UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarter ended March 31, 1997

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

Commission file number 1-9819

DYNEX CAPITAL, INC.
(formerly 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 Identification No.)

10900 Nuckols Road, 3rd Floor, Glen Allen, Virginia	23060
(Address of principal executive offices)	(Zip Code)

(804) 217-5800

(Registrant's telephone number, including area code)

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

On April 30, 1997, the registrant had 42,422,208 shares of common stock of $.01 value outstanding, which is the registrant's only class of common stock.

<TABLE>
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DYNEX CAPITAL, INC.
FORM 10-Q

INDEX

</TABLE>

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	March 31, 1997	December 31, 1996
ASSETS		
<S>	<C>	<C>
Investments:		
Portfolio assets:		
Collateral for collateralized bonds	$ 2,498,964	$ 2,702,294
Mortgage securities	911,973	892,037
Other	118,628	96,236
Loans held for securitization	388,077	265,537
	3,917,642	3,956,104
Cash	8,415	11,396
Accrued interest receivable	8,643	8,078
Other assets	15,166	11,879
	$ 3,949,866	$ 3,987,457
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Collateralized bonds	$ 2,325,372	$ 2,519,708
Repurchase agreements	842,167	756,448
Notes payable	243,153	177,124
Accrued interest payable	3,029	2,717
Other liabilities	31,196	27,843
	3,444,917	3,483,840
SHAREHOLDERS' EQUITY:		
Preferred stock, par value $.01 per share, 50,000,000 shares authorized:		
9.75% Cumulative Convertible Series A, 1,499,300 and 1,552,500 issued and outstanding, respectively	34,245	35,460
9.55% Cumulative Convertible Series B, 2,106,743 and 2,196,824 issued and outstanding, respectively	49,316	51,425

9.73% Cumulative Convertible Series C,		
1,840,000 issued and outstanding, respectively	52,740	52,740
Common stock, par value $.01 per share, 100,000,000 shares authorized, 42,053,042 (1) and 20,653,593 issued and outstanding, respectively	421	207
Additional paid-in capital	301,045	291,637
Net unrealized gain on investments available-for-sale	58,480	64,402
Retained earnings	8,702	7,746
	504,949	503,617
	$ 3,949,866	$ 3,987,457

<FN>
(1)Reflects the two-for-one common stock split which will be distributed on May 23, 1997.
See notes to unaudited consolidated financial statements.
</FN>
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DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands except share data)

	Three Months Ended March 31, 1997	1996
<S>	<C>	<C>
Interest income:		
Collateral for collateralized bonds	$ 48,462	$ 23,509
Mortgage securities	19,681	36,537
Other portfolio assets	2,362	668
Loans held for securitization	6,556	11,451
	77,061	72,165
Interest and related expense:		
Collateralized bonds	39,352	17,773
Repurchase agreements	12,328	33,104
Notes payable	3,200	2,508
Other	556	561
Provision for losses	995	400
	56,431	54,346
Net interest margin	20,630	17,819
Gain on sale of assets, net of associated costs	2,487	201
Other income	412	616
General and administrative expenses	(5,219)	(5,951)
Net income	$ 18,310	$ 12,685
Net income	18,310	12,685
Dividends on preferred stock	(3,687)	(2,193)
Net income available to common shareholders	$ 14,623	$ 10,492
Net income per common share	$ 0.35	$ 0.26
Weighted average number of common shares outstanding	41,666,720	40,530,398

<FN>
See notes to unaudited consolidated financial statements.
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DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(amounts in thousands except share data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Net Unrealized Gain on Investments Available-for	Retained Earnings	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1996	$139,625	$ 207	$291,637	$ 64,402	$ 7,746	$503,617
Net income - three months ended March 31, 1997	-	-	-	-	18,310	18,310
Issuance of common stock	-	2	6,296	-	-	6,298
Conversion of preferred stock	(3,324)	1	3,323	-	-	-
Two-for-one stock split	211		(211)			
Change in net unrealized gain on investments available-for-sale	-	-	-	(5,922)	-	(5,922)
Dividends on common stock at $0.325 per share	-	-	-	-	(13,667)	(13,66)
Dividends on preferred stock	-	-	-	-	(3,687)	(6,687)
Balance at March 31, 1997	$136,301	$ 421	$301,045	$ 58,480	$ 8,702	$504,949

<FN>

See notes to unaudited consolidated financial statements.
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DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)

