Company is precluded from originating or purchasing certain types of single-family loans through a wholesale or correspondent network through April, 2001. However, the Company may purchase any type of single-family loans on a "bulk" basis, i.e., in blocks of $25 million or more, and may originate loans on a retail basis. The Company intends to purchase single-family loans in bulk to the extent that the Company can generate a favorable return on investment upon securitization. Due to the sale of its single-family operations, the Company does not currently have the internal capability to directly underwrite or service single-family mortgage loans. In the future, the Company may re-establish an internal underwriting and servicing capability for single-family mortgage loans, similar to that which existed prior to the sale of its single-family operations. In the interim, the Company plans to occasionally bulk purchase "A" quality loans and the Company may utilize independent contractors to assist in the underwriting and servicing of such loans.

Loan Servicing

During 1996, the Company established the capability to service both multi-family and manufactured housing loans funded through its production operations. The purpose of servicing the loans funded through the production operations is to better manage the Company's credit exposure while the loans are held for securitization, as well as the exposure which is usually generated when the Company retains a portion of the credit risk on a pool of the mortgage loans after securitization. The multi-family servicing function includes collection and remittance of principal and interest payments, administration of tax and insurance accounts, management of the replacement reserve funds, collection of certain insurance claims and, if the loan defaults, the resolution of such defaulted loan through either a modification or the foreclosure and sale of the property.

The manufactured housing servicing function was also established in 1996 and is operated in Fort Worth, Texas. As the servicer of such manufactured housing loans, the Company is responsible for the collection of monthly payments, and if the loan defaults, the resolution of such defaulted loan through either a modification or the repossession and sale of the related property. Minimizing the time between the date the loan goes in default and the time that the manufactured home is repossessed and sold is critical to mitigating losses on these loans.

Loan Securitization Strategy

When a sufficient volume of loans is accumulated, the Company will generally securitize the loans through the issuance of collateralized bonds. The Company believes that securitization is an efficient and cost effective way for the Company to (i) reduce capital otherwise required to own the loans in whole loan form; (ii) limit the Company's exposure to credit risk on the loans; (iii) lower the overall cost of financing the loans and (iv) depending on the securitization structure, limit the Company's exposure to interest rate and/or valuation risk. As a result of the reduction in the availability of mortgage pool insurance, and the Company's desire to both reduce its recourse borrowings as a percentage of its overall borrowings, as well as, the variability of its earnings, the Company has utilized the collateralized bond structure for securitizing substantially all of its loan production since the beginning of 1995. Prior to 1995, the Company issued pass-through securities, in a senior-subordinated structure or with pool insurance.

The securities are structured by the Company so that a substantial portion of the securities are rated in one of the two highest rating categories (i.e., AA or AAA) by at least one of the nationally recognized rating agencies. Credit enhancement for these securities may take the form of over-collateralization, subordination, reserve funds, mortgage pool insurance, bond insurance, third-party limited guaranties or any combination of the foregoing. The Company strives to use the most cost effective security structure and form of credit enhancement available at the time of securitization. Securities issued by the Company are not generally guaranteed by a federal agency. Each series of securities is expected to be fully payable from the collateral pledged to secure the series. Regardless of the form of credit enhancement, the Company may retain a limited portion of credit risk related to the loans after securitization. See "Credit Exposures" in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Master Servicing

The Company performs the function of master servicer for certain of the securities it has issued, including all of the securities it issued since 1995. The master servicer's function typically includes monitoring and reconciling the loan payments remitted by the servicers of the loans, determining the payments due on the securities and determining that the funds are correctly sent to a trustee or investors for each series of securities. Master servicing responsibilities also include monitoring the servicers' compliance with its servicing guidelines. As master servicer, the Company is paid a monthly fee based on the outstanding principal balance of each such loan master serviced or serviced by the Company as of the last day of each month. The Company has been master servicing mortgage loans since November 1993.

Investment Portfolio

Strategy

The core of the Company's earnings are derived from its investment portfolio. The Company's strategy for its investment portfolio is to create a diversified portfolio of high quality assets that in the aggregate generates stable income for the Company in a variety of interest rate and prepayment environments and preserves the capital base of the Company. In many instances, the Company's investment strategy involves not only the creation of the asset, but structuring the related borrowing through the securitization process to create a stable yield profile.

At December 31, 1996, the Company's investments included the following amounts at their carrying basis:

<TABLE>
<CAPTION>

(amounts in thousands)	Balance	% of Total
<S>	<C>	<C>
Investments:		
Portfolio assets:		
Collateral for collateralized bonds	$2,702,294	68 %
Mortgage securities:		
Adjustable-rate mortgage securities	758,946	19
Fixed-rate mortgage	32,535	1
Other mortgage securities	100,556	3
Other portfolio assets	96,236	2
	3,690,567	93
Loans held for securitization	265,537	7
Total investments	$ 3,956,104	100 %

</TABLE>

The Company continuously monitors the aggregate projected net yield of its investment portfolio under various interest rate and prepayment environments. While certain investments may perform poorly in an increasing interest rate environment, certain investments may perform well, and others may not be impacted at all. Generally, the Company adds investments to its portfolio which are designed to increase the diversification and reduce the variability of the yield produced by the portfolio in different interest rate environments. The Company may add new types of investments to its portfolio in the future.

Approximately $3.2 billion of the Company's portfolio assets as of December 31, 1996 are comprised of loans or securities that have coupon rates which adjust over time (subject to certain periodic and lifetime limitations) in conjunction with changes in short-term interest rates. Generally, during a period of rising interest rates, the Company's net interest spread earned on its investment portfolio will decrease. The decrease of the net interest spread results from (i) the lag in resets of the ARM loans underlying the ARM securities and collateral for collateralized bonds relative to the rate resets on the associated borrowings and (ii) rate resets on the ARM loans which are generally limited to 1% every six months, while the associated borrowings have no such limitation. As interest rates stabilize and the ARM loans reset, the net interest margin may be restored to its former level as the yields on the ARM loans adjust to market conditions. Conversely, net interest margin may increase following a fall in short-term interest rates. This increase may be temporary as the yields on the ARM loans adjust to the new market conditions after a lag period. In each case, however, the Company expects that the increase or decrease in the net interest spread due to changes in the short-term interest rates to be temporary. The net interest spread may also be increased or decreased by the cost or proceeds of interest rate swap, cap or floor agreements.

Because of the 1% periodic cap nature of the ARM loans underlying the ARM securities, these securities may decline in market value in a rising interest rate environment. In a rapidly increasing rate environment, as was experienced in 1994, a decline in value may be significant enough to impact the amount of funds available under repurchase agreements to borrow against these securities. In order to maintain liquidity, the Company may be required to sell certain securities. To mitigate this potential liquidity risk, the Company strives to maintain excess liquidity to cover any additional margin required in a rapidly increasing interest rate environment, defined as a 3% increase in short-term interest rates over a twelve-month time period. The Company has also entered into an interest rate swap transaction aggregating $1.02 billion notional amount, which is designed to protect the Company's cash flow and earnings on the

ARM securities and certain collateral on collateralized bonds in a rapidly rising interest rate environment. Under the terms of this interest rate swap agreement, the Company receives payment if one-month LIBOR increases by 1% or more in any six-month period. Finally, the Company has purchased $1.5 billion notional of interest rate cap agreements to reduce the risk of the lifetime interest rate limitation on the ARM securities and on certain collateralized bonds owned by the Company. Liquidity risk also exists with all other investments pledged as collateral for repurchase agreements, but to a lesser extent.

The remaining portion of the Company's portfolio assets as of December 31, 1996, approximately $0.5 billion, are comprised of loans or securities that have coupon rates that are either fixed or do not reset within the next 15 months. The Company has limited its interest rate risk on such investments through (i) the issuance of fixed-rate collateralized bonds and notes payable, (ii) interest rate swap agreements (Company receives floating, pays fixed) and (iii) equity, which in the aggregate totals approximately $0.8 billion as of the same date. Overall, the Company's interest rate risk is primarily related to the rate of change in short term interest rates, not the level of short term interest rates.

Investment in collateralized bonds. Collateral for collateralized bonds represents the single largest investment in the Company's portfolio. Interest margin on the net investment in collateralized bonds (defined as the principal balance of collateral for collateralized bonds less the principal balance of the collateralized bonds outstanding) is derived primarily from the difference between (i) the cash flow generated from the mortgage collateral pledged to secure the collateralized bonds and (ii) the amounts required for payment on the collateralized bonds and related insurance and administrative expenses. Collateralized bonds are generally non-recourse to the Company. The Company's yield on its net investment in collateralized bonds is affected primarily by changes in interest rates and prepayment rates and, to a lesser extent, credit losses on the underlying loans. The Company may retain for its investment portfolio certain classes of the collateralized bonds issued and pledge such classes as collateral for repurchase agreements.

ARM securities. Another segment of the Company's portfolio is the investments in ARM securities. The interest rates on the majority of the Company's ARM securities reset every six months and the rates are subject to both periodic and lifetime limitations. Generally, the repurchase agreements, which finance a portion of the ARM securities, have a fixed rate of interest over a term that ranges from 30 to 90 days and, therefore, are not subject to repricing limitations. As a result, the net interest margin on the ARM securities could decline if the spread between the yield on the ARM security versus the interest rate on the repurchase agreement was to be reduced. The Company may increase its return on equity by pledging the ARM securities as collateral for repurchase agreements.

Fixed-rate mortgage securities. Fixed-rate mortgage securities consist of securities that have a fixed-rate of interest for specified periods of time. Certain fixed-rate mortgage securities have a fixed interest rate for the first 3, 5 or 7 years and an interest rate that adjusts at six- or twelve-month intervals thereafter, subject to periodic and lifetime interest rate caps. The Company's yields on these securities are primarily affected by changes in prepayment rates. Such yields will decline with an increase in prepayment rates and will increase with a decrease in prepayment rates. The Company generally borrows against its fixed-rate mortgage securities through the use of repurchase agreements.

Other mortgage securities. Other mortgage securities consist primarily of interest-only securities (I/Os), principal-only securities (P/Os) and residual interests which were either purchased or were created through the Company's production operations. An I/O is a class of a collateralized bond or a mortgage pass-through security that pays to the holder substantially all interest. A P/O is a class of a collateralized bond or a mortgage pass-through security that pays to the holder substantially all principal. Residual interests represent the excess cash flows on a pool of mortgage collateral after payment of principal, interest and expenses of the related mortgage-backed security or repurchase arrangement. Residual interests may have little or no principal amount and may not receive scheduled interest payments. Included in the residual interests at December 31, 1996 was $53.5 million of equity ownership in residual trusts which own collateral financed with repurchase agreements. The collateral consists primarily of agency ARM securities. The Company's borrowings against its other mortgage securities is limited by certain loan covenants to 3% of shareholders' equity. The yields on these securities are affected primarily by changes in prepayment rates and by changes in short-term interest rates.

Other portfolio assets. Other portfolio assets consists of an installment note from Dominion received as part of the consideration for the sale of the single-family mortgage operations, single-family homes leased to home builders and other financing lease receivables. The installment note received totaled $47.5 million in the aggregate and bears interest at a rate of 6.5%, which is paid quarterly. The principal balance of the note is being paid in five equal installments of $9.5 million which began January 2, 1997. The single-family homes leased to builders at December 31, 1996 totaled $33.3 million. The leases average twelve to eighteen months with the Company selling the home at the end of the lease. The lease rates are typically based on one-month LIBOR plus a spread.

Loans held for securitization. Loans held for securitization consist primarily of loans originated or purchased through the Company's production operations that have not been securitized. During the accumulation period, the Company is exposed to risks of interest rate fluctuations and may enter into hedging transactions to reduce the change in value of such loans caused by changes in interest rates. The Company is also at risk for credit losses on these loans during accumulation. This risk is managed through the application of loan underwriting and risk management standards and procedures and the establishment of reserves.

Hedging and other portfolio transactions. As part of its asset/liability management process, the Company enters into interest rate agreements such as interest rate caps and swaps and financial futures contracts ("hedges"). These agreements are used to reduce interest rate risk which arises from the lifetime interest rate caps on the ARM securities, the mismatched repricing of portfolio investments versus borrowed funds and assets repricing on indices such as the prime rate which are different than the related borrowing indices. The agreements are designed to protect the portfolio's cash flow and to stabilize the portfolio's yield profile in a variety of interest rate environments.

Risks

The Company is exposed to three types of risks inherent in its investment portfolio. These risks include credit risk (inherent in the security structure), prepayment/interest rate risk (inherent in the underlying loan) and margin call risk (inherent in the security if it is used as collateral for borrowings). For a discussion of credit risk, see "Credit Exposure" in "Management's Discussion and Analysis of Financial Condition and Results of Operations". For prepayment/interest rate risk and margin call risk, the Company has developed analytical tools and risk management strategies to monitor and address these risks, including (i) weekly mark-to-market of a representative basket of securities within the portfolio, (ii) monthly analysis using advanced option-adjusted spread (OAS) methodology to calculate the expected change in the market value of various representative securities within the portfolio under various extreme scenarios and (iii) monthly static cash flow and yield projections under 49 different scenarios. Such tools allow the Company to continually monitor and evaluate its exposure to these risks and to manage the risk profile of the investment portfolio in response to changes in the risk profile. While the Company may use such tools, there can be no assurance the Company will accomplish the goal of adequately managing the risk profile of the investment portfolio.

The Company also views its hedging activities as a tool to manage these identified risks. For the risks associated with the periodic and lifetime interest rate caps on the ARM securities and certain collateral for collateralized bonds, the Company uses interest rate cap and interest rate swap agreements. The purpose of these transactions is to protect the Company in the event that interest rates increase to levels higher on the index than the periodic and/or lifetime caps on the underlying ARM loans will allow the ARM loans to reset. The caps effectively lift the lifetime cap on a portion of the ARM securities and certain collateral for collateralized bonds in the Company's portfolio while the various interest rate swap agreements limit the Company's exposure to changes in the financing rates on a portion of these securities.

Eurodollar financial futures and options contracts may be utilized to hedge the risks associated with financing a portion of the investment portfolio with variable-rate repurchase agreements. These instruments synthetically lengthen the duration of the repurchase agreement financing, typically from one month to three and six months. The Company will receive additional cash flow if the related Eurodollar index increases above the contracted rates. If, however, the Eurodollar index decreases below contracted rates, the Company will pay additional cash flow. As of December 31, 1996, the Company had lengthened the duration of $1.0 billion of its repurchase agreements and certain collateralized bonds to three months.

As the Company uses reverse repurchase agreements to finance a portion of its ARM investment portfolio, the Company is exposed to liquidity risk in the form of margin calls if the market value of the securities pledged as collateral for the repurchase agreements decline. The Company has established equity requirements for each type of investment to take into account the price volatility and liquidity of each such investment. The Company models and plans for the margin call risk related to its repurchase borrowings through the use of its OAS model to calculate the projected change in market value of its investments that are pledged as collateral for repurchase borrowings under various adverse scenarios. The Company generally maintains enough immediate or available liquidity to meet margin call requirements if short-term interest rates increased by up to 300 basis points over a one-year period. As of December 31, 1996, the Company had total repurchase agreements outstanding of $756.4 million, secured by ARM securities, fixed-rate mortgage securities and other mortgage securities at their market values of $757.4 million, $28.5 million and $20.1million, respectively. The Company also has liquidity risk inherent to its investment in certain residual trusts. These trusts are subject to margin calls and the Company, at its option, can provide additional equity to the trust to meet the margin call. Should the Company not provide the additional equity, the assets of the trust could be sold to meet the trusts' obligations, resulting in a potential loss to the Company.

During 1996, the Company structured all of its ARM loan securitizations as collateralized bonds, with the financing, in effect, incorporated into the bond structure. This structure eliminates the need for repurchase agreements, consequently eliminating the margin call risk and to a lesser degree the interest rate risk. During 1996, the Company issued approximately $2.04 billion in collateralized bonds, primarily collateralized by ARM loans. The Company plans to continue to use collateralized bonds as its primary securitization vehicle.

Federal Income Tax Considerations

General

The Company and its qualified REIT subsidiaries (collectively Resource REIT) believes it has complied and, intends to comply in the future, with the requirements for qualification as a REIT under the Internal Revenue Code (the Code). To the extent that Resource REIT qualifies as a REIT for federal income tax purposes, it generally will not be subject to federal income tax on the amount of its income or gain that is distributed to shareholders. However, various subsidiaries of the Company, which conduct the production operations and are included in the Company's consolidated financial statements prepared in accordance with generally accepted accounting principles ("GAAP"), are not qualified REIT subsidiaries. Consequently, all of the nonqualified REIT subsidiaries' taxable income is subject to federal and state income taxes.

The REIT rules generally require that a REIT invest primarily in real estate-related assets, its activities be passive rather than active and it distribute annually to its shareholders substantially all of its taxable income. The Company could be subject to a number of taxes if it failed to satisfy those rules or if it acquired certain types of income-producing real property through foreclosure. Although no complete assurances can be given, Resource REIT does not expect that it will be subject to material amounts of such taxes.

Resource REIT's failure to satisfy certain Code requirements could cause the Company to lose its status as a REIT. If Resource REIT failed to qualify as a REIT for any taxable year, it would be subject to federal income tax (including any applicable minimum tax) at regular corporate rates and would not receive deductions for dividends paid to shareholders. As a result, the amount of after-tax earnings available for distribution to shareholders would decrease substantially. While the Board of Directors intends to cause Resource REIT to operate in a manner that will enable it to qualify as a REIT in future taxable years, there can be no certainty that such intention will be realized.

Qualification of the Company as a REIT

Qualification as a REIT requires that Resource REIT satisfy a variety of tests relating to its income, assets, distributions and ownership. The significant tests are summarized below.

Sources of Income

To qualify as a REIT in any taxable year, Resource REIT must satisfy three distinct tests with respect to the sources of its income: the "75% income test," the "95% income test" and the "30% income test." The 75% income test requires that Resource REIT derive at least 75% of its gross income (excluding gross income from prohibited transactions) from certain real estate-related sources.

In order to satisfy the 95% income test, at least an additional 20% of Resource REIT's gross income for the taxable year must consist either of income that qualifies under the 75% income test or certain other types of passive income.

The 30% income test, unlike the other income tests, prescribes a ceiling for certain types of income. A REIT may not derive more than 30% of its gross income from the sale or other disposition of (i) stock or securities held for less than one year, (ii) dealer property that is not foreclosure property or (iii) certain real estate property held for less than four years.

If Resource REIT fails to meet either the 75% income test or the 95% income test, or both, in a taxable year, it might nonetheless continue to qualify as a

REIT, if its failure was due to reasonable cause and not willful neglect and the nature and amounts of its items of gross income were properly disclosed to the Internal Revenue Service. However, in such a case Resource REIT would be required to pay a tax equal to 100% of any excess non-qualifying income. No analogous relief is available to REITs that fail to satisfy the 30% income test.

Nature and Diversification of Assets

At the end of each calendar quarter, three asset tests must be met by Resource REIT. Under the "75% asset test," at least 75% of the value of Resource REIT's total assets must represent cash or cash items (including receivables), government securities or real estate assets. Under the "10% asset test", Resource REIT may not own more than 10% of the outstanding voting securities of any single non-governmental issuer, if such securities do not qualify under the 75% asset test. Under the "5% asset test," ownership of any stocks or securities that do not qualify under the 75% asset test must be limited, in respect of any single non-governmental issuer, to an amount not greater than 5% of the value of the total assets of Resource REIT.

If Resource REIT inadvertently fails to satisfy one or more of the asset tests at the end of a calendar quarter, such failure would not cause it to lose its REIT status, provided that (i) it satisfied all of the asset tests at the close of a preceding calendar quarter and (ii) the discrepancy between the values of Resource REIT's assets and the standards imposed by the asset tests either did not exist immediately after the acquisition of any particular asset or was not wholly or partially caused by such an acquisition. If the condition described in clause (ii) of the preceding sentence was not satisfied, Resource REIT still could avoid disqualification by eliminating any discrepancy within 30 days after the close of the calendar quarter in which it arose.

Distributions

With respect to each taxable year, in order to maintain its REIT status, Resource REIT generally must distribute to its shareholders an amount at least equal to 95% of the sum of its "REIT taxable income" (determined without regard to the deduction for dividends paid and by excluding any net capital gain) and any after-tax net income from certain types of foreclosure property minus any "excess noncash income." The Code provides that distributions relating to a particular year may be made early in the following year, in certain circumstances. The Company will balance the benefit to the shareholders of making these distributions and maintaining REIT status against their impact on the liquidity of the Company. In an unlikely situation, it may benefit the shareholders if the Company retained cash to preserve liquidity and thereby lose REIT status.

For federal income tax purposes, Resource REIT is required to recognize income on an accrual basis and to make distributions to its shareholders when income is recognized. Accordingly, it is possible that income could be recognized and distributions required to be made in advance of the actual receipt of such funds by Resource REIT. The nature of Resource REIT's investments is such that it expects to have sufficient cash to meet any federal income tax distribution requirements.