	Three Months Ended March 31, 1997	1996
<S>	<C>	<C>
Operating activities:		
Net income	$ 14,623	$ 10,492
Adjustments to reconcile net income to net cash provided by (used for) operating activities:		
Provision for losses	995	400
Net gain from sale of portfolio assets	(2,487)	(201)
Amortization and depreciation	6,101	5,124
Net change in accrued interest, other assets and other liabilities	7,004	(27,275)
Net cash provided by (used for) operating activities	26,236	(11,460)
Investing activities:		
Collateral for collateralized bonds:		
Fundings of loans subsequently securitized	-	(608,084)
Principal payments on collateral	193,514	67,116
Net change in funds held by trustees	751	3,056
	194,265	(537,912)
Net increase in loans held for securitization	(122,824)	(141,024)

Purchase of other portfolio assets	(34,754)	-
Payments on other portfolio assets	12,236	2,658
Purchase of mortgage securities	(47,407)	(22,606)
Payments on mortgage securities	20,094	108,003
Proceeds from sales of mortgage securities	3,454	-
Capital expenditures	(1,575)	(1,122)
Net cash provided by (used for) investing activities	23,489	(592,003)
Financing activities:		
Collateralized bonds:		
Proceeds from issuance of securities	-	583,023
Principal payments on securities	(194,518)	(53,032)
	(194,518)	529,991
Proceeds from borrowings, net	151,748	69,323
Proceeds from stock offerings, net	6,298	1,998
Dividends paid	(16,234)	(11,533)
Net cash (used for) provided by financing activities	(52,706)	589,779
Net decrease in cash	(2,981)	(13,684)
Cash at beginning of period	11,396	22,229
Cash at end of period	$ 8,415	$ 8,545
Cash paid for interest	$ 53,329	$ 52,749

<FN>
See notes to unaudited consolidated financial statements.
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DYNEX CAPITAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS March 31, 1997 (amounts in thousands except share data)

NOTE 1--BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. The consolidated financial statements include the accounts of Dynex Capital, Inc. (formerly Resource Mortgage Capital, Inc.), its wholly-owned subsidiaries, and certain other entities. As used herein, the "Company" refers to Dynex Capital, Inc. (Dynex) and each of the entities that is consolidated with Dynex for financial reporting purposes. A portion of the Company's operations are operated by taxable corporations that are consolidated with Dynex for financial reporting purposes, but are not consolidated for income tax purposes. All significant intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, all material adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of the consolidated financial statements have been included. The Consolidated Balance Sheets at March 31, 1997 and December 31, 1996, the Consolidated Statements of Operations for the three months ended March 31, 1997 and 1996, the Consolidated Statement of Shareholders' Equity for the three months ended March 31, 1997, the Consolidated Statements of Cash Flows for the three months ended March 31, 1997 and 1996 and related notes to consolidated financial statements are unaudited. Operating results for the three months ended March 31, 1997 are not necessarily indicative of the results that may be expected for the year ending December 31, 1997. For further information, refer to the audited consolidated financial statements and footnotes included in the Company's Form 10-K for the year ended December 31, 1996.

Certain amounts for 1996 have been reclassified to conform with the presentation for 1997.

NOTE 2--NET INCOME PER COMMON SHARE

Net income per common share as shown on the consolidated statements of operations for the three months ended March 31, 1997 and 1996 is primary net income per common share. Fully diluted net income per common share basis is not presented as the dilutive effect of the Preferred Stock and Stock Appreciation Rights was less than 3%. As a result of the two-for-one split of the Company's common stock discussed in Note 8, the Company's Preferred Stock is convertible into two shares of common stock for one share of Preferred Stock.

NOTE 3--PORTFOLIO ASSETS

The Company has classified collateral for collateralized bonds and all mortgage securities as available-for-sale. The following table summarizes the Company's amortized cost basis and fair value of collateral for collateralized bonds and mortgage securities held at March 31, 1997 and December 31, 1996, and the related average effective interest rates (calculated excluding unrealized gains and losses) for the month ended March 31, 1997 and December 31, 1996:

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	March 31, 1997		December 31, 1996	
	Fair Value	Effective Interest Rate	Fair Value	Effective Interest Rate
<S>	<C>	<C>	<C>	<C>
Collateral for collateralized bonds:				
Amortized cost	$ 2,470,073	7.8%	$ 2,668,633	7.9%
Allowance for losses	(30,707)		(31,732)	
Amortized cost, net	2,439,366		2,636,901	
Gross unrealized gains	70,739		73,696	
Gross unrealized losses	(11,141)		(8,303)	
	$ 2,498,964		$ 2,702,294	
Mortgage securities:				
Adjustable-rate mortgage securities	$ 777,173	7.4%	$ 780,259	6.9%
Fixed-rate mortgage securities	21,609	9.2%	29,505	10.9%
Other mortgage securities	119,183	17.5%	88,198	16.4%
	917,965		897,962	
Allowance for losses	(4,874)		(4,934)	
Amortized cost, net	913,091		893,028	
Gross unrealized gains	24,002		23,591	
Gross unrealized losses	(25,120)		(24,582)	
	$ 911,973		$ 892,037	

</TABLE>

NOTE 4--GAIN ON SALE OF ASSETS

Mortgage securities with an aggregate principal balance of $3,284 were sold during the three months ended March 31, 1997 for an aggregate net gain of $170. The specific identification method is used to calculate the basis of mortgage investments sold. Gain on sale of assets also includes premiums received of $2,438 on $400,000 notional balance of call options written which expired unexercised during the first quarter.

NOTE 5--ADOPTION OF FINANCIAL ACCOUNTING STANDARDS

In January 1997, the Company adopted the Financial Accounting Standards Board Statement No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (FAS No. 125). 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 adopting FAS No 125 did not result in a material change to the Company's financial position and results of operations.

NOTE 6 -- OTHER MATTERS

During the period from March 12, 1997 through March 31,1997, the Company issued 84,000 shares of its common stock, adjusted for the two-for-one stock split, pursuant to a registration statement filed with the Securities and Exchange Commission. The net proceeds from the issuance were approximately $1,256. The Company also issued 376,314 shares of its common stock, adjusted for the two-for-one stock split, pursuant to its dividend reinvestment program for net proceeds of $5,057.

NOTE 7- CHANGE OF COMPANY NAME

Effective April 25, 1997, the Company changed its name from Resource Mortgage Capital, Inc. to Dynex Capital, Inc.

NOTE 8 -- SUBSEQUENT EVENTS

At the annual meeting of shareholders, held on April 24, 1997, the shareholders approved an amendment to the Articles of Incorporation to effect a two-for-one split of the issued and outstanding shares of the Company's $0.01 par value common stock to holders of record on May 5, 1997 and also to increase the number of authorized shares of common stock to 100,000,000. As a result of the split, approximately 21.2 million additional shares were issued. All references in the accompanying financial statements to the number of shares for 1997 have been restated to reflect the stock split. All references in the accompanying financial statements to the per share amounts for 1996 and 1997 have also been restated to reflect the stock split.

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

Summary

Dynex Capital, Inc. (the "Company") is a mortgage and consumer finance company which uses its loan 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. During the first quarter, the Company expanded its production sources by including 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 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 source of earnings is net interest income on its investment portfolio. The Company's investment portfolio consists principally of collateral for collateralized bonds, adjustable-rate mortgage securities (ARM) 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 interest-earning assets and the cost of borrowed funds. The cost of the Company's borrowings may be increased or decreased by interest rate swap, cap or floor agreements. For the 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.

Business Focus and Strategy

The Company's overall level of earnings is dependent upon (i) the spread between interest earned on its investment portfolio, and the cost of borrowed funds to finance those assets; and (ii) the aggregate amount of interest-earning assets that the Company has on its balance sheet. The Company strives to create a diversified portfolio of investments 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. In many instances, the Company's investment strategy has involved not only the creation or acquisition of the asset, but also structuring the related borrowings through the securitization process to create a stable yield profile.

Investment Portfolio Strategies

The Company adheres to the following business strategies in managing its investment portfolio:

- use of its loan origination capabilities to provide assets for its investment portfolio, generally at a lower effective cost than if investments of comparable risk profiles where purchased in the secondary market;

- securitization of its loan production to provide long-term financing and to reduce the Company's liquidity, interest rate and credit risk for these long-term assets;

- utilization of leverage to finance purchases of loans and investments in line with prudent capital allocation guidelines which are designed to balance the risk in certain assets, thereby increasing potential returns to shareholders while seeking to protect the Company's equity base;

- structuring borrowings to have interest rate adjustment indices and interest rate adjustment periods that, on an aggregate basis, generally correspond (within a range of one to six months) to the interest rate adjustment indices and interest rate adjustment periods of the related asset; and

- utilization of interest rate caps, swaps and similar instruments and securitization vehicles with such instruments embodied in the structure to mitigate the risk of the cost of its variable rate liabilities increasing at a faster rate than the earnings on its assets during a period of rising interest rates.

Lending Strategies

The Company generally adheres to the following business strategies in its lending operations:

- developing loan production capabilities to originate and acquire financial assets in order to create attractively priced investments for its portfolio, generally at a lower cost than if investments with comparable risk profiles were purchased in the secondary market;

- focusing on loan products that maximize the advantages of the REIT tax election;

- emphasizing direct relationships with the borrower and minimize, to the extent practical, the use of origination intermediaries; using internally generated guidelines to underwrite loans for all product types and maintain centralized loan pricing;

- performing the servicing function for loans on which the Company has credit exposure; emphasize the use of early intervention, aggressive collection and loss mitigation techniques in the servicing process to manage and seek to reduce delinquencies and to minimize losses in its securitized loan pools; and

- vertical integration of the loan origination process by performing the sourcing, underwriting, funding and servicing of loans to maximize efficiency and provide superior customer service.