Taxation of Distributions by the Company

Assuming that Resource REIT maintains its status as a REIT, any distributions that are properly designated as "capital gain dividends" will generally be taxed to shareholders as long-term capital gains, regardless of how long a shareholder has owned his shares. Any other distributions out of Resource REIT's current or accumulated earnings and profits will be dividends taxable as ordinary income. Shareholders will not be entitled to dividends-received deductions with respect to any dividends paid by Resource REIT. Distributions in excess of Resource REIT's current or accumulated earnings and profits will be treated as tax-free returns of capital, to the extent of the shareholder's basis in his shares and, as gain from the disposition of shares, to the extent they exceed such basis. Shareholders may not include on their own tax returns any of Resource REIT ordinary or capital losses. Distributions to shareholders attributable to "excess inclusion income" of Resource REIT will be characterized as excess inclusion income in the hands of the shareholders. Excess inclusion income can arise from Resource REIT's holdings of residual interests in real estate mortgage investment conduits and in certain other types of mortgage-backed security structures created after 1991. Excess inclusion income constitutes unrelated business taxable income ("UBTI") for tax-exempt entities (including employee benefit plans and individual retirement accounts) and it may not be offset by current deductions or net operating loss carryovers. In the unlikely event that the Company's excess inclusion income is greater than its taxable income, the Company's distribution would be based on the Company's excess inclusion income. In 1996 the Company's excess inclusion income was approximately 7.9% of its taxable income. Although Resource REIT itself would be subject to a tax on any excess inclusion income that would be allocable to a "disqualified organization" holding its shares, Resource REIT's by-laws provide that disqualified organizations are ineligible to hold Resource REIT's shares.

Dividends paid by Resource REIT to organizations that generally are exempt from federal income tax under Section 501(a) of the Code should not be taxable to them as UBTI except to the extent that (i) purchase of shares of Resource REIT was financed by "acquisition indebtedness" or (ii) such dividends constitute excess inclusion income.

Taxable Income

Resource REIT uses the calendar year for both tax and financial reporting purposes. However, there may be differences between taxable income and income computed in accordance with GAAP. These differences primarily arise from timing differences in the recognition of revenue and expense for tax and GAAP purposes. Additionally, Resource REIT's taxable income does not include the taxable income of its taxable affiliate, although the affiliate is included in the Company's GAAP consolidated financial statements. For the year ended December 31, 1996, Resource REIT's estimated taxable income available to common shareholders was approximately $51.4 million.

A portion of the dividends paid during 1996 was allocated to satisfy 1995 distribution requirements and a portion of the dividends paid in 1997 will be allocated to satisfy 1996 distribution requirements. Approximately 94.4% of dividends paid during 1996 represented ordinary income for federal tax purposes.

Regulation

As an approved mortgage and consumer loan originator, the Company is subject to various federal and state regulations. A violation of such regulations may result in the Company losing its ability to originate mortgage and consumer loans in the respective jurisdiction.

The rules and regulations applicable to the production operations, among other things, prohibit discrimination and establish underwriting guidelines that include provisions for inspections and appraisals, require credit reports on prospective borrowers and fix maximum loan amounts. Certain of the Company's funding activities are subject to, among other laws, the Equal Credit Opportunity Act, Federal Truth-in-Lending Act and the Real Estate Settlement Procedures Act and the regulations promulgated thereunder that prohibit discrimination and require the disclosure of certain basic information to mortgagors concerning credit terms and settlement costs.

Additionally, there are various state and local laws and regulations affecting the production operations. The production operations will be licensed in those states requiring such a license. Production operations may also be subject to applicable state usury statutes. The Company believes that it is in present material compliance with all material rules and regulations to which it is subject.

Competition

The Company competes with a number of institutions with greater financial resources in originating and purchasing loans through their production operations. In addition, in purchasing portfolio investments and in issuing securities, the Company competes with investment banking firms, savings and loan associations, banks, mortgage bankers, insurance companies and other lenders, GNMA, FHLMC and FNMA and other entities purchasing mortgage assets, many of which have greater financial resources than the Company. Additionally, securities issued relative to its production operations will face competition from other investment opportunities available to prospective purchasers.

Employees

As of December 31, 1996, the Company had 116 employees.

Item 2. PROPERTIES

The Company's executive and administrative offices and operations offices are both located in Glen Allen, Virginia, on properties leased by the Company. The address is 10900 Nuckols Road, Glen Allen, Virginia 23060.

Item 3. LEGAL PROCEEDINGS

There were no material pending legal proceedings, outside the normal course of business, to which the Company was a party or of which any of its property was subject at December 31, 1996.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Company's stockholders during the fourth quarter of 1996.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the New York Stock Exchange under the trading symbol RMR. The Company's common stock was held by approximately 4,197 holders of record as of February 28, 1997. During the last two years, the high and low closing stock prices and cash dividends declared on common stock were as follows:

<TABLE>
<CAPTION>

	High	Low	Cash Dividends Declared
1996			
<S>	<C>	<C>	<C>
First quarter	$ 22	$18 3/4	$ 0.510
Second quarter	25 1/8	19 1/2	0.550
Third quarter	25 1/2	21 1/4	0.585
Fourth quarter	29 5/8	23 7/8	0.620
1995			
First quarter	$ 17 3/4	$ 10 3/8	$0.360
Second quarter	20 3/4	15	0.400
Third quarter	21 1/2	16 5/8	0.440
Fourth quarter	21 5/8	18 5/8	0.480

</TABLE>

Item 6. SELECTED FINANCIAL DATA
(amounts in thousands except share data)
<TABLE>
<CAPTION>

Years ended December 31,	1996	1995	1994	1993	1992
<S>	<C>	<C>	<C>	<C>	<C>
Net interest margin	$ 74,907	$ 42,419	$ 44,364	$ 40,627	$ 23,357
Gain on sale of single-family mortgage operations	17,285	-	-	-	-
Net gain on sale of assets	503	9,651	27,723	27,977	28,941
Other income	1,116	2,963	1,454	734	426
General and administrative expenses	20,763	18,123	21,284	15,211	14,555
Net income	$ 73,048	$ 36,910	$ 52,257	$ 54,127	$ 38,169
Total revenue	$ 330,971	$ 266,496	$ 256,483	$ 200,967	$ 179,455
Total expenses	$ 257,923	$ 146,840	$ 141,286	$229,586	$ 204,226
Net income per common share					
Primary	$ 3.08	$ 1.70	$ 2.64	$ 3.12	$ 2.73
Fully-diluted (1)	2.96	-	-	-	-
Dividends declared per share:					
Common	$ 2.265	$ 1.68	$ 2.76	$ 3.06	$ 2.60
Series A Preferred	2.375	1.17	-	-	-

Series B Preferred	2.375	0.42	-	-	-
Series C Preferred	0.600	-	-	-	-
Return on average common shareholders' equity (2)	21.6%	12.5%	19.2%	25.8%	27.7%
Principal balance of loans funded	$ 1,475,461	$ 916,386	$ 2,861,443	$ 4,093,714	$5,334,174

As of December 31,	1996	1995	1994	1993	1992
Portfolio assets: (3)					
Collateral for Collateralized bonds	$ 2,702,294	$1,028,935	$ 441,222	$ 434,698	571,567
Mortgage securities	892,037	2,149,416	2,579,759	2,300,949	1,401,578
Other	96,236	27,585	16,859	-	-
Loans held for securitization	265,537	220,048	501,272	777,769	123,627
Total assets	3,987,457	3,490,038	3,600,596	3,726,762	2,239,656
Collateralized bonds (4)	2,519,708	949,139	424,800	561,441	432,677
Repurchase agreements	756,448	1,983,358	2,804,946	2,754,166	1,315,334
Total liabilities	3,483,840	3,135,215	3,403,125	3,473,730	2,062,219
Shareholders' equity (2)	439,215	359,582	270,149	177,437	253,032
Number of common shares outstanding	20,653,593	20,198,654	20,078,013	19,331,932	16,507,100
Book value per common share (2)	$ 14.52	$ 13.50	$ 13.45	$ 13.09	$ 10.75
Number of employees	116	199	180	150	80

<FN>

(1) Fully-diluted net income per common share is not presented for 1995 as the Company's cumulative convertible preferred stock and Stock Appreciation Rights (SARs) outstanding are anti-dilutive. Prior to 1995, no preferred stock was outstanding, and all SARs outstanding were anti-dilutive.

(2) Excludes unrealized gain/loss on investments available-for-sale.

(3) Collateral for collateralized bonds and mortgage securities are shown at fair value as of December 31, 1996, 1995 and 1994 and at amortized cost as of December 31, 1993 and prior.

(4) Substantially all of this debt is non-recourse to the Company.
</FN>
</TABLE>

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Resource Mortgage Capital, Inc. (the Company) is a mortgage and consumer finance company which uses its production operations to create investments for its portfolio. Currently, the Company's primary loan production operations include the origination of mortgage loans secured by multi-family properties and the origination of loans secured by manufactured homes. The Company will securitize loans funded principally as collateral for collateralized bonds, limiting its credit risk and providing long-term financing for those loans securitized. The Company may also use other securitization vehicles for its loan production, such as pass-through securities. The Company intends to expand its production sources in the future to include other financial products, such as commercial real estate loans. The majority of the Company's current investment portfolio is comprised of loans or securities ("ARM loans" or "ARM securities") that have coupon rates which adjust over time (subject to certain limitations) in conjunction with changes in short-term interest rates. The Company has elected to be treated as a real estate investment trust (REIT) for federal income tax purposes and, as such, must distribute substantially all of its taxable income to shareholders and will generally not be subject to federal income tax.

On May 13, 1996, the Company completed the sale of its single-family mortgage operations to Dominion Mortgage Services, Inc. (Dominion), a wholly-owned subsidiary of Dominion Resources, Inc., for $68 million. Included in the single-family mortgage operations were the Company's single-family correspondent, wholesale and servicing operations. The sale resulted in a net gain of $17.3 million. Such amount included a provision of $31.0 million for possible losses on single-family loans where the Company has retained a portion of the credit risk and where, prior to the sale, the Company had serviced such single-family loans.

The Company's principle source of earnings is net interest income on its investment portfolio. The Company's investment portfolio consists principally of collateral for collateralized bonds, ARM securities and loans held for securitization. The Company funds its portfolio investments with both borrowings and cash raised from the issuance of equity capital. For the portion of portfolio investments funded with borrowings, the Company generates net interest income to the extent that there is a positive spread between the yield on the earning assets and the cost of borrowed funds. For that portion of the balance sheet that is funded with equity capital, net interest income is primarily a function of the yield generated from the interest-earning asset. The cost of the Company's borrowings may be increased or decreased by interest rate swap, cap or floor agreements.

Approximately $3.2 billion of the Company's investment portfolio as of December 31, 1996, is comprised of ARM loans or ARM securities. Generally, during a period of rising interest rates, the Company's net interest spread earned on its investment portfolio will decrease. The decrease of the net interest spread results from (i) the lag in resets of the ARM loans underlying the ARM securities and collateral for collateralized bonds relative to the rate resets on the associated borrowings and (ii) rate resets on the ARM loans which are generally limited to 1% every six months, while the associated borrowings have no such limitation. As interest rates stabilize and the ARM loans reset, the net interest margin may be restored to its former level as the yields on the ARM loans adjust to market conditions. Conversely, net interest margin may increase following a fall in short-term interest rates. However, this increase may be temporary as the yields on the ARM loans adjust to the new market conditions after a lag period. In each case, however, the Company expects that the increase or decrease in the net interest spread due to changes in the short-term interest rates is temporary. The net interest spread may also be increased or decreased by the cost or proceeds of interest rate swap, cap or floor agreements.

The Company strives to create a diversified portfolio of investments that, in the aggregate, generates stable income for the Company in a variety of interest rate environments and preserves the capital base of the Company. The Company seeks to generate growth in earnings and dividends per share in a variety of ways, including (i) adding investments to its portfolio when opportunities in the market are favorable; (ii) developing production capabilities to originate and acquire financial assets in order to create attractively priced investments for its portfolio, as well as control the underwriting and servicing of such financial assets and (iii) increasing the efficiency with which the Company utilizes its equity capital over time. To increase potential returns to shareholders, the Company also employs leverage through the use of secured borrowings and repurchase agreements to fund a portion of its portfolio investments. Currently, the Company's production operations are comprised of multi-family and manufactured housing lending. The Company's strategy is to expand these existing production sources as well as to diversify into other financial products such as commercial real estate loans. The Company also intends to selectively purchase single-family loans in bulk with the intent to securitize such loans as collateral for collateralized bonds. By pursuing these strategies, the Company believes it can create investments for the portfolio at a lower effective cost than if investments of comparable risk profiles were purchased in the market, although there can be no assurance that the Company will be successful in accomplishing this strategy.

In order to grow its equity base, the Company may issue additional shares of preferred or common stock. Management strives to issue such additional shares when it believes existing shareholders are likely to benefit from such offerings through higher earnings and dividends per share than as compared to the level of earnings and dividends the Company would likely generate without such offerings.

On August 30, 1996, the Company acquired Multi-Family Capital Markets, Inc. (MCM), which specializes in the sourcing, underwriting and closing of multi-family loans secured by first liens on apartment properties that have qualified for low income housing tax credits. The Company acquired all of the outstanding stock and assets of MCM for $4.0 million. The Company believes this acquisition will complement its current strategy of expanding its multi-family lending business and will improve its competitive position in the marketplace for such loans.

<TABLE>
<CAPTION>

RESULTS OF OPERATIONS

	For the Year Ended December 31,		
(amounts in thousands except per share information)	1996	1995	1994
<S>	<C>	<C>	<C>

Net interest margin	$ 74,907	$ 42,419	$ 44,364
Gain on sale of single-family mortgage operations	17,285	-	-
Gain on sale of assets, net	503	9,651	27,723
General and administrative expenses	20,763	18,123	21,284
Net income	73,048	36,910	52,257
Primary net income per common share	3.08	1.70	2.64
Fully-diluted net income per common share	2.96	- (1)	- (1)
Principal balance of loans funded through production operations	744,001	893,953	2,861,443
Dividends declared per share:			
Common	$ 2.27	$ 1.68	$ 2.76
Series A Preferred	2.38	1.17	-
Series B Preferred	2.38	0.42	-
Series C Preferred	0.60	-	-

<FN>
(1) Fully-diluted net income per common share is not presented in 1995 as the Company's cumulative convertible preferred stock and Stock Appreciation Rights (SARs) outstanding are anti-dilutive. In 1994, no preferred stock was outstanding, and all SARs outstanding were anti-dilutive.
</FN>
</TABLE>

1996 Compared to 1995. The increase in the Company's net income and net income per common share during 1996 as compared to 1995 is primarily the result of the increase in net interest margin and the gain on the sale of the single-family operations. This increase was offset partially by a decline in the gain on sale of assets and an increase in general and administrative expenses.

Net interest margin for 1996 increased to $74.9 million, or 76.6%, over net interest margin of $42.4 million for 1995. This increase was a result of an overall increase in the net interest spread on all interest-earning assets which increased to 1.58% for 1996 versus 1.06% for 1995, as well as the increased contribution from the net investment in collateralized bonds. The increase in the net interest spread is attributable to the ARM securities being fully-indexed during 1996, and the more favorable interest rate environment on both collateralized bonds and borrowings related to the ARM securities. During 1995, as a result of rising short-term rates during both 1994 and early 1995, the Company's ARM securities were generally not fully-indexed throughout the year.

The sale of the Company's single-family mortgage operations in 1996 generated a net gain of $17.3 million. Previously, the single-family mortgage operations had contributed to the Company's earnings through the securitization and sale of loans funded through its production activities, recorded as gain on sale of assets. In 1995, the Company recorded a net gain on sale of assets related to the securitization and sale of loans amounting to $4.7 million. No gain on securitization or sale of loans was recorded in 1996. Net gain on sale of assets during 1996 resulted primarily from the sale of certain portfolio assets totaling approximately $2.0 million, offset partially by the write-down of certain assets for permanent impairment of $1.5 million. In 1995, the Company sold portfolio assets for a net gain of $3.8 million and recorded no write-downs. The Company also sold previously purchased mortgage servicing rights in 1995 for a gain of $1.2 million.

General and administrative expenses increased $2.6 million, or 14.6%, to $20.8 million in 1996, as the Company continued building its infrastructure for its manufactured housing operations. General and administrative expenses also increased from 1995 as a result of the Company's continued expansion of its wholesale origination capabilities for its single-family mortgage operations prior to their sale. The Company continues to expand its manufactured housing operations, and in August 1996, acquired MCM to expand its multi-family and commercial real estate lending businesses. Currently the Company retains the servicing for all loans funded through its production operations. The growth of the production operations should continue to cause general and administrative expenses to increase in 1997.

1995 Compared to 1994. The decrease in the Company's earnings during 1995 as compared to 1994 is primarily the result of the decrease in net gain on sale of assets and the decrease in net interest margin. These decreases were partially offset by a decrease in general and administrative expenses.

Net gain on sale of assets decreased $18.0 million, or 65.2%, to $9.7 million in 1995 from $27.7 million in 1994. This decrease resulted from the combined effect of (i) the Company's change in securitization strategy in 1995 to the issuance of collateralized bonds which are accounted for as financing transactions, versus the use of pass-through mortgage security structures in 1994, which are accounted for as sales, (ii) the lower mortgage loan funding levels by the Company as a result of a decrease in overall industry-wide mortgage loan originations, resulting from a higher level of price competition for mortgage loans and (iii) the flatter yield curve, which had an adverse impact on the Company's production of ARM loans.

Net interest margin decreased $2.0 million, or 4.4%, to $42.4 million in 1995 from $44.4 million for 1994. This decrease resulted primarily from the change in the net interest spread on the interest-earning assets, which declined from 1.12% in 1994 to 1.06% in 1995. The decline in net interest spread was attributable to a temporary reduction in the net interest spread in ARM securities. This temporary reduction resulted from the interest rate on borrowings increasing at a faster rate than the ARM securities which collateralize these borrowings. In December 1995, the net interest spread had increased to 1.18% as a result of the upward resets on the ARM securities and the more favorable short-term interest rate environment. Net interest margin also declined as a result of the increase in the provision for credit losses, which was $2.9 million and $2.1 million in 1995 and 1994, respectively.

General and administrative expenses decreased 14.9%, to $18.1 million for 1995 from $21.3 million for 1994. This decline resulted primarily from the Company's effort to reduce costs in line with the reduced level of mortgage loan originations.

The following table summarizes the average balances of the Company's interest-earning assets and their average effective yields, along with the Company's average interest-bearing liabilities and the related average effective interest rates, for each of the periods presented.

<TABLE>
<CAPTION>
Average Balances and Effective Interest Rates

	Year Ended December 31,					
(amounts in thousands)	1996		1995		1994	
	Average Balance	Effective Rate	Average Balance	Effective Rate	Average Balance	Effective Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets: (1)						
Collateral for collateralized bonds(2)(3)	$ 1,832,141	8.11 %	$ 711,316	8.58 %	$ 375,147	8.99
Adjustable-rate mortgage securities	1,741,169	6.76	2,137,170	6.81	2,310,047	5.39
Fixed-rate mortgage securities	38,025	10.75	94,102	7.87	205,305	7.31
Other mortgage securities	53,194	14.00	56,644	15.61	72,934	19.76
Other portfolio assets	57,114	8.23	25,403	10.38	8,093	9.45
Loans held for securitization	354,216	8.31	331,995	8.54	602,517	6.45
Total interest-earning assets	$ 4,075,859	7.66 %	$ 3,356,630	7.56 %	$ 3,574,043	6.36 %
Interest-bearing liabilities:						
Collateralized bonds (3)	$ 1,742,054	6.50 %	$ 679,551	7.21 %	$ 380,099	8.28 %
Repurchase agreements:						
Adjustable-rate mortgage securities	1,651,507	5.55	1,986,872	6.20	2,179,775	4.67
Fixed-rate mortgage securities	31,156	5.67	78,486	5.54	192,738	5.23
Other mortgage securities	8,967	5.66	6,392	6.32	6,722	5.00
Loans held for securitization	164,664	6.22	184,910	7.34	6,805	5.98
Notes payable:						
Other portfolio assets	1,241	10.42	11,329	8.78	422,979	5.25
Loans held for securitization	65,065	5.13	89,776	6.76	62,078	8.27
Commercial paper	-	-	-	-	55,353	3.59
Total interest-bearing liabilities	$ 3,664,654	6.08 %	$3,037,316	6.50 %	$3,306,549	5.24%
Net interest spread on all investments(3)		1.58 %		1.06 %		1.12 %
Net yield on average interest-earning assets		2.19 %		1.68 %		1.51 %

<FN>
(1) Average balances exclude adjustments made in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities", to record available for sale securities at fair value.
(2) Average balances exclude funds held by trustees of $2,839, $3,815, and $8,855 for the years ended December 31, 1996, 1995 and 1994, respectively.

(3) Effective rates are calculated excluding non-interest related collateralized bond expenses and provision for credit losses.
</FN>
</TABLE>

1996 compared to 1995. The increase in net interest spread for 1996 relative to 1995 is primarily the result of the increase in the spread on ARM securities and an increase in the average balance and spread on the net investment in collateralized bonds, which for 1996, constituted the largest portion of the Company's investment portfolio on a weighted average basis. The net interest spread benefited as a result of the declining short-term interest rate environment during the first part of 1996, which had the impact of reducing the Company's borrowing costs faster than it reduced the yields on the Company's interest-earning assets. The Company's overall weighted average borrowing costs decreased to 6.08% for 1996 from 6.50% for 1995. The overall yield on interest-earning assets increased to 7.66% from 7.56% as the Company's portfolio became more heavily weighted in collateral for collateralized bonds which have higher effective rates than ARM securities. Collateral for collateralized bonds increased to an average $1.8 billion for the year ended December 31, 1996, or 158%, from an average $711.3 million for the year ended December 31, 1995. The net interest spread on the net investment in collateralized bonds increased 24 basis points, from 1.37% for 1995, to 1.61% for 1996. The net interest spread on ARM securities increased 60 basis points, from 0.61% for 1995 to 1.21% for 1996. As rates stabilized in the latter half of 1996, the ARM securities and ARM loans reset downward, causing the net interest spread on these assets to narrow in the third and fourth quarters of 1996.

1995 compared to 1994. The net interest margin on the Company's investment portfolio decreased slightly to $42.4 million for 1995 from $44.4 million for 1994. The decrease in net interest margin on the Company's investment portfolio is generally attributable to a decrease in the spread on such investments during 1995, which was partially offset by a net increase in capital invested by the Company in the portfolio. The spread on the Company's investment portfolio decreased from 1.12% for 1994 to 1.06% for 1995. Specifically, the spread on the Company's ARM securities decreased from 0.72% for 1994 to 0.61% for 1995, principally as a result of increased repurchase agreement borrowing costs. This decline was offset by the increase in the spread on the net investment in collateralized bonds, which increased to 1.37% in 1995 from 0.71% in 1994. The increase in the net interest spread for the net investment in collateralized bonds resulted principally from lower financing costs in 1995. The average balance of collateral for collateralized bonds increased to $711.3 million for 1995 from $375.1 million for 1994, consistent with the Company's current securitization strategy, while the average balance for ARM securities declined from $2.3 billion in 1994 to $2.1 billion in 1995.

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

<TABLE>
<CAPTION>

	1996 to 1995			1995 to 1994		
(amounts in thousands)	Rate	Volume	Total	Rate	Volume	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Collateral for collateralized bonds	$ (3,102)	$ 90,770	$ 87,668	$ (1,469)	$ 28,757	$ 27,288
Adjustable-rate mortgage securities	(1,143)	(26,782)	(27,925)	29,423	(8,349)	21,074
Fixed-rate mortgage securities	5,293	(8,608)	(3,315)	1,254	(8,850)	(7,596)
Other mortgage securities	(878)	(518)	(1,396)	(2,702)	(2,871)	(5,573)
Other portfolio assets	(411)	2,474	2,063	82	1,790	1,872
Loans held for securitization	(723)	1,813	1,090	27,404	(37,893)	(10,489)
Total interest income	(964)	59,149	58,185	53,992	(27,416)	26,576
Collateralized bonds	(4,314)	68,547	64,233	(3,433)	20,959	17,526
Repurchase agreements:						
Adjustable-rate mortgage securities	(11,449)	(18,501)	(29,950)	29,315	(7,913)	21,402
Fixed-rate mortgage securities	102	(2,657)	(2,555)	642	(6,375)	(5,733)
Other mortgage securities	(39)	151	112	84	(16)	68
Loans held for securitization	(1,851)	(1,319)	(3,170)	20,844	(29,484)	(8,640)
Notes payable:						
Other portfolio assets	222	(1,086)	(864)	243	345	588
Loans held for securitization	(1,246)	(1,426)	(2,672)	(648)	1,580	932
Commercial paper	-	-	-	-	(1,986)	(1,986)
Total interest expense	(18,575)	43,709	25,134	47,047	(22,890)	24,157
Net interest income	$ 17,611	$ 15,440	$ 33,051	$ 6,945	$ (4,526)	$ 2,419

<FN>
Note: The change in interest income and interest expense due to changes in both volume and rate, which cannot

be segregated, has been allocated proportionately to the change due to volume and the change due to rate. This table excludes other interest expense and provision for credit losses.
</FN>
</TABLE>

PORTFOLIO RESULTS

The Company's investment strategy is to create a diversified portfolio of securities that, in the aggregate, generates stable income in a variety of interest rate and prepayment rate environments and preserves the capital base of the Company. The Company has pursued its strategy of concentrating on its production activities to create investments with attractive yields. In many instances, the Company's investment strategy has involved not only the creation or acquisition of the asset, but also the related long-term, non-recourse borrowings such as through the issuance of collateralized bonds.

Interest Income and Interest-Earning Assets

The Company's average interest-earning assets grew to $4.1 billion during the year ended December 31, 1996, an increase of 21% from $3.4 billion of average interest-earning assets during the year ended December 31, 1995. Average interest-earning assets at December 31, 1995, decreased slightly from $3.6 billion during the year ended December 31, 1994 as a result of the sale of $0.6 billion of securities during 1995. Total interest income rose 23%, from $253.9 million during the year ended December 31, 1995, to $312.1 million during the same period of 1996. Total interest income had also risen $26.6 during 1995 from $227.3 million during the year ended December 31, 1994. Overall, the yield on average interest-earning assets rose to 7.66% for the year ended December 31, 1996, from 7.56% and 6.36% for the years ended December 31, 1995 and 1994, respectively. This increase resulted from the ARM securities resetting upwards to become fully-indexed and the investment in higher yielding collateral for collateralized bonds continuing to grow. As indicated in the table below, the average yields were 2.07%, 1.46% and 1.28% higher than the average daily six-month LIBOR interest rate during 1996, 1995 and 1994, respectively. The majority of the ARM loans underlying the Company's ARM securities and collateral for collateralized bonds are indexed to and reset based upon the level of the London InterBank Offered Rate (LIBOR) for six-month deposits (six-month LIBOR).

<TABLE>
<CAPTION>
Earning Asset Yield
($ in millions)

<S>	Average Interest-Earning Assets <C>	Interest Income <C>	Average Asset Yield <C>	Daily Average Six Month <C>	Asset Yield versus Six Month LIBOR <C>
1994	$ 3,574.0	$ 227.3	6.36%	5.08%	1.28%
1995	3,356.6	253.9	7.56%	6.10%	1.46%
1996	4,075.9	312.1	7.66%	5.59%	2.07%

</TABLE>

The net yield on average interest-earning assets increased to 2.19% for the year ended December 31, 1996, compared to 1.68% and 1.51% for the year ended December 31, 1995 and 1994, respectively. This increase is principally due to the increase in the spread earned on the interest-earning assets, despite an increase in average interest-earning assets to $4.1 billion for the year ended December 31, 1996, from $3.4 billion in 1995. Average interest-earning assets may continue to increase as the Company retains loans funded through its production operations as collateral for collateralized bonds. Net yield on average interest-earning assets may decrease as a result. Net yield as a percentage of net average assets (defined as interest-earning assets less non-recourse collateralized bonds issued), was 3.16% for the year ended December 31, 1996, versus 1.81% and 1.51% for the same periods in 1995 and 1994, respectively. Net yield as a percentage of net average assets is expected to increase due to the continued use of non-recourse collateralized bonds. The net yield percentages presented below exclude non-interest related expenses such as provision for credit losses and interest on senior notes payable. For the years ended December 31, 1996, 1995 and 1994, if these expenses were included, the net yield on average interest-earning assets would be 1.84%, 1.26% and 1.24%, respectively and the net yield on net average assets would be 2.65%, 1.36% and 1.24%, respectively.

<TABLE>
<CAPTION>
Net Yield on Average Interest-Earning Assets
($ in millions)

Net Yield on

	Average Interest-Earning Assets	Average Interest-Earning Assets	Net Average Assets (1)	Net Yield on Net Average Assets
1994	$ 3,574.0	1.51%	$ 3,574.0	1.51%
1995	3,356.6	1.68%	3,110.2	1.81%
1996	4,075.9	2.19%	2,825.0	3.16%

(1) Average interest-earning assets less non-recourse collateralized bonds.

The average asset yield is reduced for the amortization of premiums, net of discounts on the Company's investment portfolio. By creating its investments through its production operations, the Company believes that premium amounts are less than if the investments were acquired in the market. As indicated in the table below, premiums on the Company's ARM securities, fixed-rate securities and collateral for collateralized bonds at December 31, 1996 were $54.1 million, or approximately 1.60% of the aggregate investment portfolio balance. The mortgage principal repayment rate for the Company (indicated in the table below as "CPR Annualized Rate") was 24% for the year ended December 31, 1996. The Company expects that the long-term prepayment speeds will range between 18% and 24%. CPR stands for "constant prepayment rate" and is a measure of the annual prepayment rate on a pool of loans.

Premium Basis and Amortization
($ in millions)

	Net Premium	Amortization Expense	CPR Annualized Rate	Ending Investment Principal Balance	Amortization Expense as a % of Average Assets
1994	$ 37.2	$ 5.6	(1)	$ 2,975.0	0.16%
1995	46.6	7.9	(1)	3,048.9	0.24%
1996	54.1	13.8	24%	3,379.0	0.34%

(1) CPR rates were not available for those periods.

Interest Expense and Cost of Funds

The Company's largest expense is the interest cost on borrowed funds. Funds to finance the investment portfolio are borrowed primarily in the form of collateralized bonds or repurchase agreements, both of which are primarily indexed to LIBOR, principally one-month LIBOR. For the year ended December 31, 1996, interest expense increased to $222.7 million from $197.5 million for the year ended 1995, while the average cost of funds decreased to 6.08% for 1996 compared to 6.50% for 1995. The Company's cost of funds rose in conjunction with the increase in the one-month LIBOR rate through the second quarter of 1995 and then began to decline correspondingly with the decline in interest rates since that time. The cost of funds for the year ended December 31, 1995, compared to 1994, increased as a result of the low interest rates during the first half of 1994 compared to the rapidly rising interest rates during the first half of 1995.

The Company may use interest rate swaps, caps and financial futures to manage its interest rate risk. The net costs during the related period of these instruments are included in the cost of funds table below.

Cost of Funds
($ in millions)

	Average Borrowed Funds	GAAP Interest Expense (a)	Cost of Funds	Average One-month LIBOR	Cost of Funds versus One-month LIBOR
1994	$3,306.5	$173.4	5.24%	4.47%	0.77%
1995	3,037.3	197.5	6.50%	5.97%	0.53%
1996	3,664.7	222.7	6.08%	5.45%	0.63%

<FN>
(a) Excludes non-interest-related expenses and interest on non-portfolio related notes payable.
</FN>
</TABLE>

Interest Rate Agreements

As part of its asset/liability management process, the Company enters into interest rate agreements, such as interest rate caps and swaps, and financial futures contracts ("hedges"). These agreements are used to reduce interest rate risk which arise from the lifetime yield caps on the ARM securities, the mismatched repricing of portfolio investments versus borrowed funds and assets repricing on indices such as the prime rate which are different than the related borrowing indices, primarily one-month LIBOR. The agreements are designed to protect the portfolio's cash flow and to provide income and capital appreciation to the Company in the event that short-term interest rates rise quickly.

The following table includes all interest rate agreements in effect at December 31, 1996, 1995 and 1994 for asset/liability management of the investment portfolio. This table excludes all hedge agreements in effect for the Company's production operations. Generally, interest rate swaps and caps are used to manage the interest rate risk associated with assets that have periodic and annual reset limitations financed with borrowings that have no such limitations. Financial futures contracts and options on futures are used to effectively lengthen the terms of repurchase agreement financing, generally from one month to three and six months. There were no financial futures contracts and options on futures outstanding at December 31, 1996. The average notional amount of futures and options on futures outstanding during 1996 were $738 million and $533 million, respectively. Amounts presented are aggregate notional amounts. To the extent any of these agreements are terminated, gains and losses are generally amortized over the remaining period of the original agreement.

<TABLE>
<CAPTION>

Instruments Used for Interest Rate Risk Management Purposes(1)
($ in millions)

Notional Amounts	Interest Rate Caps	Interest Rate Swaps	Financial Futures	Options on Futures
<S>	<C>	<C>	<C>	<C>
1994	$ 1,475	$ -	$ -	$ -
1995	1,575	1,227	1,000	2,130
1996	1,499	1,453	-	-

<FN>
(1) Excludes all hedge agreements in effect for the Company's production operations.
</FN>
</TABLE>

Net Interest Rate Agreement Expense

The net interest rate agreement expense, or hedging expense, equals the expenses, net of any benefits received, from these agreements. For the year ended December 31, 1996, net hedging expense amounted to $6.62 million versus $3.70 million and $0.40 million for the years ended December 31, 1995 and 1994, respectively. Such amounts exclude the hedging costs and benefits associated with the Company's production activities as these amounts are deferred as additional premium or discount on the loan funded and amortized over the life of the loan as an adjustment to its yield. The increase in net interest rate agreement expense for 1996 compared to 1995 is primarily the result of the addition of an interest rate swap agreements to reduce the Company's exposure to basis risk for certain collateral for collateralized bonds and to cap the borrowing costs during any six-month period for a portion of the short-term borrowings. The increase in the net interest rate agreement expense for 1995 compared to 1994 is due primarily to the addition of an interest rate swap agreement entered into to reduce the interest rate risk on fixed-rate loans in the collateral for collateralized bonds.

<TABLE>
<CAPTION>

Net Interest Rate Agreement Expense
($ in millions)

	Net Interest Rate Agreement Expense	Net Expense as Percentage of Average Assets (annualized)	Net Expense as Percentage of Average Borrowings (annualized)
<S>	<C>	<C>	<C>

1994	$ 0.40	0.011%	0.012%
1995	3.70	0.110%	0.122%
1996	6.62	0.162%	0.181%

</TABLE>

Fair value

The fair value of the available-for-sale portion of the Company's investment portfolio as of December 31, 1996, as measured by the net unrealized gain on investments available-for-sale, was $64.4 million above its amortized cost basis, which represents a $69.2 million improvement from December 31, 1995. At December 31, 1995, the fair value Company's investment portfolio was below its amortized cost basis by $4.8 million. This increase in the portfolio's value is primarily attributable to the increase in the value of the collateral for collateralized bonds relative to the collateralized bonds issued during the last twelve months, as well as an increase in value of the Company's ARM securities due principally to the ARM securities being fully-indexed. The portfolio also benefited from the stabilization of interest rates and the reduction in amortized cost basis of its investments through additional provision for losses. At December 31, 1994, the fair value of the Company's available-for-sale investments was $72.7 million below its amortized cost basis, reflecting market-place volatility due to the rapid increase in short-term interest rates at the time.

Credit Exposures

The Company has historically securitized its loan production in pass-through or collateralized bonds securitization structures. With either structure, the Company may use overcollateralization, subordination, reserve funds, bond insurance, mortgage pool insurance or any combination of the foregoing for credit enhancement. Regardless of the form of credit enhancement, the Company may retain a limited portion of the direct credit risk after securitization. This risk can include risk of loss related to hazards not covered under standard hazard insurance policies and credit risks on loans not covered by standard borrower mortgage insurance, or pool insurance.

Beginning in 1994, the Company issued pass-through securities which used subordination structures as their form of credit enhancement. The credit risk of subordinated pass-through securities is concentrated in the subordinated classes (which may themselves partially be credit enhanced with reserve funds or pool insurance) of the securities, thus allowing the senior classes of the securities to receive the higher credit rating. To the extent credit losses are greater than expected (or exceed the protection provided by any reserve funds or pool insurance), the holders of the subordinated securities will experience a lower yield (which may be negative) than expected on their investments. At December 31, 1996, the Company retained $19.4 million in aggregate principal amount of subordinated securities, which are carried at a value of $2.1 million, reflecting such potential credit loss exposure.

With collateralized bond structures, the Company also retains credit risk relative to the amount of overcollateralization required in conjunction with the bond insurance. Losses are generally first applied to the overcollateralization amount, with any losses in excess of that amount borne by the bond insurer or the holders of the various classes of the collateralized bonds. The Company only incurs credit losses to the extent that losses are incurred in the repossession, foreclosure and sale of the underlying collateral. Such losses generally equal the excess of the principal amount outstanding plus servicer advances, less any proceeds from mortgage or hazard insurance, over the liquidation value of the collateral. To compensate the Company for retaining this loss exposure, the Company generally receives an excess yield on the collateralized loans relative to the yield on the collateralized bonds. At December 31, 1996, the Company retained $88.0 million in aggregate principal amount of overcollateralization and had reserves, or otherwise had provided coverage, on $62.1 million of the potential credit loss exposure. This reserve includes a provision recorded as a result of the sale of the single-family operations of approximately $31.0 million for possible losses on securitized single-family loans where the Company, which performed the servicing of such loans prior to the sale, has retained a portion of the credit risk on these loans. Also as a result from the sale of the single-family operations, a $30.3 million loss reimbursement guarantee from Dominion Mortgage Services, Inc. has been included in the reserves at December 31, 1996.

The Company principally used pool insurance as its means of credit enhancement for years prior to 1994. Pool insurance has generally been unavailable as a means of credit enhancement since the beginning of 1994. Pool insurance covered substantially all credit risk for the security with the exception of fraud in the origination or certain special hazard risks. Loss exposure due to special hazards is generally limited to an amount equal to a fixed percentage of the principal balance of the pool of mortgage loans at the time of securitization. Fraud in the origination exposure is generally limited to those loans which default within one year of origination. The reserve for potential losses on these risks was $6.0 million at December 31, 1996, which the Company believes represents its potential exposure from these risks.

The following table summarizes the aggregate principal amount of collateral for collateralized bonds and pass-through securities outstanding which are subject to credit exposure, the maximum credit exposure held by the Company represented by the amount of overcollateralization and first loss securities owned by the Company, the credit reserves available to the Company for such exposure through provision for losses, indemnifications or insurance and the actual credit losses incurred. The table excludes reserves and losses due to fraud and special hazard exposure. Additionally, for purposes of this table, the aggregate principal amount of subordinated securities held by the Company are included in the Maximum Credit Exposure column, with the difference between this amount and the carrying amount of these securities as reported in the Company's consolidated financial statements, included in Credit Reserves.

<TABLE>
<CAPTION>

Credit Reserves and Actual Credit Losses
($ in millions)

	Outstanding Loan Balance	Maximum Credit Exposure	Credit Reserves	Actual Credit Losses	Credit Reserves to Average Assets	Credit Reserves to Maximum Credit Exposure
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1995	$ 2,405	$ 65.9	$ 18.5	$ 0.0	0.55%	28.07%
1996	3,848	116.0	86.0	5.2	2.11%	74.14%

</TABLE>

The following table summarizes the single-family mortgage loan delinquencies as a percentage of the outstanding loan balance for the total collateral for collateralized bonds and pass-through securities outstanding where the Company has retained a portion of the credit risk either through holding a subordinated security or through overcollateralization at December 31, 1996. There were no delinquencies on any multi-family loans where the Company has retained a portion of the credit risk either through holding a subordinated security or through overcollateralization.

<TABLE>
<CAPTION>
Delinquency Statistics

	60 to 90 days delinquent	90 days and over delinquent (includes REO and foreclosures)	Total
<S>	<C>	<C>	<C>
1995	2.50%	3.23%	5.73%
1996	0.88%	3.40%	4.28%

</TABLE>

The following table summarizes the credit rating for investments held in the Company's portfolio assets. This table excludes the Company's other mortgage securities (the risk on such securities is prepayment related, not credit related) and other portfolio assets. In preparing the table, the carrying balances of the investments rated below A are net of credit reserves and discounts. The average credit rating of the Company's portfolio assets at the end 1996 was AAA. At December 31, 1996, securitized loans with a credit rating of A or better were $3.5 billion, or 99.1% of the Company's total mortgage investments compared to 98.5% and 99.6% at December 31, 1995 and 1994, respectively. At the end of 1996, $332 million of all mortgage investments were split-rated between rating agencies. Where investments were split-rated, for purposes of this table, the Company classified such investments based on the higher credit rating.

<TABLE>
<CAPTION>
Portfolio Assets by Credit Rating (1)
($ in millions)

	AAA Carrying Value	AA Carrying Value	A Carrying Value	Below A Carrying Value	AAA Percent of Total	AA Percent of Total	A Percent of Total	Below A Percent of Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1994	$ 1,619.2	$ 1,074.7	$ 245.0	$ 12.6	54.9%	36.4%	8.3%	0.4%
1995	2,039.9	1,010.3	23.7	46.8	65.3%	32.4%	0.8%	1.5%
1996	2,708.4	752.8	-	29.9	77.5%	21.6%	-	0.9%

<FN>
(1) Carrying value does not include other mortgage securities and other portfolio assets.
</FN>

</TABLE>

Purchase, Securitization and Sale of Portfolio Assets

During 1996, the Company sold various portfolio investments due in part to favorable market conditions, and in an attempt to strengthen the Company's balance sheet by reducing its exposure to recourse short-term borrowings which financed such investments. The aggregate principal amount of investments sold during 1996 was $506.6 million, consisting of $479.3 million of ARM securities and $27.3 million of other mortgage securities. These sales, along with the re-securitization of certain ARM securities, reduced short-term borrowings by approximately $1 billion and the Company recognized net losses of $0.9 million. Also during 1996, the Company added approximately $2.13 billion of collateral for collateralized bonds, with $2.07 billion of associated borrowings, through its production operations. The Company also exercised its call right or otherwise purchased $27.0 million of fixed-rate mortgage securities and $85.3 million of other mortgage securities.

During 1995, the Company sold certain portfolio investments to (i) reduce the Company's exposure to periodic cap risk as discussed above, (ii) reduce the Company's exposure to further declines in the market value of such securities and (iii) increase liquidity. The aggregate principal amount of investments sold was $632.1 million, consisting of $623.3 million principal amount of ARM securities and $8.8 million of other mortgage securities from its portfolio. Additionally, during the first quarter of 1995, the Company sold its repurchase obligation on all convertible ARM loans previously securitized or sold. The Company realized a net gain of $3.8 million on these sales of mortgage securities and its repurchase obligation for 1995. During 1995, the Company added approximately $851.7 million of collateral for collateralized bonds, with $803.8 million of associated borrowings, $1.7 million of fixed-rate mortgage securities and $5.7 million of other mortgage securities to its portfolio through its mortgage operations. Additionally, the Company purchased approximately $409.5 million of ARM securities and $6.0 million of fixed-rate mortgage securities for its investment portfolio.

PRODUCTION ACTIVITIES

Until May 1996, the Company's production operations were comprised mainly of its single-family mortgage operations that concentrated on the "non-conforming" segment of the residential loan market. The Company funded its single-family loans directly through mortgage brokers (wholesale) and purchased loans through a network of mortgage companies (correspondents). Loans originated through the Company's former single-family mortgage operations constitute the majority of loans underlying the securities that comprise the Company's current portfolio assets. Since the sale of the Company's single-family mortgage operations, the Company's primary production operations have been focused on multi-family lending and manufactured housing lending. The Company is in the process of broadening its multi-family lending capabilities to include other types of commercial real estate loans and to expand its manufactured housing lending to include inventory financing to manufactured housing dealers. The Company may also purchase single-family loans on a "bulk" basis from time to time, and may originate such loans on a retail basis.