<TABLE>
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RESULTS OF OPERATIONS

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Three Months Ended
March 31,

(amounts in thousands except per share information)	1997	1996
<S>	<C>	<C>
Net interest margin	$ 20,630	$ 17,819
Gain on sale of assets, net of associated costs	2,487	201
General and administrative expenses	5,219	5,951
Net income	18,310	12,685
Primary net income per common share (1)	0.35	0.26
Principal balance of fundings through the production operations	175,146	767,630
Dividends declared per share:		
Common (1)	$ 0.325	$ 0.255
Series A Preferred	0.650	0.585
Series B Preferred	0.650	0.585
Series C Preferred	0.730	-

<FN>
(1) Adjusted for two-for-one common stock split.
</FN>
</TABLE>

Three Months Ended March 31, 1997 Compared to Three Months Ended March 31, 1996. The increase in the Company's earnings during the three months ended March 31, 1997 as compared to the same period in 1996 is primarily the result of the increase in net interest margin. In addition, the increase can also be partially attributed to the increased gain on sale of assets and reduction in general and administrative expenses.

Net interest margin for the three months ended March 31, 1997 increased to $20.6 million, or 16%, over the $17.8 million for the same period for 1996. This increase was the result of the increased contribution from the net investment in collateralized bonds issued during 1996 and the increase in other mortgage securities during the past several quarters. These increases were partially offset by a decrease in the contribution from ARM securities as a result of securitizing several of the ARM securities in a collateralized bond issued in September 1996.

The gain on sale of assets increased to a net $2.5 million for the three months ended March 31, 1997, from $0.2 million for the three months ended March 31, 1996. The increase in the net gain is primarily the result of premiums received of $2.4 million on $400 million notional call options which expired unexercised during the first quarter. In addition, the Company sold certain investments during the three months ended March 31, 1997, which generated a gain of $0.2 million. During the three months ended March 31, 1996, the Company did not sell any of its investments.

General and administrative expenses decreased $0.7 million, or 12%, to $5.2 million for the three months ended March 31, 1997 as compared to the same period for 1996. The decrease is a result of the sale of single-family operations on May 13, 1996 offset partially by the growth in the current production operations. General and administrative expenses should increase on a quarter by quarter basis during 1997 as the Company continues to build its production infrastructure.

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>
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Average Balances and Effective Interest Rates

	Three Months Ended March 31,			
(amounts in thousands)	1997		1996	
	Average Balance	Effective Rate	Average Balance	Effective Rate
<S>	<C>	<C>	<C>	<C>
Interest-earning assets : (1)				
Collateral for collateralized	2,500,179	7.75 %	$ 1,079,600	8.71 %

bonds (2) (3)				
Adjustable-rate mortgage securities	774,059	7.36	1,987,569	6.83
Fixed-rate mortgage securities	27,231	9.22	39,855	9.68
Other mortgage securities	111,575	17.22	62,418	10.63
Other portfolio assets	99,010	9.54	25,680	10.43
Loans held for securitization	310,424	8.45	551,227	8.30
Total interest-earning	3,822,478	8.06 %	$ 3,746,349	7.70 %
Interest-bearing liabilities:				
Collateralized bonds (3)	2,382,985	6.43 %	$ 1,028,572	6.57 %
Repurchase agreements:				
Adjustable-rate mortgage securities	718,665	6.15	1,917,513	5.65
Fixed-rate mortgage securities	26,471	5.72	25,528	5.77
Other mortgage securities	10,428	5.83	7,382	5.74
Loans held for securitization	31,561	5.95	362,231	6.10
Notes payable:				
Other portfolio assets	13,776	7.93	547	5.85
Loans held for securitization	156,740	5.11	84,027	6.03
Total interest-bearing liabilities	3,340,626	6.30 %	$ 3,425,800	5.99 %
Net interest spread on all investments		1.76 %		1.71 %
Net yield on average interest-earning assets		2.56 %		2.23 %

<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 $2,285 and $3,168 for the three months ended March 31, 1997 and March 31, 1996, respectively.
(3) Effective rates are calculated excluding non-interest related collateralized bond expenses and provision for credit losses.
</FN>
</TABLE>

The slight increase in net interest spread for the three months ended March 31, 1997 relative to the same period in 1996 is primarily the result of the increased spread on the other mortgage securities and to a lesser extent ARM securities, offset by a decrease in the net spread on both net investment in collateralized bonds (defined as collateral for collateralized bonds less collateralized bonds) and other portfolio assets. The Company's overall yield on interest-earning assets increased to 8.06% for the three months ended March 31, 1997 from 7.70% for the same period in 1996. The weighted average borrowing costs also increased to 6.30% for the three months ended March 31, 1997 from 5.99% for the three months ended March 31, 1996. During the first part of 1996, the net interest spread temporarily benefited by the declining short-term interest rate environment, which had the impact of reducing the Company's borrowing costs faster than it reduced the yields on the Company's interest-earning assets. After remaining fairly stable during most of the first quarter 1997, short-term interest rates rose by approximately 25 basis points at the end of the quarter.