The purpose of the Company's production operations is to enhance the return on shareholders' equity (ROE) by earning a favorable net interest spread while loans are in warehouse being accumulated for securitization or sale and creating investments for its portfolio at a lower cost than if such investments were purchased from third parties. The creation of such investments generally involves the issuance of pass-through securities or collateralized bonds collateralized by the loans generated from the Company's production activities, and the retention of one or more classes of the securities or collateralized bonds relating to such issuance. The issuance of pass-through securities and collateralized bonds generally limits the Company's credit and interest rate risk relating to loans generated by the Company's production operations.

When a sufficient volume of loans is accumulated, the Company generally securitizes the loans through the issuance of collateralized bonds or pass-through securities. The Company believes that securitization is an efficient and cost effective way for the Company to (i) reduce capital otherwise required to own the loans in whole loan form; (ii) limit the Company's exposure to credit risk on the loans; (iii) lower the overall cost of financing the loans; and (iv) depending on the securitization structure, limit the Company's exposure to interest rate and/or valuation risk. As a result of the reduction in the availability of mortgage pool insurance, and the Company's desire to both reduce its recourse borrowings as a percentage of its overall borrowings and the variability of its earnings, the Company has utilized the collateralized bonds structure for securitizing substantially all of its loan production since the beginning of 1995.

The following table summarizes the production activity for the three years ended December 31, 1996, 1995 and 1994.

<TABLE>
<CAPTION>

Production Activity
($ in thousands)

<S>	<C> Year Ended December 31, 1996	<C> 1995	<C> 1994
Multi-family	$ 201,496	$ 18,532	$ 20,626
Manufactured housing	41,031	-	-
Single-family	501,474	875,421	2,840,817
Total principal amount of loans funded through production operations	$ 744,001	$ 893,953	$2,861,443
Single-family loans bulk purchased	$ 731,460	$ 22,433	$ -
Principal amount securitized or sold	$1,357,564	$1,172,101	$3,100,595

</TABLE>

1996 compared to 1995. The decrease in the overall funding volume of loans for 1996 as compared to 1995 is mainly the result of the sale of the Company's single-family mortgage operations in May 1996. This decrease was partially offset by the increase in multi-family loans funded and the commencement of manufactured housing lending.

The manufactured housing operations began funding loans during the second quarter of 1996. Since its initial start-up, the Company has opened region offices in North Carolina, Georgia, Texas and Michigan. The Company is planning to establish a fifth regional office on the West coast during the second quarter of 1997. Principally all funding volume has been obtained through relationships with manufactured housing dealers. As of December 31, 1996, the Company had $41 million in principal balance of manufactured housing loans in inventory, and had commitments outstanding of approximately $15 million. As of December 31, 1996, manufactured housing loans that were 60+ day delinquent totaled $0.1 million. In the future, the Company plans to expand its sources of origination to nearly all sources for manufactured housing loans by establishing relationships with park owners, developers of manufactured housing communities, manufacturers of manufactured homes, brokers and correspondents. In addition, the Company will begin offering dealer inventory financing during the first quarter 1997. Once certain volume levels are achieved at a particular region, district offices may be opened in an effort to further market penetration. The first district office is expected to be opened in the first quarter of 1997.

As of December 31, 1996, the Company had $208 million in principal balance of multi-family loans held for securitization compared with $7.8 million at December 31, 1995. There are no multi-family loan delinquencies as of December 31, 1996. Principally all fundings are under the Company's lending programs for properties that have been allocated low income housing tax credits. As of December 31, 1996, commitments to fund multi-family loans over the next 25 months were approximately $522 million. The Company expects that it will have funded volume sufficient enough to securitize a portion of its multi-family mortgage loans held for securitization in the first half of 1997 through the issuance of collateralized bonds. The Company will retain a portion of the credit risk after securitization and intends to service the loans.

The Company's securitization strategy for 1996 focused on securitizing its loan production through the issuance of collateralized bonds. These securitizations are recorded as financing transactions and as such, no gain on sale is recorded at the time of the securitization. Instead, income related to the net collateralized bond investment is recognized over time as part of net margin income. In 1996 the Company securitized approximately $1.4 billion of loans through the issuance of collateralized bonds compared to $770 million in 1995. During 1996 there were no whole loan pool sales or pass-through securitizations.

1995 compared to 1994. The decrease in the funding volume of loans in 1995 as compared to 1994 resulted from the lower overall mortgage loan originations in the market and an increased level of price competition for mortgage loans. Additionally, approximately 64% of the mortgage loans funded by the Company were ARM loans, which declined as a percentage of the overall loan origination market as a result of the flat yield curve environment during much of 1995.
During 1995, a substantial portion of the Company's loan production was securitized through the issuance of collateralized bonds. Of the remaining

production in 1995, the Company sold whole loan pools aggregating $124 million, and securitized $278 million of mortgage loans using a senior/subordinated structure. The net gain on securitizations and sales of these mortgage loans, excluding recognition of deferred gains, amounted to $4.7 million for 1995. This represented a decline of $15.3 million, or 77%, from net gains on sale of mortgage loans of $20.0 million for 1994.

During 1994, the Company acquired a mortgage servicing company with a servicing portfolio of approximately $600 million. Through this acquisition, the Company serviced those mortgage loans where it has retained all or a portion of the credit risk. During 1995, the Company sold a portion of its purchased mortgage servicing rights which were acquired in the acquisition. The gain resulting from this sale totaled $1.2 million, and was included in net gain on sale of assets. Prior to the sale of the single-family mortgage operations, the Company had generally serviced mortgage loans which it has originated or purchased and where it retained all or a portion of the credit risk. Due of the sale of the Company's single-family mortgage operations, the Company no longer services these mortgage loans. Therefore, during the second quarter of 1996, as an adjustment to the gain on sale of the mortgage operations, the Company recognized a provision for potential losses on these loans of approximately $31 million.

OTHER ITEMS

General and Administrative Expenses

General and administrative expenses (G&A expense) consist of expense incurred in conducting the Company's production activities, managing the investment portfolio, and various corporate expenses. The following table summarizes the Company's efficiency, the ratio of G&A expense to average interest-earning assets, and the ratio of G&A expense to average total equity.

<TABLE>
<CAPTION>

Operating Expense Ratios

<S>	G&A Efficiency Ratio (a) <C>	G&A Expense/Average Interest-earning Assets (Annualized) <C>	G&A Expense/Average Total Equity (b) (Annualized) <C>
1994	9.36%	0.60%	7.84%
1995	7.14%	0.54%	5.92%
1996	6.65%	0.51%	5.28%

<FN>
(a) G&A expense as a percentage of interest income.
(b) Average total equity excludes unrealized gain (loss) on available-for-sale investments.
</FN>
</TABLE>

G&A expense increased for the year ended December 31, 1996 as compared to the same period in 1995 primarily due to the expansion of the single-family wholesale operations and the start up costs related to the manufactured housing lending operations. The Company continues to expand its manufactured housing operations, and in August 1996, acquired MCM to expand its multi-family and commercial lending businesses. The Company currently services all loans funded through its production operations. Such operations should continue to cause general and administrative expenses to increase in 1997. G&A related to the production operations will increase over time as the Company expands its production activities with current and new product types. G&A expense in 1995 compared to 1994 decreased as a result of the reduction in the workforce due to the decrease in single-family lending volumes during 1995 compared to 1994.

Net Income and Return on Equity

Net income increased from $36.9 million for the year ended December 31, 1995, to $73.0 million for the year ended December 31, 1996. Return on common equity (excluding the impact of the unrealized gain on available-for-sale investments) also increased from 12.5% for the year ended December 31, 1995 to 21.6% for the year ended December 31, 1996. The majority of the increase in both the net income and the return on common equity from 1995 is due to (i) the gain recognized on the sale of the single-family operations in the second quarter of 1996, (ii) the increased net margin related to increased levels of interest-earning assets and (iii) the increase in the net interest spread on interest-earning assets.

<TABLE>
<CAPTION>

Components of Return on Common Equity

	Net Interest Margin/ Average Common Equity (annualized)	Provision for Losses /Average Common Equity (annualized)	Gains and Other Income /Average Common Equity (annualized)	G&A Expense/ Average Common Equity (annualized)	Preferred Dividend/ Average Common Equity (annualized)	Return on Average Common Equity (annualized)	Net Income Available to Common Shareholders
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1994	17.12%	0.78%	10.74%	7.84%	N/A	19.24%	$52,257
1995	16.58%	1.06%	4.62%	6.63%	1.01%	12.50%	34,164
1996	26.68%	1.06%	6.47%	7.10%	3.43%	21.56%	63,039

</TABLE>

The Company and its qualified REIT subsidiaries (collectively "Resource REIT") have elected to be treated as a real estate investment trust for federal income tax purposes. The REIT provisions of the Internal Revenue Code require Resource REIT to distribute to shareholders substantially all of its taxable income, thereby restricting its ability to retain earnings. The Company may issue additional common stock, preferred stock or other securities in the future in order to fund growth in its operations, growth in its portfolio of mortgage investments or for other purposes.

The Company intends to declare and pay out as dividends 100% of its taxable income over time. The Company's current practice is to declare quarterly dividends per share. Generally, the Company strives to declare a quarterly dividend per share which will result in the distribution of most or all of the taxable income earned during the quarter. At the time of the dividend announcement, however, the total level of taxable income for the quarter is unknown. Additionally, the Company has considerations other than the desire to pay out most of the taxable earnings for the quarter, which may take precedence when determining the level of dividends.

<TABLE>
<CAPTION>

Dividend Summary
($ in thousands, except per share amounts)

	Taxable Net Income Available to Common Shareholders	Taxable Net Income Per Common Share	Dividend Declared Per Common Share	Dividend Pay-out Ratio	Cumulative Undistributed Taxable Income
<S>	<C>	<C>	<C>	<C>	<C>
1994	$ 48,396	$ 2.44	$ 2.76	113%	$ 3,665
1995	32,438	1.61	1.68	104%	3,204
1996	51,419	2.52	2.27	90%	8,210

</TABLE>

Taxable income for 1996 is estimated as the Company has not filed its 1996 federal income tax returns. Taxable income differs from the financial statement net income which is determined in accordance with generally accepted accounting principles (GAAP). For the year ended December 31, 1996, GAAP net income per common share exceeded taxable income per common share principally due to differences related to the sale of the single-family operations. For tax purposes, the sale will be accounted for on an installment sale basis with annual taxable income of approximately $10 million. Additionally, the Company had a capital loss carryforward available from prior years of $9 million which will offset a portion of the tax gain from the sale of the single-family operations that will be recognized in 1996. Cumulative undistributed taxable income represents timing differences in the amounts earned for tax purposes versus the amounts distributed. Such amounts can be distributed for tax purposes in the subsequent year as a portion of the normal quarterly dividend.

Recent Accounting Pronouncements

In June 1996, the Financial Accounting Standards Board (FASB) issued FAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". FAS No. 125 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on consistent application of a financial components approach that focuses on control of the respective assets and liabilities. It distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. FAS No. 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996. The impact of this statement on the Company's financial position and results of operations has not been determined, but is not expected to be material.

LIQUIDITY AND CAPITAL RESOURCES

The Company has various sources of cash flow upon which it relies for its working capital needs. Sources of cash flow from operations include primarily the return of principal on its portfolio investments and the issuance of collateralized bonds. Other borrowings provide the Company with additional cash flow in the event that it is necessary. Historically, these sources have provided sufficient liquidity for the conduct of the Company's operations. However, if a significant decline in the market value of the Company's portfolio assets should occur, the Company's available liquidity from these other borrowings may be reduced. As a result of such a reduction in liquidity, the Company may be forced to sell certain portfolio assets in order to maintain liquidity. If required, these sales could be made at prices lower than the carrying value of such assets, which could result in losses.

The Company borrows funds on a short-term basis to support the accumulation of loans prior to the sale of such loans or the issuance of mortgage- or asset-backed securities. These borrowings may bear fixed or variable interest rates, may require additional collateral in the event that the value of the existing collateral declines and may be due on demand or upon the occurrence of certain events. If borrowing costs are higher than the yields on the assets financed with such funds, the Company's ability to acquire or fund additional assets may be substantially reduced and it may experience losses. These short-term borrowings consist of the Company's lines of credit and repurchase agreements and are paid down as the Company securitizes or sells loans.

A substantial portion of the assets of the Company are pledged to secure indebtedness incurred by the Company. Accordingly, those assets would not be available for distribution to any general creditors or the stockholders of the Company in the event of the Company's liquidation, except to the extent that the value of such assets exceeds the amount of the indebtedness they secure.

Lines of Credit

At December 31, 1996, the Company has three credit facilities aggregating $500 million to finance loan fundings and for working capital purposes of which $350 million expires in 1997 and $150 million expires in 1998. One of these facilities includes several sublines aggregating $300 million to serve various purposes, such as multi-family loan fundings, working capital, and manufactured housing loan fundings, which may not, in the aggregate, exceed the overall facility commitment of $150 million at any time. Working capital borrowings are limited to $30 million. The Company expects that these credit facilities will be renewed, if necessary, at their respective expiration dates, although there can be no assurance of such renewal. The lines of credit contain certain financial covenants which the Company met as of December 31, 1996. However, changes in asset levels or results of operations could result in the violation of one or more covenants in the future.

Repurchase Agreements

The Company finances certain of its portfolio assets through repurchase agreements. Repurchase agreements allow the Company to sell such portfolio assets for cash together with a simultaneous agreement to repurchase the same portfolio assets on a specified date for a price which is equal to the original sales price plus an interest component. At December 31, 1996, the Company had outstanding obligations of $756.4 million under such repurchase agreements, of which $717.2 million, $26.3 million and $12.9 million were secured by ARM securities, fixed-rate mortgage securities and other mortgage securities, respectively compared to $1.98 billion in repurchase agreements at December 31, 1995, secured by $1.95 billion, $24.2 million and $7.7 million, respectively in ARM securities, fixed securities and other mortgage securities. Increases in either short-term interest rates or long-term interest rates could negatively impact the valuation of these mortgage securities and may limit the Company's borrowing ability or cause various lenders to initiate margin calls. Additionally, certain of the Company's ARM securities are AAA or AA rated classes that are subordinate to related AAA rated classes from the same series of securities. Such AAA or AA rated classes have less liquidity than securities that are not subordinated and the value of such classes is more dependent on the credit rating of the related insurer or the credit performance of the underlying mortgage loans. In instances of a downgrade of an insurer or the deterioration of the credit quality of the underlying mortgage collateral, the Company may be required to sell certain portfolio assets in order to maintain liquidity. If required, these sales could be made at prices lower than the carrying value of the assets, which could result in losses.

The Company owns $367 million of its collateralized bonds at December 31, 1996 and has financed such collateralized bonds with $367 million of short-term debt. This compares to approximately $102 million in collateralized bonds at December 31, 1995 financed with $102 million of short-term debt. For financial statement presentation purposes, the Company has classified the $367 million and $102 million of short-term debt at December 31, 1996 and 1995, respectively, as collateralized bonds outstanding.

The Company also may finance a portion of its loans held for securitization with repurchase agreements on an uncommitted basis. At December 31, 1996, the Company had no outstanding obligations under such repurchase agreements.

Potential immediate sources of liquidity for the Company include cash balances and unused availability on the credit facilities. At December 31, 1996, the Company had an estimated unused borrowing capacity of $131.8 million. The total immediate sources of liquidity totaled $39.5 million, or 4.24% of recourse borrowings. Recourse borrowings exclude borrowings, such as collateralized bonds, that are non-recourse to the Company.

Unsecured Borrowings

The Company issued two series of unsecured notes totaling $50 million in 1994. The proceeds from this issuance were used for general corporate purposes. At December 31, 1996, the notes have an outstanding balance at of $44 million compared to $47 million at December 31, 1995. The first principal repayment of one of the notes was due October 1995 and annually thereafter, with quarterly interest payments due. Principal repayment on the second note is contracted to begin in October 1998. The notes mature between 1999 and 2001 and bear interest at 9.56% and 10.03%. The note agreements contain certain financial covenants which the Company met as of December 31, 1996. However, changes in asset levels or results of operations could result in the violation of one or more covenants in the future. The Company also has various acquisition notes totaling $2.0 million and $1.4 million at December 31, 1996 and 1995, respectively.

Preferred Stock Offering

In October 1996, the Company issued 1.84 million shares of Series C 9.73% Cumulative Convertible Preferred Stock at a price of $30 per share. The net proceeds from this issuance totaled $52.9 million and were used to pay down short-term debt, as well as for general corporate purposes.

FOURTH QUARTER REVIEW

The Company reported net income of $17.9 million for the fourth quarter of 1996 and earnings per common share of $0.70. These results compare favorably with the fourth quarter of 1995 net income of $12.1 million and earnings per common share of $0.51. Compared with the fourth quarter of 1995, the Company's fourth quarter 1996 results reflect mainly an increase in the net interest margin, offset partially by an increase general and administrative expenses.

Net interest margin totaled $19.8 million for the fourth quarter of 1996 compared with $13.9 million for the fourth quarter of 1995. The increase resulted primarily from an increase in average interest-earning assets to $4.3 billion for the fourth quarter of 1996 compared to $3.4 billion for the fourth quarter of 1995. The increase in the average interest-earning assets was primarily due to the addition of $2.13 billion in collateral for collateralized bonds during 1996. Additionally, the spread on the net investment in collateralized bonds increased from 1.47% for the fourth quarter of 1995 to 1.51% for the fourth quarter of 1996. These factors were the major contributors to the overall increase in the net interest spread on all interest-earning assets from 1.48% in the fourth quarter of 1995 to 1.56% for the fourth quarter of 1996.

Annualized return on common shareholders' equity was 19.31% in the fourth quarter of 1996 compared to 14.96% for the fourth quarter of 1995.

The average borrowed funds increased $800 million to $3.8 billion for the fourth quarter of 1996 compared to $3.0 billion for the fourth quarter of 1995. This increase was directly related to the increase in the average interest-earning assets, primarily collateral for collateralized bonds. While the average borrowings increased for the fourth quarter of 1996, the average cost of funds decreased in comparison with the same quarter in 1995. The decrease in the cost of funds was due to the decrease in the average one-month LIBOR rate in the fourth quarter of 1996 in comparison to the fourth quarter of 1995.

Loan production for the fourth quarter of 1996 decreased from the fourth quarter of 1995 primarily as a result of the sale of the single-family mortgage operations in the second quarter of 1996. This decrease in single-family mortgage lending during the fourth quarter of 1996 was partially offset by the increase in multi-family and manufactured housing lending during the fourth quarter of 1996 in comparison to the same period for 1995.

Summary of Selected Quarterly Results (unaudited)
(amounts in thousands except share data)
<TABLE>
<CAPTION>
- ---

Year ended December 31, 1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<S>	<C>	<C>	<C>	<C>
Operating results:				
Total revenues	$72,982	$91,236	$80,414	$86,339
Net interest margin	17,819	18,292	19,002	19,794
Net income	12,685	25,897	16,558	17,908
Primary net income per common share	0.52	1.16	0.70	0.70
Fully diluted net income per common share	0.52	1.07	0.68	0.69
Cash dividends declared per common share	0.51	0.55	0.585	0.62
Annualized return on common shareholders' equity	15.12%	32.45%	19.17%	19.31%
Average interest-earning assets	$3,746,326	$4,164,848	$4,106,538	$4,308,551
Average borrowed funds	3,321,060	3,735,776	3,667,944	3,825,116
Net interest spread on interest-earning assets	1.53%	1.48%	1.57%	1.56%
Average asset yield	7.70%	7.52%	7.64%	7.72%
Net yield on average interest-earning assets (1)	2.23%	2.11%	2.21%	2.25%
Cost of funds	5.99%	6.04%	6.07%	6.17%
Loans funded	$ 358,913	$ 233,618	$ 70,757	$ 80,713

Year ended December 31, 1995	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating results:				
Total revenues	$ 64,426	$ 64,482	$ 69,373	$ 68,215
Net interest margin	7,404	9,215	11,906	13,894
Net income	6,596	8,041	10,128	12,145
Net income per common share (2)	0.33	0.40	0.46	0.51
Cash dividends declared per common share	0.36	0.40	0.44	0.48
Annualized return on common shareholders' equity	9.68%	11.81%	13.52%	14.96%
Average interest-earning assets	$3,406,960	$3,181,363	$3,450,435	$3,360,809
Average borrowed funds	3,058,127	2,906,055	3,159,677	3,025,324
Net interest spread on interest-earning assets	0.56%	1.03%	1.20%	1.48%
Average asset yield	7.14%	7.71%	7.74%	7.67%
Net yield on average interest-earning assets (1)	1.23%	1.60%	1.74%	2.00%
Cost of funds	6.58%	6.68%	6.46%	6.30%
Loans funded	$ 237,119	$ 197,516	$ 242,213	$ 217,105

<FN>

(1) Computed as net interest margin excluding non-interest collateralized bond expenses and interest on senior notes payable.

(2) Fully diluted net income per share is not presented for 1995 as the Company's preferred stock and outstanding stock appreciation rights were anti-dilutive.

</FN>

</TABLE>

FORWARD-LOOKING STATEMENTS

Certain written statements in this Form 10-K made by the Company, that are not historical fact, constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements may involve factors that could cause the actual results of the Company to differ materially from historical results or from any results expressed or implied by such forward-looking statements. The Company cautions the public not to place undue reliance on forward-looking statements, which may be based on assumptions and anticipated events that do not materialize. The Company does not undertake, and the Securities Litigation Reform Act specifically relieves the Company from, any obligation to update any forward-looking statements.

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

Economic Conditions. The Company is affected by consumer demand for manufactured housing, multi-family housing and other products which it finances. A material decline in demand for these goods and services would result in a reduction in the volume of loans originated by the Company. The risk of defaults and credit losses could increase during an economic slowdown or recession. This could have an adverse effect on the Company's financial performance and the performance on the Company's securitized loan pools.

Capital Resources. The Company relies on various credit facilities and repurchase agreements with certain investment banking firms to help meet the Company's short-term funding needs. The Company believes that as these agreements expire, they will continue to be available or will be able to be replaced; however no assurance can be given as to such availability or the prospective terms and conditions of such agreements or replacements.

Interest Rate Fluctuations. The Company's income depends on its ability to earn greater interest on its investments than the interest cost to finance these investments. Interest rates in the markets served by the Company generally rise or fall with interest rates as a whole. A majority of the loans currently originated by the Company are fixed-rate. The profitability of a particular securitization may be reduced if interest rates increase substantially before these loans are securitized. In addition, the majority of the investments held by the Company are securities or loans with adjustable rates. These investments are financed through short-term repurchase agreements and floating rate collateralized bonds. The net interest spread for these investments could decrease during a period of rapidly rising interest rates, since the investments have interest rate caps and the related borrowing have no such interest rate caps.

Defaults. Defaults may have an adverse impact on the Company's financial performance, if actual credit losses differ materially from estimates made by the Company at the time of securitization. The allowance for losses is calculated on the basis of historical experience and management's best estimates. Actual defaults may differ from the Company's estimate as a result of economic conditions. Actual defaults on ARM loans may increase during a rising interest rate environment. The Company believes that its reserves are adequate for such risks.

Prepayments. Prepayments may have an adverse impact on the Company's financial performance, if prepayments differ materially from estimates made by the Company. The prepayment rate is calculated on the basis of historical experience and management's best estimates. Actual rates of prepayment may vary as a result of the prevailing interest rate. Prepayments are expected to increase during a declining interest rate environment. The Company's exposure to more rapid prepayments is (i) the faster amortization of premium on the investments and (ii) the replacement of investments in its portfolio with lower yield securities.

Competition. The financial services industry is a highly competitive market. Increased competition in the market could adversely affect the Company's market share within the industry.

Regulatory Changes. The Company's business is subject to federal and state regulation which, among other things, require the Company to maintain various licenses and qualifications and require specific disclosures to borrowers. Changes in existing laws and regulations or in the interpretation thereof, or the introduction of new laws and regulations, could adversely affect the Company's operation and the performance of the Company's securitized loan pools.

New Production Sources. The Company has recently begun originating manufactured housing loans and anticipates entering other lending businesses that are complementary to its current multi-family mortgage lending strategy. The Company is incurring or will incur expenditures related to the start-up of these businesses, with no guarantee that production targets set by the Company will be met or that these businesses will be profitable. Various factors such as economic conditions, interest rates, competition and the lack of the Company's prior experience in originating manufactured housing or other loans could all impact these new production sources.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of the Company and the related notes, together with the Independent Auditors' Report thereon are set forth on pages F-1 through F-19 of this Form 10-K.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 as to directors and executive officers of the Company is included in the Company's proxy statement for its 1997 Annual Meeting of Stockholders (the 1997 Proxy Statement) in the Election of Directors and Management of the Company sections on pages 2 and 4 and is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

The information required by Item 11 is included in the 1997 Proxy Statement in the Management of the Company section on pages 4 through 9 and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is included in the 1997 Proxy Statement in the Ownership of Common Stock section on page 3 and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is included in the 1997 Proxy Statement in the Compensation Committee Interlocks and Insider Participation section on page 8 and is incorporated herein by reference.

Part IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

1. and 2. Financial Statements and Financial Statement Schedule

The information required by this section of Item 14 is set forth in the Consolidated Financial Statements and Independent Auditors' Report beginning at page F-1 of this Form 10-K. The index to the Financial Statements and Schedule is set forth at page F-2 of this Form 10-K.

3. Exhibits

Exhibit Number	Exhibit
3.1	Articles of Incorporation of the Registrant, as amended, effective as of February 4, 1988. (Incorporated herein by reference to the to the Company's Amendment No. 1 to the Registration Statement on Form S-3 (No. 333-10783) filed March 21, 1997.)
3.2	Amended Bylaws of the Registrant (Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992, as amended.)
3.3	Amendment to the Articles of Incorporation, effective December 29, 1989 (Incorporated herein by reference to the Company's Amendment No. 1 to the Registration Statement on Form S-3 (No. 333-10783) filed March 21, 1997.)
3.4	Amendment to the Articles of Incorporation, effective June 27, 1995 (Incorporated herein by reference to the Company's Current Report on Form 8-K (File No. 1-9819), dated June 26, 1995.)
3.5	Amendment to the Articles of Incorporation, effective October 23, 1995 (Incorporated herein by reference to the Company's Current Report on Form 8-K (File No. 1-9819), dated October 19, 1995.)
3.6	Amendment to the Articles of Incorporation, effective October 9, 1996

(Incorporated herein by reference to the Registrant's Current Report on Form 8-K (File No. 1-9819), filed October 15, 1996.)

3.7 Amendment to the Articles of Incorporation, effective October 10, 1996 (Incorporated herein by reference to the Registrant's Current Report on Form 8-K (File No. 1-9819), filed October 15, 1996.)

3.8 Amendment to the Articles of Incorporation, effective October 19, 1992. (Incorporated herein by reference to the Company's Amendment No. 1 to the Registration Statement on Form S-3 (No. 333-10783) file March 21, 1997.)

3.9 Amendment to the Articles of Incorporation, effective August 17, 1992. (Incorporated herein by reference to the Company's Amendment No. 1 to the Registration Statement on Form S-3 (No. 333-10783) filed March 21, 1997.)

10.1 Selected Portions of the Registrant's Seller/Servicer Guide (Incorporated herein by reference to Saxon Mortgage Securities Corporation's Registration Statement on Form S-11 (No. 33-57204) filed January 21, 1993.

10.2 Program Servicing Agreement between the Registrant and Ryland Mortgage Company, as amended (Incorporated herein by reference to Exhibits the Company's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-9819) dated February 18, 1992).

10.3 Dividend Reinvestment and Stock Purchase Plan (Incorporated herein by reference to Exhibits to the Company's Registration Statement on Form S-3 (No. 33-52071).)

10.4 1992 Stock Incentive Plan (Incorporated herein by reference to the Proxy Statement dated July 13, 1992 for the Special Meeting of Stockholders held August 17, 1992.)

10.5 Executive Deferred Compensation Plan (Incorporated by reference to Exhibits the Company's Annual Report on Form 10-K for the year ended December 31, 1993 (File No. 1-9819) dated March 21, 1994.)

10.6 Employment Agreement: Thomas H. Potts (Incorporated by reference to Exhibits the Company's Annual Report filed on Form 10-K for the year ended December 31, 1994 (File No. 1-9819) dated March 31, 1996.)

10.7 Promissory Note, dated as of May 13, 1996, between Resource Mortgage Capital, Inc. (as Lender) and Dominion Mortgage Services, Inc. (as Borrower) (Incorporated herein by reference to Exhibits to the Company's Form 10-Q for the quarter ended June 30, 1996 (File No. 1-9819) dated August 14, 1996.)

10.8 Employment Agreement: William J. Moore dated August 31, 1996 (filed herewith)

10.9 Resource Mortgage Capital, Inc. Bonus Plan (filed herewith)

21.1 List of subsidiaries and consolidated entities of the Company (filed herewith)

23.1 Consent of KPMG Peat Marwick LLP (filed herewith)

27.1 Financial Data Schedule (Incorporated herein by reference to the Company's Amendment No. 1 to the Registration Statement on Form S-3 (No. 333-10783) filed March 27, 1997.)

(b) Reports on Form 8-K:
Current Report on Form 8-K, filed on Ocober 15, 1996 regarding the issuance of Series C 9.73% Cumulative Convertible Preferred Stock.

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.

RESOURCE MORTGAGE CAPITAL, INC.
(Registrant)

March 21, 1997 /s/ Thomas H. Potts

Thomas H. Potts
President
(Principal Executive Officer)

March 21, 1997 /s/ Lynn K. Geurin

Lynn K. Geurin
Executive Vice President and Chief
Financial Officer
(Principal Accounting and Financial
Officer)

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ Thomas H. Potts Thomas H. Potts	Director	March 21, 1997
/s/ J. Sidney Davenport, IV J. Sidney Davenport, IV	Director	March 21, 1997
/s/ Richard C. Leone, Richard C. Leone	Director	March 21, 1997
/s/ Paul S. Reid Paul S. Reid	Director	March 21, 1997
/s/ Donald B. Vaden Donald B. Vaden	Director	March 21, 1997

<TABLE>
<CAPTION>

EXHIBIT INDEX

Exhibit		Seuentially Numbered Page
<S>	<C>	<C>
10.8	Employment Agreement: William J. Moore dated August 31, 1996.......	I
10.9	Resource Mortgage Capital, Inc. Bonus Plan........................	II
21.1	List of subsidiaries..	III
23.1	Consent of KPMG Peat Marwick LLP......................................	IV

</TABLE>

RESOURCE MORTGAGE CAPITAL, INC.

CONSOLIDATED FINANCIAL STATEMENTS AND

INDEPENDENT AUDITORS' REPORT

For Inclusion in Form 10-K

Annual Report Filed with

Securities and Exchange Commission

December 31, 1996

RESOURCE MORTGAGE CAPITAL, INC.
INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

<TABLE>
<CAPTION>

All other schedules are omitted because they are not applicable or not required.

</TABLE>

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Resource Mortgage Capital, Inc.:

We have audited the consolidated financial statements of Resource Mortgage Capital, Inc. and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Resource Mortgage Capital, Inc. and subsidiaries as of December 31, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole presents fairly, in all material respects, the information set forth therein.

KPMG PEAT MARWICK LLP

Richmond, Virginia
February 4, 1997

CONSOLIDATED BALANCE SHEETS
RESOURCE MORTGAGE CAPITAL, INC.

December 31, 1996 and 1995
(amounts in thousands except share data)
<TABLE>
<CAPTION>

ASSETS	1996	1995
<S>	<C>	<C>
Investments:		
Portfolio assets:		
Collateral for collateralized bonds	$2,702,294	$1,028,935
Mortgage securities	892,037	2,149,416
Other	96,236	27,585
Loans held for securitization	265,537	220,048
	3,956,104	3,425,984
Cash	11,396	22,229
Accrued interest receivable	8,078	14,851
Other assets	11,879	26,974
	$3,987,457	$3,490,038
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Collateralized bonds	$ 2,519,708	$ 949,139
Repurchase agreements	756,448	1,983,358
Notes payable	177,124	154,041
Accrued interest payable	2,717	5,278
Other liabilities	27,843	43,399
	3,483,840	3,135,215
SHAREHOLDERS' EQUITY		
Preferred stock, par value $.01 per share, 50,000,000 shares authorized:		
9.75% Cumulative Convertible Series A, 1,552,500 issued and outstanding, respectively	35,460	35,460
9.55% Cumulative Convertible Series B, 2,196,824 issued and outstanding, respectively	51,425	51,425
9.73% Cumulative Convertible Series C, 1,840,000 and none issued and outstanding, respectively	52,740	-
Common stock, par value $.01 per share, 50,000,000 shares authorized,20,653,593 and 20,198,654 issued and outstanding, respectively	207	202
Additional paid-in capital	291,637	281,508
Net unrealized gain (loss) on investments available-for-sale	64,402	(4,759)
Retained earnings (deficit)	7,746	(9,013)
	503,617	354,823
	$3,987,457	$3,490,038

<FN>
See notes to consolidated financial statements.
</FN>
</TABLE>

CONSOLIDATED STATEMENTS OF OPERATIONS
RESOURCE MORTGAGE CAPITAL, INC.
<TABLE>
<CAPTION>
Years ended December 31, 1996, 1995 and 1994 (amounts in thousands except share data)

<S>	<C> 1996	<C> 1995	<C> 1994
Interest income:			
Collateral for collateralized bonds	$148,675	$ 61,007	$ 33,719
Mortgage securities	129,253	161,889	157,701
Other portfolio assets	4,700	2,637	765
Loans held for securitization	29,439	28,349	35,121
	312,067	253,882	227,306
Interest and related expense:			
Collateralized bonds	117,070	50,984	32,840
Repurchase agreements	105,970	142,474	134,791
Notes payable	8,195	11,186	6,189
Other	2,819	3,931	6,998
Provision for losses	3,106	2,888	2,124
	237,160	211,463	182,942
Net interest margin	74,907	42,419	44,364
Gain on sale of single-family mortgage operations	17,285	-	-
Gain on sale of assets, net of associated costs	503	9,651	27,723
Other income	1,116	2,963	1,454
General and administrative expenses	(20,763)	(18,123)	(21,284)
Net income	$73,048	$36,910	$52,257
Net income	$73,048	$ 36,910	$ 52,257
Dividends on preferred stock	(10,009)	(2,746)	-
Net income available to common shareholders	$ 63,039	$ 34,164	$ 52,257
Per common share:			
Primary	$ 3.08	$ 1.70	$ 2.64
Fully diluted	$ 2.96	$ 1.70	$ 2.64

<FN>

See notes to consolidated financial statements.
</FN>
</TABLE>

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
RESOURCE MORTGAGE CAPITAL, INC.

Years ended December 31, 1996, 1995 and 1994 (amounts in thousands except share data)
<TABLE>
<CAPTION>

<S>	<C> Preferred Stock	<C> Common Stock	<C> Additional Paid-in Capital	<C> Net Unrealized Gain (Loss) on Investments Available-for-Sale	<C> Retained Earnings (Deficit)	<C> Total
Balance at December 31, 1993	$ -	$ 193	$259,622	$ -	$ (6,783)	$ 253,032
Issuance of common stock	-	8	19,674	-	-	19,682
Net income - 1994	-	-	-	-	52,257	

						52,257
Change in net unrealized loss on investments available-for-sale	-	-	-	(72,678)	-	(72,678)
Dividends on common stock at $2.76 per share	-	-	-	-	(54,822)	(54,822)
Balance at December 31, 1994	-	201	279,296	(72,678)	(9,348)	197,471
Issuance of common stock	-	1	2,212	-	-	2,213
Series A preferred stock issued, net of issuance costs	35,460	-	-	-	-	35,460
Series B preferred stock issued, net of issuance costs	51,425	-	-	-	-	51,425
Net income - 1995	-	-	-	-	36,910	36,910
Change in net unrealized loss, on investments available-for-sale	-	-	-	67,919	-	67,919
Dividends on common stock at $1.68 per share	-	-	-	-	(33,829)	(33,829)
Dividends on preferred stock	-	-	-	-	(2,746)	(2,746)
Balance at December 31, 1995	86,885	202	281,508	(4,759)	(9,013)	354,823
Issuance of common stock	-	5	10,129	-	-	10,134
Series C preferred stock issued, net of issuance costs	52,740	-	-	-	-	52,740
Net income - 1996	-	-	-	-	73,048	73,048
Change in net unrealized loss on investments available-for-sale	-	-	-	69,161	-	69,161
Dividends on common stock at $2.27 per share	-	-	-	-	(46,280)	(46,280)
Dividends on preferred stock	-	-	-	-	(10,009)	(10,009)
Balance at December 31, 1996	$ 139,625	$207	$ 291,637	$ 64,402	$ 7,746	$ 503,617

<FN>
See notes to consolidated financial statements.
</FN>
</TABLE>

CONSOLIDATED STATEMENTS OF CASH FLOWS
RESOURCE MORTGAGE CAPITAL, INC.

Years ended December 31, 1996, 1995 and 1994
(amounts in thousands)
<TABLE>
<CAPTION>

	1996	1995	1994
<S>	<C>	<C>	<C>
Operating activities:			
Net income	$ 73,048	$ 36,910	$ 52,257
Adjustments to reconcile net income to net cash provided by (used for) operating activities:			
Provision for losses	3,106	2,888	2,124
Net gain from sale of portfolio assets	(503)	(2,276)	(7,685)
Gain on sale of single-family operations	(17,285)	-	-
Amortization and depreciation	23,046	14,091	8,006
Net increase in accrued interest, other assets and other liabilities	(22,891)	(9,920)	(3,006)

Other	-	(2,639)	(2,092)
Net cash provided by operating activities	58,521	39,054	49,604
Investing activities:			
Collateral for collateralized bonds:			
Fundings of loans subsequently securitized	(1,571,955)	(708,954)	(77,917)
Principal payments on collateral	464,478	205,150	120,088
Net change in funds held by trustees	3,056	952	12,917
	(1,104,421)	(502,852)	55,088
Net (increase) decrease in loans held for securitization	(60,005)	307,019	275,700
Purchase of collateralized bonds, net	-	-	(1,890)
Purchase of other portfolio assets	(33,319)	(15,665)	(16,872)
Payments on other portfolio assets	12,117	4,939	13
Purchase of mortgage securities	(106,510)	(432,885)	(890,170)
Principal payments on mortgage securities	305,112	260,850	436,351
Proceeds from sales of mortgage securities	505,708	634,364	251,454
Proceeds from sale of single-family operations	20,413	-	-
Capital expenditures	(3,162)	(911)	(1,990)
Net cash (used for) provided by investing activities	(464,067)	254,859	107,684
Financing activities:			
Collateralized bonds:			
Proceeds from issuance of securities	2,060,402	678,121	68,972
Principal payments on securities	(448,238)	(174,150)	(131,452)
-			
	1,612,164	503,971	(62,480)
Repayments of borrowings, net	(1,228,604)	(847,624)	(48,283)
Proceeds from stock offerings, net	62,874	89,097	19,682
Dividends paid	(51,721)	(25,042)	(59,842)
Net cash provided by (used for) financing activities	394,713	(279,598)	(150,923)
Net (decrease) increase in cash	(10,833)	14,315	6,365
Cash at beginning of year	22,229	7,914	1,549
Cash at end of year	$ 11,396	$ 22,229	$ 7,914

<FN>
See notes to consolidated financial statements.
</FN>
</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
RESOURCE MORTGAGE CAPITAL, INC.

December 31, 1996, 1995 and 1994
(amounts in thousands except share data)

NOTE 1 - THE COMPANY
The Company is a mortgage and consumer finance company which uses its loan production operations to create investments for its portfolio. The Company originates or purchases mortgage loans and consumer installment loans throughout the United States. Currently, the Company's primary production operations include the origination of mortgage loans secured by multi-family properties and the origination of loans secured by manufactured homes. The Company will securitize the loans funded principally as collateral for collateralized bonds, limiting its credit risk and providing long-term financing for those loans securitized. The Company may also use other securitization vehicles for its loan production, such as pass-through securities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
Basis of Presentation
The consolidated financial statements include the accounts of Resource Mortgage Capital, Inc., its wholly owned subsidiaries (together, Resource Mortgage) and certain other affiliated entities (collectively, the Company). All significant intercompany balances and transactions have been eliminated in consolidation.

Certain amounts for 1995 and 1994 have been reclassified to conform to the presentation for 1996.

Federal Income Taxes

Resource Mortgage has elected to be taxed as a real estate investment trust (REIT) under the Internal Revenue Code. As a result, Resource Mortgage generally will not be subject to federal income taxation at the corporate level to the extent that it distributes at least 95 percent of its taxable income to its shareholders and complies with certain other requirements. No provision has been made for income taxes for Resource Mortgage and its qualified REIT subsidiaries in the accompanying consolidated financial statements, as Resource Mortgage believes it has met the prescribed distribution requirements.

Portfolio Assets

Collateral for Collateralized Bonds. Collateral for collateralized bonds consists of single-family and multi-family mortgage loans which have been pledged to secure collateralized bonds. Loans are carried at their outstanding principal balances, net of unamortized premiums and discounts.

Mortgage Securities. Mortgage securities consist of adjustable-rate mortgage securities (ARMs), fixed-rate mortgage securities, mortgage derivative securities and mortgage residual interests.

Other Portfolio Assets. Other portfolio assets consists of a note receivable at December 31, 1996 of $47,500 received in connection with the sale of the Company's single-family mortgage operations in May 1996 (see Note 11), financing lease receivables and single-family homes leased to home builders. Other portfolio assets are considered held to maturity and are therefore reported at their amortized cost basis.

Available-for-Sale Investments. Pursuant to the requirements of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, the Company has classified collateral for collateralized bonds and mortgage securities as available-for-sale. These portfolio assets are therefore reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity. The basis of any securities sold is computed using the specific identification method. Any of these investments may be sold prior to maturity to support the Company's investment strategies.

Loans Held for Securitization

Loans held for securitization at December 31, 1996 include mortgage loans secured by multi-family and single-family residential properties and installment loans secured by manufactured homes. These loans were originated through the Company's loan production operations and will generally be securitized as collateral for collateralized bonds. These loans are carried at their unpaid principal balance, net of any unamortized discount or premium and adjusted for deferred hedging gains or losses, if any.

Price Premiums and Discounts

Price premiums and discounts on mortgage securities, collateral for collateralized bonds and collateralized bonds are deferred as an adjustment to the basis of the related investment or obligation and are amortized into interest income or expense, respectively, over the life of the related investment or obligation using the effective yield method adjusted for the effects of prepayments.

Deferred Issuance Costs

Costs incurred in connection with the issuance of collateralized bonds are deferred and amortized over the estimated lives of the collateralized bonds using the interest method adjusted for the effects of prepayments. These costs are included in the carrying value of the collateral for collateralized bonds.