Individually, the net interest spread on collateralized bonds decreased 82 basis points, from 214 basis points for the three months ended March 31, 1996, to 132 basis points for the three months ended March 31, 1997. This decline was primarily due to the securitization of lower coupon collateral, principally A+ quality single-family mortgage loans. In addition, the spread on the net investment in collateralized bonds decreased due to higher premium amortization during the first quarter 1997 due to higher prepayments. The net interest spread on ARM securities increased 3 basis points, from 118 basis points for the three months ended March 31, 1996, to 121 basis points during the same period in 1997. The net interest spread on other mortgage securities increased to 1,139 basis points for the three months ended March 31, 1997 from 489 basis points for the three months ended March 31, 1996. This increase is due to the purchase of $38 million of residual trusts during the three months ended March 31, 1997. The net interest spread on other portfolio assets decreased 297 basis points, from 458 basis points from the three months ended March 31, 1996, to 161 basis points for the three months ended March 31, 1997. This decrease in net interest spread is due to the inclusion in 1997 of the $38 million note receivable from the 1996 sale of the Company's single-family operations which has a 6.5% fixed interest rate, plus higher borrowing costs associated with the Company's model home purchase and lending business.

PORTFOLIO RESULTS

The core of the earnings is derived from its investment portfolio. The Company's investment strategy is to create a diversified portfolio of securities that in the aggregate generate 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 structuring the related borrowings through the securitization process to create a stable yield profile.

Approximately $3.2 billion of the Company's investment portfolio as of March 31, 1997 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.

Interest Income and Interest-Earning Assets

The Company's average interest-earning assets were $3.8 billion during the three months ended March 31, 1997, an increase of 2% from $3.7 billion of average interest-earning assets during the same period of 1996. Total interest income rose 7%, from $72.2 million for the three months ended March 31, 1996 to $77.1 million for the same period of 1997. Overall, the yield on interest-earning assets rose to 8.06% for the three months ended March 31, 1997 from 7.70% for the three months ended March 31, 1996, as the investment in higher yielding assets grew. On a quarter to quarter basis, average interest-earning assets for the quarter ended December, 1996 were $4.3 billion versus $3.8 billion for the quarter ended March 31, 1997. This decrease in average interest-earnings assets was the result of higher prepayments speeds during the first quarter of 1997 in the investment portfolio and the sale of approximately $400 million of ARM securities in December 1996. Total interest income for the quarter ended December 31, 1996 was $83.2 million versus $77.1 million for the quarter ended March 31, 1997. The decrease was due to the lower average interest-earning assets. As indicated in the table below, average yields for these periods were 7.72% and 8.06%, respectively, which were 2.12% and 2.37% higher than the average daily London InterBank Offered Rate (LIBOR) for six-month deposits (six-month LIBOR) during those periods. 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 six-month LIBOR. As a result of the six-month LIBOR daily average increasing during the first quarter of 1997, the Company expects that the yield on the ARM loans underlying the ARM securities and certain collateral for collateralized bonds will trend upward during the second and third quarter since the majority of the ARM loans underlying the Company's ARM securities and collateral for collateralized bonds reset generally every six months and on a one-to-two month lag.

<TABLE>
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Earning Asset Yield
($ in millions)

	Average Interest-Earning Assets	Interest Income	Average Asset Yield	Daily Average Month LIBOR	Asset Yield versus Six Month LIBOR
<S>	<C>	<C>	<C>	<C>	<C>
1995, Quarter 1	$ 3,406.9	$ 60.8	7.14%	6.60%	0.54%
1995, Quarter 2	3,181.4	61.3	7.71%	6.14%	1.57%
1995, Quarter 3	3,450.4	66.8	7.74%	5.89%	1.85%
1995, Quarter 4	3,360.8	64.5	7.67%	5.75%	1.92%

1996, Quarter 1	3,746.3	72.1	7.70%	5.34%	2.36%
1996, Quarter 2	4,164.8	78.3	7.52%	5.64%	1.88%
1996, Quarter 3	4,106.5	78.4	7.64%	5.80%	1.84%
1996, Quarter 4	4,308.6	83.2	7.72%	5.60%	2.12%
1997, Quarter 1	3,822.5	77.1	8.06%	5.69%	2.37%

</TABLE>

The net yield on average interest-earning assets increased to 2.56% for the three months ended March 31, 1997, compared to 2.25% for the three months ended December 31, 1996 and 2.23% for the three months ended March 31, 1996. The increase from the three months ended December 31, 1996 is principally due to the increase in the spread earned on the interest-earning assets. The increase from the three months ended March 31, 1996 is due to the increased investment in higher yielding assets. The net yield percentages presented below exclude non-interest collateralized bonds expenses such as provision for credit losses, and interest on senior notes payable. For the three months ended March 31, 1997, if these expenses were included, the net yield on average interest-earning assets would be 2.16%.