Hedging Instruments

The nature of the Company's investment and financing strategies expose the Company to interest rate risk. Interest rate cap agreements may be utilized to limit the Company's risks related to the financing of certain investments should short-term interest rates rise above specified levels. The amortization of the cost of such interest rate cap agreements will reduce net interest margin on the related investment over the lives of the interest rate cap agreements. The remaining unamortized cost is included with the related investment in the consolidated balance sheets. The Company may also enter into financial futures and options contracts and interest rate swaps to moderate the interest rate risks inherent in the financing of its mortgage securities. Revenues or costs associated with financial futures and options contracts are recognized in income or expense in a manner consistent with the accounting for the asset or liability being hedged. Revenues and costs associated with interest rate swaps are recorded as adjustments to interest expense on the financing obligation being hedged.

The Company may also enter into forward delivery contracts and into financial futures and options contracts for the purpose of reducing exposure to the effect of changes in interest rates on loans which the Company has funded or committed to fund. Gains and losses on such contracts are either (i) deferred until such time the related loans are sold, or (ii) deferred as an adjustment to the carrying value of the related loan and amortized into income over the life of the loan using the effective yield method adjusted for the effects of prepayments.

Cash

Approximately $6,600 and $5,400 of cash at December 31, 1996 and 1995, respectively, is restricted for the payment of premiums on various insurance policies related to certain mortgage securities, or is held in trust to cover losses not otherwise covered by insurance. Cash at December 31, 1995 also included approximately $15,300 of deposits in-transit from repurchase agreement counterparties or the trustee for certain mortgage securities pledged as collateral for repurchase agreements.

Net Income Per Common Share

Net income per common share as shown on the consolidated statements of operations for the years ended December 31, 1996, 1995 and 1994 is presented on both a primary net income per common share and fully diluted net income per common share basis. Fully diluted net income per common share assumes the conversion of the convertible Preferred Stock into common stock, using the if-converted method, and dilutive Stock Appreciation Rights, using the Treasury Stock method. The average number of shares is increased by the assumed conversion of convertible items, but only if these items are dilutive. For the year ended December 31, 1996 only, the Company's Preferred Stock and Stock Appreciation Rights were dilutive. The Preferred Stocks are convertible to shares of common stock on a one-for-one basis. The following table summarizes the average number of shares of common stock and equivalents used to compute primary and fully diluted net income per common share for the years ended December 31, 1996, 1995 and 1994:

<TABLE>
<CAPTION>

	Year ended December 31,		
<S>	<C> 1996	<C> 1995	<C> 1994
Primary	20,444,790	20,122,772	19,829,609
Fully-diluted	24,662,677	20,122,772	19,829,609

</TABLE>

Stock Appreciation Rights

In January 1996, the Company adopted Financial Accounting Standards Board Statement No. 123, Accounting for Stock-Based Compensation (FAS No. 123). FAS No. 123 establishes a fair value based method of accounting for stock-based compensation plans. FAS No. 123 permits entities to expense an estimated fair value of employee stock options or to continue to measure compensation cost for these plans using the intrinsic value accounting method contained in APB Opinion No. 25. As the Company issues only stock appreciation rights pursuant to various stock incentive plans which are currently paid in cash, the impact of adopting FAS No. 123 did not result in a material change to the Company's financial position or results of operations.

Use of Estimates

Fair Value. The Company uses estimates in establishing fair value for its investments available-for-sale. Estimates of fair value for most investments are based on market prices provided by certain dealers. Estimates of fair value for certain other investments are determined by calculating the present value of the projected net cash flows of the instruments using appropriate discount rates and credit loss assumptions. The discount rates used are based on management's estimates of market rates, and the net cash flows are projected utilizing the current interest rate environment and forecasted prepayment rates. Estimates of fair value for all remaining investments available-for-sale are based primarily on management's judgment. Since the fair value of the Company's investments available-for-sale are based on estimates, actual gains and losses recognized may differ from those estimates recorded in the consolidated financial statements. The fair value of all on- and off-balance sheet financial instruments is presented in Notes 3 and 9.

Allowance for Losses. As discussed in Note 4, the Company has retained credit risk on certain securitized loans. An allowance for losses has been estimated and established for the credit risk retained based on management's judgment. The allowance for losses is evaluated and adjusted periodically by management based on the actual and projected timing and amount of potential credit losses, as well as industry loss experience. Provisions made to increase the allowance related to the credit risk retained is presented as "Provision for Losses" in the accompanying financial statements. The Company's actual credit losses may differ from those estimates used to establish the allowance.

Other Mortgage Securities. Income on certain other mortgage securities is accrued using the effective yield method based upon estimates of future net cash flows to be received over the estimated remaining lives of the mortgage securities. Estimated effective yields are changed prospectively consistent with changes in current interest rates and current prepayment assumptions on the underlying mortgage collateral used by various dealers in mortgage-backed securities. Reductions in carrying value are made when the total projected cash flow is less than the Company's basis, based on either the dealers' prepayment assumptions or, if it would accelerate such adjustments, management's expectations of interest rates and future prepayment rates.

NOTE 3 - PORTFOLIO ASSETS

Collateral for Collateralized Bonds and Mortgage Securities

The following table summarizes the Company's amortized cost basis and fair value of portfolio assets classified as available-for-sale at December 31, 1996 and 1995, and the related average effective interest rates (calculated for the month ended December 31, 1996 and 1995, and excluding unrealized gains and losses):
<TABLE>
<CAPTION>

	1996		1995	
	Fair Value	Effective Interest Rate	Fair Value	Effective Interest Rate
<S>	<C>	<C>	<C>	<C>
Collateral for collateralized bonds:				
Amortized cost	$2,668,633	7.9%	$1,012,399	8.4%
Allowance for losses	(31,732)		(1,800)	
Amortized cost, net	2,636,901		1,010,599	
Gross unrealized gains	73,696		20,208	
Gross unrealized losses	(8,303)		(1,872)	
	$2,702,294		$1,028,935	
Mortgage Securities:				
Adjustable-rate mortgage securities	$ 780,259	6.9%	$2,087,435	6.8%
Fixed-rate mortgage securities	29,505	10.9%	35,074	7.9%
Other mortgage securities	88,198	16.4%	56,190	15.6%
	897,962		2,178,699	
Allowance for losses	(4,934)		(6,188)	
Amortized cost, net	893,028		2,172,511	
Gross unrealized gains	23,591		22,488	
Gross unrealized losses	(24,582)		(45,583)	
	$ 892,037		$2,149,416	

</TABLE>

Collateral for collateralized bonds. Collateral for collateralized bonds consists of adjustable-rate and fixed-rate mortgage loans secured by first liens on single-family and multi-family residential housing. All collateral for collateralized bonds is pledged to secure repayment of the related debt obligation. All principal and interest (less servicing related fees) on the collateral is remitted to a trustee and is available for payment on the bond obligation. The Company's exposure to loss on collateral for collateralized bonds is limited to its net investment, as collateralized bonds are non-recourse to the Company. The Company may also be exposed to losses from prepayments of the underlying loans to the extent of unamortized net premium on the loans or deferred costs related to the issuance of the collateralized bonds.

The components of collateral for collateralized bonds at December 31, 1996 and 1995 are as follows:

<TABLE>
<CAPTION>

	1996	1995

<S> <C> <C>

Mortgage collateral, net of allowance	$2,555,903	$974,380
Funds held by trustees	2,637	3,056
Accrued interest receivable	18,575	7,801
Unamortized premiums and discounts, net	55,833	22,107
Deferred issuance costs	3,953	3,255
Unrealized gain	65,393	18,336
	$ 2,702,294	$1,028,935

</TABLE>

Adjustable-Rate Mortgage Securities. ARMs consist of mortgage certificates secured by adjustable-rate mortgage loans.

Fixed-Rate Mortgage Securities. Fixed-rate mortgage securities consist of mortgage certificates secured by mortgage loans that have a fixed rate of interest for at least one year from the balance sheet date.

Other Mortgage Securities. Other mortgage securities include primarily mortgage derivative securities and mortgage residual interests. Mortgage derivative securities are classes of collateralized bonds, mortgage pass-through certificates, or mortgage certificates that pay to the holder substantially all interest (i.e., an interest-only security), or substantially all principal (i.e., a principal-only security). Mortgage residual interests represent the right to receive the excess of (i) the cash flow from the collateral pledged to secure related mortgage-backed securities, together with any reinvestment income thereon, over (ii) the amount required for principal and interest payments on the mortgage-backed securities or repurchase arrangements, together with any related administrative expenses.

Sale of Securities. Proceeds from sales of mortgage securities totaled $505,708 in 1996, compared to $634,364 in 1995. Gross gains of $4,489 in 1996 and $15,513 in 1995, and gross losses of $6,887 in 1996 and $13,237 in 1995, were realized on those sales. Gross realized losses in 1996 includes the reduction of the basis in certain other mortgage securities recorded as writedowns for permanent impairment as expectations of future prepayments rates would result in the Company receiving less cash than its current basis in those investments. The adjustment recorded by the Company was $1,460 and is included in the net gain on sale of assets in the accompanying financial statements. Gross realized gains for 1995 includes the recognition of the Company's basis in the repurchase obligation related to convertible adjustable-rate mortgage loans previously securitized or sold as a result of the transfer of this obligation to a third party.

NOTE 4 - ALLOWANCE FOR LOSSES ON PORTFOLIO ASSETS

The following table summarizes the activity for the allowance for losses on portfolio assets for the years ended December 31, 1996 and 1995:

<TABLE>
<CAPTION>

	1996		1995	
	Collateral for collateralized bonds	Mortgage Securities	Collateral for collateralized bonds	Mortgage Securities
<S>	<C>	<C>	<C>	<C>
Beginning balance	$ 1,800	$ 6,188	$ -	$ 8,703
Provision for losses	$ 2,300	700	1,800	1,088
Provision recorded due to sale of single-family operations (see Note 11)	$ 29,434	$1,600	-	-
Losses charged-off, net	(3,554)	(3,603)	-	(1,802)
	$31,732	$4,934	$ 1,800	$ 6,188

</TABLE>

The Company has limited exposure to credit risk retained on loans which it has securitized through the issuance of collateralized bonds. The aggregate loss exposure is generally limited to the Company's net investment in these collateralized bonds, excluding price premiums and discounts and hedge gains and losses. The Company only incurs credit losses to the extent that losses are incurred in the repossession, foreclosure and sale of the underlying collateral. Such losses generally equal the excess of the principal amount outstanding plus servicer advances, less any proceeds from mortgage or hazard insurance, over the liquidation value of the collateral. An allowance for losses, which is based on industry and Company experience, has been established for estimated potential losses over the expected life of these securities. The allowance for losses for collateralized bonds is included in collateral for collateralized bonds in the accompanying consolidated balance sheets.

On certain mortgage securities collateralized by mortgage loans purchased by the Company for which mortgage pool insurance is used as the primary source of credit enhancement, the Company has limited exposure to certain credit risks such as fraud in the origination and special hazard not covered by such insurance. An allowance was established based on the estimate of losses at the time of securitization. The Company has not significantly utilized pool insurance as a form of credit enhancement since 1993. Accordingly, the Company's exposure to such potential losses is declining as the remaining outstanding securities pay-down. The allowance for losses for mortgage securities is included in mortgage securities in the accompanying consolidated balance sheets.

The allowance for losses is evaluated and adjusted periodically by management based on the actual and estimated amount of potential credit losses, as well as industry and Company loss experience.

NOTE 5 - LOANS HELD FOR SECURITIZATION

The following table summarizes the Company's loans held for securitization at December 31, 1996 and 1995, respectively.
<TABLE>
<CAPTION>

	1996	1995
<S>	<C>	<C>
Secured by multi-family residential properties	$ 208,230	$ 7,786
Secured by manufactured homes	40,745	-
Secured by single-family residential properties	21,735	190,898
	270,710	198,684
Net premium (discount)	(5,173)	21,364
	$ 265,537	$ 220,048

</TABLE>

The Company originates fixed-rate loans secured by first mortgages or deeds of trust on multi-family residential properties. The Company also originates fixed-rate and adjustable-rate installment loans on manufactured homes which are secured by either a UCC filing or a title. Prior to the sale of its single-family operations (see Note 11), the Company purchased and originated fixed-rate and adjustable-rate loans secured by first mortgages or first deeds of trust on single-family attached or detached residential properties. Subsequent to the sale, the Company is prohibited through March 2001 from purchasing through correspondent relationships or originating through a wholesale network certain types of single-family mortgage loans.

Net premium (discount) on loans held for securitization includes premium paid and discount obtained on loans held for securitization. Additionally, the net premium (discount) is adjusted by the gains and losses generated from corresponding hedging transactions, primarily used to protect the pipeline of commitments to fund loans. The net premium (discount) is deferred as an adjustment to the carrying value of the loans until the loans are securitized or sold.

The Company funded mortgage loans with an aggregate principal balance of $744,001, $893,953 and $2,861,443 during 1996, 1995 and 1994, respectively. Additionally, the Company made bulk loan purchases totaling $731,460 and $22,433 in 1996 and 1995 respectively.

At December 31, 1996, a portion of the loans secured by single-family residential properties consists of loans delinquent in excess of 90 days and not covered by mortgage pool insurance. These loans were funded prior to the sale of the single-family mortgage operations, and were not subsequently securitized due to delinquency issues. The Company recorded a provision for losses of $2,636 at the time of the sale of the single-family mortgage operations in May 1996. During 1996, losses on loans totaling $520 were charged-off to the allowance, and the balance of the allowance at December 31, 1996 and 1995 was $2,290 and $174, respectively. The remaining balance of single-family residential loans includes loans repurchased from mortgage pass-through securities issued by the Company in prior years and which have mortgage pool insurance to cover losses.

NOTE 6 - COLLATERALIZED BONDS

The components of collateralized bonds along with certain other information at December 31, 1996 and 1995 are summarized below:

<TABLE>
<CAPTION>

	1996		1995	
	Bonds Outstanding	Range of Interest Rates	Bonds Outstanding	Range of Interest Rates
Variable-rate classes	$ 2,288,709	5.5% - 6.0%	$ 680,993	5.9% - 6.4%
Fixed-rate classes	220,185	6.5% - 11.5%	253,183	6.5% - 15.0%
Accrued interest payable	4,688		3,021	
Unamortized premium	6,126		11,942	
	$ 2,519,708		$ 949,139	
Range of stated maturities	1998-2030		1998 - 2027	
Number of series	31		37	

</TABLE>

Each series of collateralized bonds may consist of various classes of bonds, either at fixed or variable rates of interest. Payments received on the loans pledged as collateral for collateralized bonds and any reinvestment income thereon are used to make payments on the collateralized bonds (see Note 3). The obligations under the collateralized bonds are payable solely from the collateral for collateralized bonds and are otherwise non-recourse to the Company. The maturity of each class is directly affected by the rate of principal prepayments on the related mortgage collateral. Each series is also subject to redemption according to specific terms of the respective indentures. As a result, the actual maturity of any class of a collateralized bonds series is likely to occur earlier than its stated maturity.

Included in the collateralized bond balance are certain bonds which were not sold, but pledged as collateral for repurchase borrowings. The amount of those repurchase agreements included in collateralized bonds was $366,689 and $102,027 at December 31, 1996 and 1995, respectively. These amounts are recourse to the Company.

The variable rate classes are based on 1-month London InterBank Offered Rate (LIBOR). The average effective rate of interest expense for collateralized bonds was 6.5%, 7.2% and 8.3% for the years ended December 31, 1996, 1995 and 1994, respectively.

NOTE 7 - REPURCHASE AGREEMENTS

The Company utilizes repurchase agreements to finance certain of its investments. These repurchase agreements are generally recourse to the Company. These repurchase agreements bear interest at rates indexed to LIBOR and may be secured by adjustable-rate mortgage securities, fixed-rate mortgage securities, loans held for securitization and certain other mortgage securities. At December 31, 1996, substantially all repurchase agreements had maturities within thirty days. If the counterparty to the repurchase agreement fails to return the collateral, the ultimate realization of the security by the Company may be delayed or limited.

The excess market value of the mortgage assets securing the Company's repurchase obligations at December 31, 1996 did not exceed 10% of shareholders' equity for any of the individual counterparties with whom the Company had contracted these agreements.

The following table summarizes the Company's repurchase agreements outstanding and the weighted average annual rate for these agreements at December 31, 1996 and 1995:

<TABLE>
<CAPTION>

	Amount Outstanding	Weighted Average Annual Rate	Market Value of Collateral
December 31, 1996:			
Repurchase agreements secured by:			
Adjustable-rate mortgage	$ 717,232	5.82%	$ 757,389

securities			
Fixed-rate mortgage securities	26,297	5.81%	28,502
Other mortgage securities	12,919	5.96%	20,134
	$ 756,448		$ 806,025
December 31, 1995:			
Repurchase agreements secured by:			
Adjustable-rate mortgage securities	$1,951,492	5.80%	$2,040,425
Fixed-rate mortgage securities	24,165	6.03%	34,582
Other mortgage securities	7,701	6.12%	32,202
	$1,983,358		$2,107,209

</TABLE>

NOTE 8 - NOTES PAYABLE

The following table summarizes amounts outstanding under the below referenced notes payable facilities and the weighted average annual rate of these facilities at December 31, 1996 and 1995:

<TABLE>
<CAPTION>

	Amount Outstanding	Weighted Average Annual Rate	Carrying Value of Collateral
<S>	<C>	<C>	<C>
December 31, 1996:			
Secured:			
Loans held for securitization	$119,500	6.98%	$ 235,845
Other portfolio assets	11,583	7.87%	33,319
Unsecured:			
Series A 9.56% senior notes	9,000	9.56%	-
Series B 10.03% senior notes	35,000	10.03%	-
Acquisition notes due 1997-1999	841	8.00%	-
Acquisition notes due 1999-2001	1,200	8.73%	-
	$177,124		$269,146
December 31, 1995:			
Secured:			
Loans held for securitization	$105,681	5.68%	$ 153,298
Unsecured:			
Series A 9.56% senior notes	12,000	9.56%	-
Series B 10.03% senior notes	35,000	10.03%	-
Acquisition notes due 1997-1999	1,360	8.00%	-
	$154,041		$153,298

</TABLE>

Secured. At December 31, 1996, the Company had three credit facilities aggregating $500,000 to finance the funding of loans, of which $350,000 expires in 1997 and $150,000 expires in 1998. The interest rates on these facilities range from 1-month LIBOR plus 1% to 1-month LIBOR plus 1.375%. The contractual rates paid on these facilities may be reduced by credits for compensating cash balances. One of these facilities includes a sub-agreement which allows the Company to borrow up to $30,000 unsecured for working capital purposes. The Company expects that these credit facilities will be renewed, if necessary, at their respective expiration dates, although there can be no assurance of such renewal.

Unsecured. The Company's Series A 9.56% senior notes are payable in annual installments through 1999. The Company's Series B 10.03% senior notes are payable in annual installments through 2001. The Company also issued various unsecured notes payable in conjunction with the acquisition of a multi-family mortgage broker (see Note 10) and the acquisition of a single-family mortgage servicer which was sold in 1996 along with the single-family mortgage operations (see Note 11). The aggregate principal payments due under the unsecured notes for the next five years after December 31, 1996 are $3,406, $12,156, $12,695, $8,894 and $8,894.

NOTE 9 - ADDITIONAL INFORMATION ABOUT FINANCIAL INSTRUMENTS

The following table presents the carrying values and estimated fair values of the Company's recorded financial instruments, as well as information about certain specific off-balance sheet financial instruments as of December 31, 1996 and 1995:

<TABLE>
<CAPTION>

	1996			1995		
	Notional Amount	Cost Basis	Fair Value	Notional Amount	Cost Basis	Fair Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Recorded financial instruments:						
Assets:						
Collateral for collateralized bonds	$ -	$2,628,288	$2,699,687	$ --	$1,010,599	$1,028,935
Mortgage securities	-	882,615	889,542	--	2,148,759	2,145,670
Interest rate cap agreements	1,499,000	19,025	5,102	1,575,000	23,752	3,746
Loans held for securitization	-	265,537	277,710	--	220,048	223,451
Other portfolio assets	-	96,236	98,378	--	27,585	27,585
Cash	-	11,396	11,396	--	22,229	22,229
Liabilities:						
Collateralized bonds	-	2,519,708	2,519,708	--	949,139	949,139
Repurchase agreements	-	756,448	756,448	--	1,983,358	1,983,358
Notes payable	-	177,124	177,124	--	154,041	154,041
Off-balance sheet financial instruments:						
Financial futures contracts:						
Repurchase agreements	-	-	-	1,000,000	--	(107)
Loans held for securitization	78,170	-	515	274,700	--	(628)
Options on futures contracts:						
Repurchase agreements	-	-	-	2,130,000	--	46
Loans held for securitization	100,000	-	(55)	30,000	--	(2)
Interest rate swap agreements:						
Mortgage securities	1,020,000	-	(1,177)	1,020,000	--	4,882
Collateralized bonds	432,801	-	334	207,094	--	(3,898)
Forward delivery contracts:						
Loans held for securitization	76,280	-	293	-	--	--
Commitments to fund loans	536,931	-	554,582	954,900	--	985,200

</TABLE>

The estimated fair values of financial instruments have been determined using available market information and appropriate valuation methodologies. However, a degree of judgment is necessary in evaluating market data and forming these estimates.

Recorded Financial Instruments. The carrying amount of cash and liabilities considered to be financial instruments approximates fair value at December 31, 1996 and 1995. As discussed in Note 2, the fair value of mortgage securities is based on actual dealer price quotes, or by determining the present value of the projected net cash flows using appropriate discount rates and prepayment assumptions.

The Company has purchased over the past four years LIBOR and One-year Constant Maturity Treasury Index (CMT) based interest rate cap agreements to limit its exposure to the lifetime interest rate caps on certain of its adjustable-rate mortgage securities and collateral for collateralized bonds. Under these agreements, the Company will receive additional cash flow should the related index increase above the contracted rates. Contract rates on these cap agreements range from 8.0% to 11.5%, with expiration dates ranging from 1999 to 2004.