<TABLE>
<CAPTION>

Net Yield on Average Interest-Earning Assets
($ in millions)

	Average Interest-Earning Assets	Net Yield Average Interest-Earning Assets	Net Average Assets (1)
<S>	<C>	<C>	<C>
1995, Quarter 1	$ 3,406.9	1.23%	$ 3,259.8
1995, Quarter 2	3,181.4	1.60%	3,036.6
1995, Quarter 3	3,450.4	1.74%	3,031.5
1995, Quarter 4	3,360.8	2.00%	2,800.4
1996, Quarter 1	3,746.3	2.23%	2,757.5
1996, Quarter 2	4,164.8	2.11%	2,937.9
1996, Quarter 3	4,106.5	2.21%	2,734.3
1996, Quarter 4	4,308.6	2.25%	2,333.5
1997, Quarter 1	3,822.5	2.56%	2,033.9

<FN>
(1) Average interest-earning assets less non-recourse collateralized bonds.
</FN>
</TABLE>

The average asset yield is reduced for the amortization of premium 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 March 31, 1997 were $50.2 million, or approximately 1.58% of the aggregate investment portfolio balance. The mortgage principal repayment rate for the Company (indicated in the table below as "CPR Annualized Rate") was 29% for the three months ended March 31, 1997. The Company expects that the long-term prepayment speeds will range between 24% and 28%. The CPR for the first quarter of 1997 is currently within this range and the Company expects it will remain within this range for the second quarter of 1997. CPR stands for "constant prepayment rate" and is a measure of the annual prepayment rate on a pool of loans.

<TABLE>
<CAPTION>

Premium Basis and Amortization
($ in millions)

	Net Premium (Discount)	Amortization Expense	CPR Annualized Rate	Ending Investment Principal Balance (2)	Amortization Expense as a % of Average Assets
<S>	<C>	<C>	<C>	<C>	<C>
1995, Quarter 1	$ 26.6	$ 1.0	(1)	$ 2,454.2	0.12%
1995, Quarter 2	23.7	1.6	(1)	2,432.5	0.21%
1995, Quarter 3	35.3	2.5	(1)	2,705.0	0.30%

1995, Quarter 4	39.3	2.8	(1)	2,772.9	0.33%
1996, Quarter 1	49.3	3.2	30%	3,214.4	0.34%
1996, Quarter 2	56.0	4.0	28%	3,557.7	0.38%
1996, Quarter 3	60.8	2.8	19%	3,808.3	0.28%
1996, Quarter 4	54.1	3.7	24%	3,379.0	0.34%
1997, Quarter 1	50.2	3.8	29%	3,176.9	0.40%

<FN>
(1) CPR rates were not available for those periods.
(2) Includes only collateral for collateralized bonds, ARM securities and fixed-rate securities.
</FN>
</TABLE>

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 generally borrowed in the form of collateralized bonds or repurchase agreements, both of which are primarily indexed to one-month LIBOR. For the three-month period ended March 31, 1997 as compared to the same period in 1996, interest expense increased to $52.6 million from $51.3 million while the average cost of funds increased to 6.30% compared to 5.99%. The increased cost of funds for the first quarter of 1997 compared to the first quarter of 1996 was due primarily to increased cost of funds for both other portfolio assets and ARM securities. On a quarter to quarter basis, the cost of funds rose from 6.16% for the three months ended December 31, 1996, to 6.30% for the three months ended March 31, 1997, which was due primarily to the increased cost of funds on collateralized bonds. The Company may use interest rate swaps, caps and financial futures to manage its interest rate risk. The net cost of these instruments is included in the cost of funds table below as a component of interest expense for the period to which it relates.