Off-Balance Sheet Financial Instruments. The Company may engage in derivative financial instrument activities for the purpose of interest rate risk management. As of December 31, 1996, all of the Company's derivative financial instruments were for purposes other than trading. The Company has credit risk to the extent that the counterparties to the derivative financial instruments do not perform their obligation under the agreements. If one of the counterparties does not perform, the Company would not receive the cash to which it would otherwise be entitled under the conditions of the agreement.

The Company may utilize Eurodollar financial futures and options contracts to moderate the risks inherent in the financing of its mortgage securities with floating rate repurchase agreements. The Company utilizes these instruments to synthetically lengthen the terms of the repurchase agreement financing, generally from one month to three and six months. Under these contracts, the Company will receive additional cash flow if the related Eurodollar index increases above the contracted rates. The Company will pay additional cash flow if the related Eurodollar index decreases below the contracted rates. As of December 31, 1996, the Company had no such financial futures or option contracts. As of December 31, 1995, the Company had contracts with a notional value of $3,130,000 with contract rates ranging from 5.0% to 5.4%.

The Company may enter into various interest rate swap agreements to limit its exposure to changes in financing rates of certain mortgage securities. The Company has entered into a series of interest rate swap agreements which effectively caps the increase in borrowing costs in any six-month period to 1% for $1,020,000 notional amount of short-term borrowings. Pursuant to the terms of this agreement, the Company pays the lesser of current 6-month LIBOR, or 6-month LIBOR in effect 180-days prior plus 1%, and receives current 6-month LIBOR. These agreements expire in 2001. The Company has also entered into a 5-year amortizing interest rate swap agreement related to variable-rate collateralized bond classes with a remaining notional of $178,045. Under the terms of this agreement, the Company receives 1-month LIBOR and pays 6.15%. This agreement expires in 2000. The Company entered into a 7-year amortizing interest rate swap agreement with remaining notional of $254,756 related to prime-based loans financed with LIBOR-based variable-rate collateralized bonds. Under the terms of the agreement, the Company receives 1-month LIBOR plus 2.65% and pays 1-month average prime in effect 3 months prior.

Forward delivery contracts and financial futures and options contracts are used to reduce exposure to the effect of changes in interest rates on funded mortgage loans, as well as those mortgage loans which the Company has committed to fund. As of December 31, 1996, the Company had entered into commitments to fund multi-family mortgage loans of $521,684 and manufactured housing loans of $15,247. The multi-family commitments had original terms of not more than 27 months. The manufactured housing commitments generally had original terms of not more than 60 days. The Company has deferred net hedging gains of $2,022 at December 31, 1996 and deferred net hedging losses of $16,647 at December 31, 1995 related to these positions.

NOTE 10 - ACQUISITION

On August 30, 1996, the Company acquired Multi-Family Capital Markets, Inc. (MCM), which specializes in the sourcing, underwriting and closing of multi-family loans secured by first liens on apartment properties that have qualified for low income housing tax credits. The Company acquired all of the outstanding stock and assets of MCM for $4,000. Of this amount, $2,800 was paid in cash with the remaining $1,200 paid through the issuance of notes to the sellers, due in installments through September 1, 1999 and September 1, 2001. The acquisition was accounted for as a purchase, and accordingly, the purchase price was allocated to the assets and liabilities acquired based on their estimated fair values as of the date of acquisition. MCM's results of operations are not material to the Company's consolidated financial statements and proforma financial information has therefore not been presented.

NOTE 11 - SALE OF SINGLE-FAMILY MORTGAGE OPERATIONS

On May 13, 1996, the Company sold its single-family correspondent, wholesale and servicing operations (collectively, the single-family mortgage operations) to Dominion Mortgage Services, Inc. (Dominion), a wholly-owned subsidiary of Dominion Resources, Inc. (NYSE: D). The purchase price was $67,958 for the stock and assets of the single-family mortgage operations. The terms of the purchase included an initial cash payment of $20,458, with the remainder of the purchase price paid in five annual installments of $9,500 beginning January 2, 1997, pursuant to a note agreement. The note bears interest at a rate of 6.50%. The terms of the sale generally prohibit the Company from acquiring single-family, non-conforming residential mortgages through either correspondent relationships or a wholesale network for a period of five years. As a result of the sale, the Company recorded a net gain of $17,285. Such amount includes a provision of approximately $31,000 for possible losses on securitized single-family loans where the Company, which performed the servicing of such loans prior to the sale, has retained a portion of the credit risk on these loans.

NOTE 12 - PREFERRED STOCK

The following table presents a summary of the Company's issued and outstanding preferred stock:
<TABLE>
<CAPTION>
- -- -------------- -----------------------

	Liquidation Preference Per Share	Dividends Per Share 1996	1995
<S>	<C>	<C>	<C>
Series A 9.75% Cumulative Convertible Preferred Stock	$24.00	$2.375	$1.170
Series B 9.55% Cumulative Convertible Preferred Stock	24.50	2.375	0.423
Series C 9.73% Cumulative Convertible Preferred Stock	30.00	0.600	-

</TABLE>

The Company is authorized to issue up to 50,000,000 shares of preferred stock. For all series issued, dividends are cumulative from the date of issue and are payable quarterly in arrears. The dividends are equal, per share, to the greater of (i) the per quarter base rate of $0.585 for Series A and Series B, and $0.73 for Series C , or (ii) the quarterly dividend declared on the Company's common stock. Each share of Series A, Series B and Series C is convertible at any time at the option of the holder into one share of common stock. Each series is redeemable by the Company, in whole or in part, (i) for one share of common stock, plus accrued and unpaid dividends, provided that for 20 trading days within any period of 30 consecutive trading days, the closing price of the common stock equals or exceeds the issue price, or (ii) for cash at the issue price, plus any accrued and unpaid dividends beginning after June 30 and October 31, 1998 for Series A and B, respectively and September 30, 1999 for Series C. Series C was issued in October 1996 with proceeds of $52,740 net of issuance costs.

In the event of liquidation, the holders of all series of preferred stock will be entitled to receive out of the assets of the Company, prior to any such distribution to the common shareholders, the issue price per share in cash, plus any accrued and unpaid dividends.

NOTE 13 - STOCK INCENTIVE PLAN

Pursuant to the Company's 1993 Stock Incentive Plan (the Employee Incentive Plan), the Compensation Committee of the Board of Directors may grant to eligible employees of the Company, its subsidiaries and affiliates for a period of ten years beginning June 17, 1993, stock options, stock appreciation rights (SARs) and restricted stock awards. An aggregate of 675,000 shares of common stock are available for distribution pursuant to stock options, SARs and restricted stock. The shares of common stock subject to any option or SAR that terminates without a payment being made in the form of common stock would become available for distribution pursuant to the Employee Incentive Plan. The Compensation Committee of the Board of Directors may also grant dividend equivalent rights (DERs) in connection with the grant of options or SARs. These SARs and related DERs generally become exercisable as to 20 percent of the granted amounts each year after the date of the grant.

The following table presents a summary of the SARs outstanding at December 31, 1996 and 1995:

<TABLE>
<CAPTION>

	SARs	Exercise Price
<S>	<C>	<C>
December 31, 1994	211,960	$ 8 3/4 - 29
Granted	122,585	16 1/8
Forfeitures	(24,973)	17 7/8 - 29
SARs exercised	(3,062)	17 7/8 - 29
December 31, 1995	306,510	$ 8 3/4 - 29
Granted	72,065	20 3/4-23 5/8
Forfeitures	(11,517)	16 1/8 - 20 3/4
SARs exercised	(16,114)	8 3/4 - 17 7/8
Terminated at sale of single-family mortgage operations	(67,035)	8 3/4 - 29
December 31, 1996	283,909	$ 12 3/4 - 29

</TABLE>

The Company expensed $1,664, none and $8 for SARs and DERs during 1996, 1995 and 1994, respectively. There were no stock options outstanding as of December 31, 1996 and 1995. The number of SARs vested and exercisable at December 31, 1996 and 1995 was 106,807 and 94,000, respectively.

In 1995, the Company adopted a Stock Incentive Plan for its Board of Directors (the Board Incentive Plan) with terms similar to the Employee Incentive Plan. On May 1, 1995, the date of the initial date of grant under the Board Incentive Plan, each member of the Board of Directors was granted 7,000 SARs. Each Board member subsequently received a grant of 1,000 SARs on May 1, 1996 and will receive an additional grant of 1,000 SARs on May 1, 1997 and 1998, respectively.

The SARs granted on May 1, 1995 will become exercisable as to 33 1/3% of the granted amount each of the next three years. Each successive award will become exercisable as to 20% of the granted amounts each year after the date of grant. The maximum period in which any SAR may be exercised is 73 months from the date of grant. The maximum number of shares of common stock encompassed by the SARs granted under the Board Incentive Plan is 100,000. The Company expensed $163 for SARs and DERs related to the Board Incentive Plan during 1996. There was no such expense recorded for 1995. The number of SARs vested and exercisable at December 31, 1996 was 9,324. There were no SARs vested and exercisable at December 31, 1995.

NOTE 14 - EMPLOYEE SAVINGS PLAN

The Company provides an employee savings plan under Section 401(k) of the Internal Revenue Code. The employee savings plan allows eligible employees to defer up to 12% of their income on a pretax basis. The Company matched the employees' contribution, up to 6% of the employees' income. The Company may also make discretionary contributions based on the profitability of the Company. The total expense related to the Company's matching and discretionary contributions in 1996, 1995 and 1994 was $248, $136 and $331, respectively. The Company does not provide post employment or post retirement benefits to its employees.

NOTE 15 - CONTINGENCIES

The Company makes various representations and warranties relating to the sale or securitization of mortgage loans. To the extent the Company were to breach any of these representations or warranties, and such breach could not be cured within the allowable time period, the Company would be required to repurchase such mortgage loans, and could incur losses. In the opinion of management, no material losses are expected to result from any such representations and warranties.

In connection with the sale of its single-family mortgage operations, the Company has indemnified the purchaser for a period of up to five years for various representations and warranties made as part of the sale. One of the companies included in the sale has been named in a lawsuit seeking class action status regarding violations of the Real Estate Settlement and Procedures Act (RESPA). The lawsuit alleges that this entity violated RESPA by payment of premiums to wholesale brokers for sourcing single-family mortgage loans with above market rates. The plaintiffs seek compensatory and punitive damages. Pursuant to the terms of the sale, the Company has indemnified the purchaser against any such violations of RESPA on loans funded through May 13, 1996. While the ultimate outcome of this action cannot be presently determined, management believes that the ultimate settlement of the case will not have a material adverse impact on the Company's financial condition. Additionally, the Company believes that any other matters arising as a result of the indemnifications made at the time of the sale will not have a material adverse effect on the Company's financial condition.

As of December 31, 1996, the Company is obligated under noncancelable leases with expiration dates through 2003. The future minimum lease payments under these noncancelable leases are as follows: 1997--$721; 1998--$825; 1999--$787; 2000--$582; 2001--$600; and thereafter--$1,254.

NOTE 16 - SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS INFORMATION
<TABLE>
<CAPTION>

	Year Ended December 31,		
<S>	<C> 1996	<C> 1995	<C> 1994
Supplemental disclosure of cash flow information:			
Cash paid for interest	$228,969	$210,638	$177,943
Supplemental disclosure of non-cash activities:			
Purchase of collateral for collateralized bonds	$ --	$ --	$ (54,204)
Assumption of collateral for collateralized bonds	--	--	52,314
Purchase of collateral for collateralized bonds, net	$ --	$ --	$ (1,890)

</TABLE>

RESOURCE MORTGAGE CAPITAL, INC.

SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE

December 31, 1996 (amounts in thousands except number of loans)
<TABLE>

<CAPTION>

Description	Interest Rate	Final Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgages	Carrying Amount of Mortgage Loans	Principal Amount of Loans Subject to Delinquent Principal Interest
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
First mortgage loans:							
Single-family residential							
174 mortgages, original loan amounts ranging from $23 to $ 1,161	7.85% - 14.75%	Varies	-	-	-	$ 37,285	$ 21,817
Multi-family residential							
Siegen Village, Baton Rouge, Louisiana	7.95%	May 1, 2014	Interest and principal monthly	-	$11,000	$10,947	-
Valley Brook, Nashville, Tennessee	7.95%	July 1, 2014	Interest and principal monthly	-	10,343	10,153	-
Elliot Point, Tempe, Arizona	7.85%	January 1, 2015	Interest and principal monthly	-	8,460	8,460	-
Columbia Harbison Station, Columbia, South Carolina	9.25%	October 14, 2014	Interest and principal monthly	-	7,600	7,592	-
66 mortgages, original loan amounts ranging from $70 to $6,400	7.85% - 10.00%	Varies	-	-	-	171,078	-
						245,515	
Net premium/discount						(4,797)	
Allowance for loan losses						(2,290)	
Total mortgage loans on real estate						$ 238,428	

</TABLE>

RESOURCE MORTGAGE CAPITAL, INC.
SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE (CONTINUED)

The loans in the table above are conventional mortgage loans secured by either single-family or multi-family dwellings with initial maturities ranging from 15 to 30 years. Of the carrying amount, $208 million or 85% are fixed-rate and $37 million or 15% are adjustable-rate loans. The Company believes that its mortgage pool insurance and allowance of $2,290 are adequate to cover any exposure on delinquent mortgage loans. A summary of activity of the single- and multi-family mortgage loans for the years ended December 31, 1996, 1995 and 1994 is as follows:

<TABLE>
<CAPTION>

<S>	<C>
Balance at December 31, 1993	$ 777,769
Mortgage loans funded	2,861,443
Collection of principal	(20,486)

Mortgage loans sold	(3,100,59)
Balance at December 31, 1994	518,131
Mortgage loans funded	893,953
Collection of principal	(771,743)
Mortgage loans sold or securitized	(392,708)
Balance at December 31,1995	$ 247,633
Mortgage loans funded or purchased	1,411,161
Collection of principal	(58,397)
Mortgage loans securitized	(1,361,96)
Balance at December 31, 1996	$ 238,428

</TABLE>

RESOURCE MORTGAGE CAPITAL, INC.
SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE (CONTINUED)

The geographic distribution of the Company's single- and multi-family real estate loans at December 31, 1996 is as follows:

<TABLE>
<CAPTION>

State	Number of Loans	Principal Amount
<S>	<C>	<C>
Arizona	10	16,401
Arkansas	10	23,302
California	148	27,849
Colorado	1	3,745
Florida	21	19,175
Georgia	5	1,680
Hawaii	1	379
Illinois	5	795
Kentucky	3	11,867
Louisiana	3	18,080
Massachusetts	1	118
Maryland	13	1,984
Minnesota	4	8,928
Mississippi	1	6,396
Nevada	11	1,118
New Jersey	2	531
New York	2	339
North Carolina	3	4,957
Ohio	3	11,385
Pennsylvania	7	7,736
South Carolina	3	12,194
Tennessee	5	31,686
Texas	11	17,734
Utah	2	4,199
Virginia	2	5,584
Washington	1	3,245
Wisconsin	3	4,108
Total	281	245,515
Net premium/discount		(4,797)
Allowance for loan losses		(2,290)
		$ 238,428

</TABLE>

Exhibit 10.8

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, dated as of August 31, 1996, is between Dynex Capital, Inc. a Virginia corporation (the "Company"), and William J. Moore (the "Executive"). In consideration of the mutual covenants and representations herein contained and the mutual benefits derived herefrom, the parties, intending to be legally bound, covenant and agree as follows:

1. Purpose. The Company, directly and indirectly through its subsidiaries and affiliates, is principally engaged in the sourcing, underwriting, processing, origination, purchase and securitization of mortgage loans secured by commercial (i.e., income producing) real estate (collectively, the "Business"). The Company wishes to employ the Executive, and the Executive has agreed to be employed by the Company, on the terms and conditions herein provided.

2. Full-Time Employment of Executive - Duties and Status.

(a) The Company hereby engages the Executive as a full-time executive employee for the period commencing as of the date hereof and expiring on August 31, 2001 (the "Employment Period") and the Executive accepts such employment, on the terms and conditions set forth in this Agreement. During the term of Executive's employment under this Agreement, Executive shall serve as President of the Company and as Chairman of the Board of Multi-Family Capital Markets, Inc. ("MCM"), a subsidiary of the Company. Throughout the Employment Period, the Executive shall faithfully exercise such authority and perform such executive duties as are assigned to him from time to time by the Board of Directors of the Company. The Executive shall perform such duties primarily in Richmond, Virginia but also in such locations as are directed by the Board of Directors of the Company.

(b) Throughout the Employment Period, the Executive shall devote his full time and efforts to the business of the Company, its subsidiaries and affiliates and will not engage in consulting work or any trade or business for his own account or for or on behalf of any other person, firm or corporation which competes, conflicts or interferes with the performance of his duties hereunder in any way.

(c) The Executive shall be entitled to such vacation, leave of absence, and leave for illness or temporary disability policies as are in effect as policies of the Company.

3. Compensation and General Benefits. As full compensation for his services to the Company, the Executive shall, during the Employment Period, be compensated as follows:

(a) Salary. The Company shall pay to the Executive a salary (the "Salary") at an annual rate of One Hundred Fifty Thousand Dollars ($150,000). The Salary shall be payable in periodic equal installments not less frequently than monthly, less such sums as may be required to be deducted or withheld under applicable provisions of federal, state and local law and such amounts as may be owed to the Company or its subsidiaries pursuant to Section 3(e) below or such other amounts as may be mutually agreed upon by the Executive and the Company.

(b) Bonus. During the term of this Agreement, Executive shall be entitled to earn annual cash bonuses of up to 75% of the Executive's Salary upon achievement of performance goals established by the Chairman of the Board of the Company for its senior officers. Such goals shall be specific to the Executive's responsibilities, except that between 25% and 50% of the Executive's bonus may be based upon the earnings per share performance of Resource Mortgage Capital, Inc. ("Resource"), an affiliate of the Company. The Chairman of the Board may establish such goals in its sole discretion and shall have full discretion in the determination as to whether any such goals have been met.

Notwithstanding the foregoing, Executive shall be entitled to be paid a cash bonus of at least (i) $33,333.33 for the period commencing on the date of this Agreement through December 31, 1996 and (ii) $100,000 for twelve (12) months ending December 31, 1997. Such bonuses will be paid within 45 days after the end of the period to which it relates.

(c) Resource Stock Incentive Plan. During the term of this Agreement, the Executive shall be entitled to participate in the Resource Mortgage Capital, Inc. 1992 Stock Incentive Plan according to its terms as the same may be amended by Resource from time to time and the Compensation Committee of the Board of Directors of Resource shall grant awards thereunder to the Executive as are granted from time to time to other comparable executives of Resource generally on the same terms as such other executives.

(d) Expenses. The Company shall reimburse the Executive from time to time for all reasonable and customary business expenses incurred by him in the performance of his duties hereunder, provided that the Executive has had such expenses pre-approved and shall submit vouchers and other supporting data to substantiate the amount of said expenses in accordance with Company policy from time to time in effect.

4. Non-Competition; Confidential Information; Public Statements.

(a) Non-Competition. The Executive and the Company recognize that due to the Executive's engagement hereunder and the relationship of the Executive to the Company, the Executive will have access to and will acquire, and may assist in developing, confidential and proprietary information relating to the assets, business and operations of the Company and its affiliates, including, without limiting the generality of the foregoing, information with respect to the Company's and its affiliates' present and prospective technologies, systems, customers, accounts, deposits, loans and sales and marketing methods. The Executive acknowledges that such information has been and will continue to be of central importance to the business of the Company and its affiliates and that disclosure of it to, or its use by, others could cause substantial loss to the Company. The Executive and the Company also recognize that an important part of the Executive's duties may be to develop goodwill for the Company and its affiliates through his personal contact with customers, agents and others having business relationships with the Company and its affiliates, and that there is a danger that this goodwill, a proprietary asset of the Company and its affiliates, may follow the Executive if and when his relationship with the Company is terminated. The Executive accordingly agrees that unless the Executive's employment is terminated without cause as hereinafter defined, at all times during the Employment Period and, in the case of actions specified in (ii), (iii), (iv) and (vi) below, for a period of two years after the termination of the Executive's employment, the Executive shall not, in any capacity whatsoever, whether directly or indirectly, through any entity, family member or otherwise, on his own behalf, or on behalf of any other person, firm, partnership, corporation, limited liability company, association or other entity (collectively, "Person"):

(i) own, manage, invest, participate or engage in any activity which comprises or is similar to the Business anywhere in the United States;

(ii) suggest to, induce or persuade any vendor or customer of the Company or its affiliates to discontinue doing business, with, or to change the terms or conditions of such relationship with the Company or its affiliates, or otherwise disparage, disrupt or disturb the relationship of the Company or its affiliates with such vendor or customer;

(iii) suggest to, induce or persuade any vendor or customer of the Company or its affiliates to do business with any other Person which conducts a business competitive with the Business;

(iv) suggest to, induce, solicit or persuade any employee or consultant of the Company or its affiliates, with the exception of the blood relatives of the Executive, to leave the employ or engagement of the Company or its affiliates;

(v) participate in planning for and will not accept any employment in or associate with any Person whose business competes with the Business of the Company or its affiliates; and

(vi) without limiting the term of his general obligation to honor the Confidential Information so long as it remains protectable, the Executive specifically agrees that he will not plan for, accept employment from any Person, nor directly or indirectly engage in, any business wherein the loyal and diligent performance of the duties and responsibilities of such new employment or business will inherently call upon him to use, to disclose or to base judgments upon Confidential Information of the Company or its affiliates or to utilize the goodwill of the Company in making sales for a competitor of the Company or its affiliates.

The foregoing restrictive period is based upon the Executive's and the Company's good faith belief that:

(A) the Company's investment of time and money in training and educating the Executive, and the nature of the Company's and its affiliates' business (which is maintained and increased through the personal contact of employees such as the Executive with customers and vendors and potential customers and vendors of the Company and its affiliates) has and will continue to render the Executive a unique asset to the Company;

(B) the Company and its affiliates would be placed at a competitive disadvantage for such period, due to the Executive's knowledge of Confidential Information (as defined below) and other matters arising out of his employment with the Company; and

(C) the time required to rebuild the contacts and patronage that the Executive will develop for the Company and its affiliates and to provide the necessary training, exposure and education to his replacement would, for such a period, place the Company and its affiliates at a competitive disadvantage.

(b) Confidential Information.

(i) At all times during the Employment Period and at all times following termination thereof, the Executive shall keep confidential and not disclose, directly or indirectly, and shall not use for the benefit of himself or any other individual, corporation, partnership, or other entity except in connection with and furtherance of the business and the affairs of the Company, any Confidential Information (as defined below) relating to any aspect of the business of the Company which is not known or which may become known to him, unless and until it has become public knowledge or has come into the possession of others by legal and equitable means. For purposes of this Agreement, "Confidential Information" means any common law trade secret or other item constituting "Trade Secrets" under the Virginia Uniform Trade Secrets Act, Section 59.1-336, Developed Information (as defined below) or other information, whether in written, oral or other form, that is unique, confidential or proprietary to the Company or its affiliates.

(ii) For purposes of this Agreement, "Developed Information" shall mean all Trade Secrets and unique, confidential and proprietary information conceived, developed, designed, devised or otherwise created, modified or improved by the Executive or in whole or in part, in connection with the performance of his services for the Company hereunder during the Employment Period or resulting from the Executive's use of or access to the Company's facilities or resources, including its Confidential Information. The "Developed Information" shall be deemed to comprise a portion of the Confidential Information.

(iii) The Executive acknowledges that all Confidential Information is the property of the Company or its affiliates, and upon expiration of the Employment Period or earlier termination of this Agreement or earlier at the request of the Company, the Executive shall deliver to the Company all records, notes, reference items, memoranda, records, and other documents or materials, and all copies thereof (including but not limited to such items stored by computer memory or other media) which constitute or incorporate the Confidential Information which are in the Executive's possession or under his control.

(c) Ownership of Developed Information. The Executive covenants and agrees that all right, title and interest in any Developed Information shall be and remain the exclusive property of the Company. The Executive agrees to immediately disclose to the Company all Developed Information, and to assign to the Company any right, title and interest which he may have in the Developed Information. The Executive agrees to execute any instruments and to do all things reasonably requested by the Company, both during and after the Employment Period, to vest the Company with all ownership rights in the Developed Information. If any Developed Information can be protected by copyrights (i) as to that Developed Information which falls within the definition of "work made for hire," as defined in 17 U.S.C. Section 101, the copyright to such Developed Information shall be owned solely, completely and exclusively by the Company, and (ii) as to that Developed Information which does not constitute "work made for hire," the copyright to such Developed Information shall be deemed to be assigned and transferred completely and exclusively by the Executive to the Company.

(d) Acknowledgment. The Executive acknowledges that he has carefully read and reviewed the restrictions set forth in Sections 4(a) and (b) hereof, and having done so he agrees that those restrictions, including but not limited to the time period and geographical areas of restriction, are fair and reasonable and are reasonably required for the protection of the legitimate business interests of the Company and its affiliates.

(e) Invalidity, Etc.. If any covenant, provision, or agreement contained in any part of Sections 4(a) or (b) hereof is found by a court having jurisdiction to be unreasonable in duration, geographic scope or character of restrictions, the covenant, provision or agreement shall not be rendered unenforceable thereby, but rather the duration, geographical scope or character of restrictions of such covenant, provision or agreement shall be deemed reduced or modified with retroactive effect to render such covenant or agreement reasonable and such covenant or agreement shall be enforced as modified. If the court having jurisdiction will not review the covenant, provision or agreement, the parties shall mutually agree to a revision having an effect as close as permitted by law to the provision declared unenforceable. The Executive agrees that if a court having jurisdiction determines, despite the express intent of the Executive, that any portion of the restrictive covenants contained in Sections 4(a) or (b) hereof are not enforceable, the remaining provisions shall be valid and enforceable.

(f) Equitable Relief. The Executive recognizes and acknowledges that if he breaches the provisions of Sections 4(a) or (b) hereof, damages to the Company would be difficult if not impossible to ascertain, and because of the immediate and irreparable damage and loss that may be caused to the Company for which it would have no adequate remedy, it is therefore agreed that the Company, in addition to and without limiting any other remedy or right it may have, shall be entitled to have an injunction or other equitable relief in a court of competent jurisdiction, enjoining any such breach, and the Executive hereby waives any and all defenses he may have on the grounds of competence of a court to grant such an injunction or other equitable relief. The existence of this right shall not preclude the applicability or exercise of any other rights and remedies at law or in equity which the Company may have.

5. Employment Period.

(a) Duration. The Employment Period shall commence on the date of this Agreement and shall continue until the earlier of (i) August 31, 2001, or (ii) termination of this Agreement by the Company with "cause"; or (iii) the Executive's resignation; or (iv) the death or Total Disability of the Executive.

(b) Payments Upon Termination.

(i) If the Executive's employment is terminated by the Company for any reason other than "cause" (as defined in Section 5(c)(i) hereof), at any time during the Employment Period, the Company shall pay to the Executive, for the remainder of the Employment Period, his Salary as if he had remained employed as through August 31, 2001. No other forms of compensation will be payable.

(ii) If the Executive's employment is terminated (A) by the Company for "cause", or (B) by the Executive by resignation, then the Company shall have no further liability to the Executive, except for the Salary which has accrued through the date of termination, which amounts shall be paid by the Company within thirty (30) days of such termination.

(iii) Notwithstanding any other provision of this Section 5(b), if the Executive violates any covenant, term or condition of this Agreement, the Company shall be entitled, in addition to any other remedies it may have hereunder or at law or in equity, to offset the amount of any payment otherwise due to the Executive pursuant to this Section 5(b) against any loss or damage incurred by the Company as a result of the Executive's violation of said covenant, term or condition.

(c) Definition of "Cause". When used in this Agreement, the word "cause" shall mean:

(i) the Executive's material failure to perform his employment duties hereunder after reasonable notice to the Executive by the Chairman of the Board of the Company specifying such failure and providing the Executive with a reasonable opportunity to cure such failure given the context of the circumstances;

(ii) the Executive's breach of the covenants or agreements contained in Sections 4(a) or (b) hereof, or of any other material agreement or undertaking of the Executive;

(iii) the Executive's commission of a felony or any crime involving moral turpitude, fraud or misrepresentation, whether or not related to the business or property of the Company;

(iv) the Executive's gross negligence;

(v) any act of the Executive against the Company intended to enrich the Executive in derogation of his duties to the Company;

(vi) any willful or purposeful act or omission taken in bad faith of the Executive having the effect of injuring the business or business relationships of the Company; or

(vii) the Executive's material breach of his duty of loyalty to the Company.

6. Notices. Any notices, requests, demands and other communications provided for by this Agreement shall be sufficient if in writing and if sent by registered or certified mail to the Executive at the last address he has filed in writing with the Company at its principal executive offices.

7. Binding Agreement; Assignment. This Agreement shall be effective as of the date hereof and shall be binding upon and inure to the benefit of, the parties and their respective heirs, successors, assigns, and personal representatives, as the case may be. The Executive may not assign any rights or duties under this Agreement. As used herein, the successors of the Company shall include, but not be limited to, any successor by way of merger, consolidation, sale of all or substantially all of the assets, or similar reorganization. The

Executive further acknowledges and agrees that the Company may assign all of its rights and interests under this Agreement to a successor, and that the Executive shall be bound and obligated to perform all of his covenants and agreements set forth herein for the benefit of the successor as if the successor had been the original beneficiary thereof.

8. Entire Agreement. This Agreement constitute the entire understanding of the Executive and the Company with respect to the subject matter hereof and supersede any and all prior understandings written or oral. This Agreement may not be changed, modified or discharged orally, but only by an instrument in writing signed by the parties.

9. Enforceability. This Agreement has been duly authorized, executed and delivered and constitutes the valid and binding obligations of the parties hereto, enforceable in accordance with its terms. The undertakings herein shall not be construed as any limitation upon the remedies Company might, in the absence of this Agreement, have at law or in equity for any wrongs of the Executive.

10. Governing Law. This Agreement shall be governed by and construed under the laws of the Commonwealth of Virginia, without regard to its conflict of laws provisions. The parties irrevocably consent and agree to the exclusive jurisdiction of the Federal courts in the Commonwealth of Virginia to the extent such jurisdiction exists and, if Federal jurisdiction does not exist, to the exclusive jurisdiction of the courts of the Commonwealth of Virginia. Each party waives all rights to a trial by jury in any suit, action or proceeding under this Section.

11. Severability. Except as provided in Section 4(d) hereof, if any one or more of the terms or provisions of this Agreement shall for any reason be held to be invalid, illegal or unenforceable, in whole or in part, or in any respect or in the event that any one or more of the provisions of this Agreement operated or would prospectively operate to invalidate this Agreement, then and in either of those events, such provision or provisions only shall be deemed null and void and shall not affect any other provision of this Agreement and the remaining provisions of this Agreement shall remain operative and in full force and effect and shall in no way be affected, prejudiced or disturbed thereby.

12. Arbitration. Any controversy or claim arising out of or relating to this contract or the breach thereof shall be settled by arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator(s) may be entered in a court selected in accordance with Section 10 hereof, provided that the Company reserves its right under Section 4(e) hereof to seek equitable relief in a court of competent jurisdiction in the event of a breach of the provisions of Sections 4(a) or (b) hereof.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as an instrument under seal on the date first above written.

ATTEST: DYNEX CAPITAL, INC.

By:__________________________(SEAL)
Thomas H. Potts, President

WITNESS: EXECUTIVE

By:__________________________(SEAL)
William J. Moore

Exhibit 10.9

RESOURCE MORTGAGE CAPITAL, INC.

BONUS PLAN

<TABLE>
<CAPTION>

TABLE OF CONTENTS

</TABLE>

RESOURCE MORTGAGE CAPITAL, INC.
BONUS PLAN

ARTICLE I
Purpose

1.01 The Resource Mortgage Capital, Inc. Bonus Plan (the "Bonus Plan") is a performance-based incentive plan designed to reward executive officers and other key employees of Resource Mortgage Capital, Inc. and its affiliates (collectively the "Corporation") specified by the Committee, as defined in Section 7.01, for achieving performance objectives. The Bonus Plan is intended to provide an incentive for superior performance and to motivate participants toward even higher achievement and business results, and to enable the Corporation to attract and retain highly qualified employees. The Bonus Plan is also intended to secure the full deductibility of incentive compensation which is payable to the Corporation's Chief Executive Officer and the four highest compensated executive officers (collectively the "Covered Employees") whose compensation is required to be reported in the Corporation's proxy statement and which is intended to qualify as "performance-based compensation" as described in Section 162(m)(4)(C) of the Internal Revenue Code of 1986, as amended (the "Code").

ARTICLE II
Eligibility and Participation

2.01 Only (i) executive officers of the Corporation and (ii) such other key employees of the Corporation as are recommended by management to and designated by the Committee shall be eligible to participate in the Bonus Plan. Prior to or at the time performance objectives are established for a "Performance Period," as defined below, the Committee will designate in writing which executive officers and other key employees among those who may be eligible to participate in the Plan shall in fact be participants for such Performance Period (the "Participants").

ARTICLE III
Plan Year and Performance Objectives

3.01 Plan Year. The fiscal year of the Bonus Plan (the "Plan Year") shall be the calendar year beginning on January 1 and ending on the last business day of December. The performance period (the "Performance Period") with respect to which awards may be payable under their Plan shall be the Plan Year. The initial Plan Year shall commence on January 1, 1997 and end on the last business day of December, 1997.

3.02 Performance Goal Setting Period. Within the first ninety (90) days of each Performance Period, the Committee shall establish in writing, with respect to such Performance Period, one or more performance goals, a specific target objective or objectives with respect to such performance goals and an objective formula or method for computing the amount payable to each Participant under the Plan if the performance goals are attained. Notwithstanding the foregoing sentence, for any Performance Period, such goals, objectives and compensation formulae or methods must be established within that number of days, beginning on the first day of such Performance Period, which is no more than twenty-five percent (25%) of the total number of days in such Performance Period.

3.03 Performance Measurement. Performance goals shall be based upon one or more of the following business criteria as applied to an individual Participant, a business unit or the Corporation as a whole:

earnings per share	delinquency ratios
share price	credit loss levels
revenue growth	market share
return on equity	cash flow
return on assets or net assets	expenses
timely completion of specific projects	total shareholders' equity
retention or hiring of key employees	return on capital
net interest margin	return on portfolio assets
income or net income (before or after taxes)	portfolio growth
sales	servicing volume
operating income or net operating income	production volume
operating margin	total return
return on operating revenue	dividends

The Committee may adopt other performance goals in its sole and absolute discretion, provided, however, that in the event the Committee determines to adopt performance goals based on criteria other than those stated above, the Committee shall obtain shareholder approval of such criteria if such performance goals are intended to comply with Section 162 of the Code. All performance goals adopted by the Committee which are intended to comply with Section 162 of the Code shall be preestablished, objective performance goals as described in Treasury Regulation Section 1.162-27(e)(2), promulgated under Section 162(m) of the Code. Measurements of the Corporation's or a Participant's performance against the performance goals established by the Committee shall if such performance goals are intended to comply with Section 162 of the Code, be objectively determinable and, to the extent any performance goal is expressed in standard accounting terms, such performance goal shall be determined according to generally accepted accounting principles as in existence on the date on which the performance goals are established and without regard to any changes in such principles after such date.

ARTICLE IV
Determination of Bonus Awards

4.01 At the beginning of each Plan Year, each Participant will be notified of the target bonus ("Bonus Award") that can be earned based on performance with respect to that Plan Year. The Committee may specify that the Bonus Award for a Plan Year will be earned if the applicable target is achieved for one goal or for any one of a number of goals. The Committee may also provide that the Bonus for a Plan Year will be earned only if targets are achieved for more than one performance goal. The Committee may also provide that the Bonus to be earned for a given Plan Year will vary based upon different levels of achievement of the applicable performance targets.

4.02 As soon as practicable on or after the last day of the relevant Performance Period, the Committee shall certify in writing to what extent the Corporation and the Participants have achieved the performance goal or performance goals for such Performance Period, including the specific target objective or objectives and the satisfaction of any other material terms of the Bonus Award and the Committee shall calculate the amount of each Participant's actual Bonus Award for such Performance Period based upon the performance goals, objectives and computation formulae or methods for such Performance Period. The Committee shall have no discretion to increase the maximum amount of any Participant's Bonus Award as so determined.

4.03 No Participant's Bonus Award for any Plan Year shall exceed $750,000.

ARTICLE V
Payment of Bonus Awards

5.01 Approved Bonus Awards shall be payable by the Corporation to each Participant in cash, in one or more installments, as soon as reasonably practicable on or after the last day of the relevant Performance Period, provided that the Committee has first certified in writing that the relevant performance goals were achieved.

5.02 If a Participant ceases to be employed by the Corporation prior to the end of any Plan Year, due to termination of employment for any reason (including death) and such Participant has met one or more of his performance goals for the Plan Year, the Participant shall be entitled to his Bonus Award for such Plan Year, subject to the Committee's right to reduce or eliminate such Bonus Award, as it may determine in its sole discretion.

ARTICLE VI
Other Terms and Conditions

6.01 Term of Plan. The Bonus Plan shall become effective upon its adoption by the Board, subject to the subsequent approval thereof by the shareholders of the Corporation in accordance with Section 6.02 below. It shall continue in effect until terminated under Article 8 hereof.

6.02 Shareholder Approval. No Bonus Awards shall be paid under the Bonus Plan with respect to Bonus Awards intended to comply with Section 162(m) of the Code unless and until the material terms of the Plan, including the business criteria described in the Plan, are disclosed to the Corporation's shareholders and are approved by the shareholders as provided in Section 162(m) of the Code.

6.03 No Participation Rights. No person shall have any legal claim to be granted a Bonus Award under the Bonus Plan and the Committee shall have no obligation to treat Participants uniformly. Participation in the Bonus Plan in any Plan Year does not entitle any Participant to participate in the Plan in any other Plan Year. The right to receive a targeted Bonus Award in any given year does not entitle a Participant to participate with respect to the same targeted Bonus Award in any subsequent year.

6.04 No Rights to Specific Property. Except as may be otherwise required by law, a Participant's rights and interests under the Bonus Plan shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution, or levy of any kind, either voluntary or involuntary. No Participant shall have any claim with respect to any specific assets of the Corporation.

6.05 No Employment Rights. Neither the Bonus Plan nor any action taken under the Plan shall confer upon any Participant any right with respect to continuation of employment by the Corporation (or any subsidiary or affiliated corporation) or to maintain any Participant's compensation at any level, nor shall it interfere in any way with any Participant's right or the right of the Corporation (or any subsidiary or affiliated corporation) to terminate a Participant's employment at any time or for any reason.

6.06 Incapacity of Participant or Beneficiary. If the Committee finds that any Participant to whom a Bonus Award is payable under the Bonus Plan is unable to care for his or her affairs because of illness or accident or is under a legal disability, any Bonus Award due (unless a prior claim therefore shall have been made by a duly appointed legal representative) at the discretion of the Committee, may be paid to the spouse, child, parent or brother or sister of such Participant or to any person whom the Committee has determined has incurred expense for such Participant. Any such payment shall be a complete discharge of the obligations of the Corporation under provisions of the Bonus Plan to the extent of such payment.

6.07 Tax Withholding. The Corporation will withhold from each Bonus Award at the time of payment thereof all applicable state, local and federal withholding taxes, as required by law, as determined by the Corporation in its sole discretion.

6.08 Governing Law. The place of administration of the Bonus Plan shall be in the State of Virginia and the validity, construction, interpretation, administration and effect of the Bonus Plan and the rules, regulations and rights relating to the Bonus Plan, shall be determined solely in accordance with the laws of the State of Virginia.

ARTICLE VII
Administration

7.01 Administrator. The Plan shall be administered by a Committee of the Board. Such Committee may be the Compensation Committee of the Board, a subcommittee thereof, or any other committee as the Board may appoint; provided, however, that the Committee shall consist of at least two (2) members. All members of the Committee shall be persons who qualify as "outside directors" as defined under Section 162(m) of the Code. Unless otherwise provided by the Board, the Compensation Committee of the Board (or such members of the Compensation Committee as shall constitute "outside directors" if all such members do not constitute "outside directors") shall constitute the Committee hereunder.

7.02 Powers of the Administrator. The Committee shall have full power, authority and discretion to administer and interpret the provisions of the Bonus Plan and to adopt such rules, regulations, agreements, guidelines and instruments for the administration of the Plan and for the conduct of its business as the Committee deems necessary or advisable. Without limitation of the foregoing, subject to the provisions of the Plan and such limitations as are necessary or desirable in order for incentive awards paid to Covered Employees to constitute qualified performance-based compensation under Section 162(m) of the Code, the Committee shall have the authority, in its discretion: (i) to determine the employees who shall be Participants in the Bonus Plan; (ii) to interpret the Bonus Plan; (iii) to determine the terms and conditions, not inconsistent with the terms of the Bonus Plan, of any Bonus Award granted hereunder (iv) to prescribe, amend and rescind rules and regulations relating to the Plan; (v) to make all other determinations deemed necessary or advisable for the administration of the Bonus Plan.

7.03 Effect of Decisions by the Administrator. All decisions, determinations and interpretations of the Administrator shall be final and binding on all Participants.

ARTICLE VIII
Amendment and Termination

8.01 The Board may at any time amend, alter, suspend or terminate the Plan, as it may deem advisable; provided that, to the extent necessary and desirable to comply with Section 162(m) of the Code (or any other applicable law, regulations or rules), the Corporation shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as it is required.

Exhibit 21.1

Resource Mortgage Capital, Inc.
List of Subsidiaries
As of December 31, 1996

Multi-Family Finance Corporation
Issuer Holding Corporation
   Multi-Family Capital Access One, Inc.
   Resource Finance Co. One
      Resource Finance Co. Two
      SHF Corp.
      ND Holding Co.
   Merit Securities Corporation

** Dynex Holding, Inc.
   Dynex Financial, Inc.
   National Model Homes, Inc.
      KBOne, Inc.
   Dynex Commercial, Inc.
      Multi-Family Capital Markets
   Real Estate Tax Fund
   SMFC Funding Corporation
      MSC I L.P.
      Dynex Securities Corporation

NOTE: All companies were incorporated in Virginia except for Dynex Holding, Inc. (Delaware).

** Resource Mortgage Capital, Inc. has a non-voting preferred stock interest in these companies.

Exhibit 23.1

Consent of Independent Auditors

The Board of Directors
Resource Mortgage Capital, Inc.

We consent to incorporation by reference in the registration statements (Nos. 33-50705, 333-2859, 333-10783 and 333-10587) on Form S-3 of Resource Mortgage Capital, Inc. of our report dated February 4, 1997, relating to the consolidated balance sheets of Resource Mortgage Capital, Inc. and subsidiaries as of December 31, 1996 and 1995 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 1996 and the related financial statement schedule dated December 31, 1996, which report appears in the December 31, 1996 Form 10-K of Resource Mortgage Capital, Inc.

KPMG PEAT MARWICK LLP

Richmond, Virginia
March 21, 1997