<TABLE>
<CAPTION>

Cost of Funds
($ in millions)

	Average Borrowed Funds	Cost Interest Expense (1)	Average of Funds	One-month LIBOR
<S>	<C>	<C>	<C>	<C>
1995, Quarter 1	$ 3,058.1	$ 50.3	6.58%	6.06%
1995, Quarter 2	2,906.1	48.5	6.68%	6.08%
1995, Quarter 3	3,159.7	51.0	6.46%	5.88%
1995, Quarter 4	3,025.3	47.6	6.30%	5.86%
1996, Quarter 1	3,425.8	51.3	5.99%	5.43%
1996, Quarter 2	3,735.8	56.4	6.04%	5.45%
1996, Quarter 3	3,667.9	55.7	6.07%	5.46%
1996, Quarter 4	3,825.1	59.0	6.16%	5.46%
1997, Quarter 1	3,340.6	52.6	6.30%	5.46%

<FN>
(1) Excludes non-interest collateralized bond-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. These agreements are used to reduce interest rate risk which arises from the lifetime yield caps on the ARM securities, the mismatched repricing of portfolio investments versus borrowed funds, and finally, assets repricing on indices such as the prime rate which differ from the related borrowing indices. 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 as of the various quarter ends for asset/liability management of the investment portfolio. This table excludes all interest rate 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 interest rate reset limitations financed with borrowings that have no such limitations. Financial futures contracts and options on futures are used to lengthen the terms of repurchase agreement financing, generally from one month to three and six months. 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>
1995, Quarter 1	$ 1,475	$ 200	$ -	$ -
1995, Quarter 2	1,475	200	1,000	500
1995, Quarter 3	1,475	220	1,000	500
1995, Quarter 4	1,575	1,227	1,000	2,130
1996, Quarter 1	1,575	1,631	1,000	1,250
1996, Quarter 2	1,575	1,559	400	880
1996, Quarter 3	1,499	1,480	1,550	-
1996, Quarter 4	1,499	1,453	-	-
1997, Quarter 1	1,499	1,427	-	-

<FN>
(1) Excludes all interest rate 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 cost of the agreements, net of any benefits received from these agreements. For the quarter ended March 31, 1997, net hedging expense amounted to $2.65 million versus $2.67 million and $1.63 million for the quarters ended December 31, 1996 and March 31, 1996, respectively. The increase in hedging expense for the quarter ended March 31, 1997 compared to March 31, 1996, relates to costs on financial futures used to lengthen repurchase agreement maturities during the quarter. 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 loans funded and amortized over the life of the loans as an adjustment to their yield.

<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>
1995, Quarter 1	$ 1.38	0.160%	0.180%
1995, Quarter 2	1.30	0.163%	0.179%
1995, Quarter 3	0.86	0.100%	0.109%
1995, Quarter 4	0.16	0.018%	0.020%
1996, Quarter 1	1.63	0.174%	0.191%
1996, Quarter 2	1.02	0.100%	0.110%
1996, Quarter 3	1.29	0.126%	0.141%
1996, Quarter 4	2.67	0.248%	0.280%
1997, Quarter 1	2.65	0.277%	0.317%

</TABLE>

Fair Value

The fair value of the available-for-sale portion of the Company's investment portfolio as of March 31, 1997, as measured by the net unrealized gain on investments available-for-sale, was $58.5 million above its cost basis, which represents a $44.9 million improvement from March 31, 1996. At March 31, 1996, the fair value of the available-for-sale portion of the Company's investment portfolio was above its amortized cost by $13.6 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 becoming fully indexed during 1996. The portfolio also benefited from the reduction in amortized cost basis of its investments through additional provision for losses. The fair value of the available-for-sale portion of the Company's investment portfolio at March 31, 1997, decreased $5.9 million from the fair value at December 31, 1996, which was $64.4 million above the amortized cost of its investment portfolio. This decrease was primarily the result of the increase in interest rates during the quarter and the increase in prepayment speeds for the Company's collateral for collateralized bonds.

Credit Exposures

The Company has historically securitized its loan production in collateralized bonds or pass-through 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 March 31, 1997, the Company retained $18.4 million in aggregate principal amount of subordinated securities, which are carried at a book value of $1.7 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 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, 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 March 31, 1997, the Company retained $87.2 million in aggregate principal amount of overcollateralization, and had reserves, or otherwise had provided coverage on $61.0 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 March 31, 1997.

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 $6.5 million at March 31, 1997, which the Company believes represents its maximum 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	Actual Credit Losses	Credit Reserves to Average Assets	Credit Reserves to Maximum Credit Exposure
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1995, Quarter 2	$ 2,435	$ 49.6	$ 14.6	$ -	0.46%	29.44%
1995, Quarter 3	2,462	51.3	16.4	-	0.48%	31.97%
1995, Quarter 4	2,504	65.9	18.5	-	0.55%	28.07%
1996, Quarter 1	2,888	79.2	19.3	-	0.52%	24.37%
1996, Quarter 2	3,131	106.7	79.0	1.1	1.90%	74.04%
1996, Quarter 3	3,919	109.5	80.0	2.0	1.95%	73.06%
1996, Quarter 4	3,848	116.0	86.0	2.1	2.00%	74.14%
1997, Quarter 1	3,583	114.0	84.4	2.6	2.21%	74.01%

</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. 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. As of March 31, 1997, the Company believes that its credit reserves are sufficient to cover any losses which may occur as a result of current delinquencies presented in the table below.

<TABLE>
<CAPTION>

Delinquency Statistics

	60 to 90 days days delinquent	90 days and over delinquent (includes REO and foreclosures)	Total
<S>	<C>	<C>	<C>
1995, Quarter 2	0.54%	1.24%	1.78%
1995, Quarter 3	0.78%	1.77%	2.55%
1995, Quarter 4	2.50%	3.23%	5.73%
1996, Quarter 1	0.90%	2.95%	3.85%
1996, Quarter 2	1.91%	3.47%	5.38%
1996, Quarter 3	0.73%	3.01%	3.74%
1996, Quarter 4	0.88%	3.40%	4.28%
1997, Quarter 1	0.95%	4.16%	5.11%

</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 (as 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 mortgage investments at the end of the first quarter of 1997 was AAA. At March 31, 1997, securities with a credit rating of AA or better were $3.2 billion, or 99.1% of the Company's total mortgage investments compared to 99.1% and 96.5% at December 31, 1996 and March 31, 1996, respectively. At the end of the first quarter 1997, $469.7 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.

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
1996, Quarter 1	$ 2,487.3	$ 943.1	$ 64.2	$ 60.6	70.0%	26.5%	1.8%	1.7%
1996, Quarter 2	2,935.2	914.0	63.6	28.7	74.5%	23.2%	1.6%	0.7%
1996, Quarter 3	3,333.3	766.4	17.1	31.1	80.3%	18.5%	0.4%	0.8%
1996, Quarter 4	2,708.4	752.8	-	29.9	77.5%	21.6%	-	0.9%
1997, Quarter 1	2,504.1	739.4	-	29.4	76.5%	22.6%	-	0.9%

(1) Excludes other mortgage securities and other portfolio assets.

Purchase, Securitization and Sale of Portfolio Assets

During the three months ended March 31, 1997, the Company sold various portfolio investments due to favorable market conditions. The aggregate principal amount of investments sold during the three months ended March 31, 1997 was $3.3 million, consisting primarily of other mortgage securities, which resulted in gains of $0.2 million. Also during the three months ended March 31, 1997, the Company exercised its call right or otherwise purchased $7.8 million of ARM securities, $1.4 million of fixed-rate mortgage securities and $38.1 million of other mortgage securities.

PRODUCTION ACTIVITIES

Since the sale of its single-family mortgage operations to Dominion in 1996, the Company's primary production operations have been focused on multi-family and manufactured housing lending. During the first quarter of 1997, the Company broadened its multi-family lending capabilities to include other types of commercial real estate loans including commercial industrial warehouse properties. Future commercial lending efforts may include apartment properties which have not received low-income housing tax credits, assisted living and retirement housing, limited and full service hotels, urban and suburban office buildings, retail shopping strips and centers, other light industrial buildings and manufactured housing parks. The Company has also expanded its manufactured housing lending during the first quarter of 1997 to include inventory financing to manufactured housing dealers. In addition to these production sources, 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 being accumulated for securitization or sale and creating investments for its portfolio through the securitization process at a lower cost than if such investments were purchased from third parties. The creation of such investments generally 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 securities or collateralized bonds 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 portfolio in whole-loan form.

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, 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.

The following table summarizes the production activity for the three month periods ended March 31, 1997 and 1996.

<TABLE>
<CAPTION>

Production Activity
($ in thousands)

<S>	Three Months Ended March 31, 1997 <C>	1996 <C>
Multi-family	$ 8,063	$ 11,121
Commercial	4,613	-
Manufactured housing	29,240	-
Single-family	98,144	756,431
Specialty finance	35,086	78
Total principal amount of fundings through the production operations	$ 175,146	$ 767,630
Principal amount securitized or sold	$ -	$ 595,387

</TABLE>

Manufactured housing lending commenced during the second quarter of 1996. Since commencement, the Company has opened five regional offices in North Carolina, Georgia, Texas, Michigan and Washington. As of March 31, 1997, the Company had $67.1 million in principal balance of manufactured housing loans in inventory, and had commitments outstanding of approximately $71.6 million. Principally all funding volume to date has been obtained through relationships with manufactured housing dealers and, to a lesser extent, through 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. 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 third quarter of 1997.

As of March 31, 1997, the Company had $220.5 million in principal balance of multi-family loans held for securitization. The Company funded $8.1 million in multi-family loans during the three months ended March 31, 1997 compared to $60.4 million for the three months ended December 31, 1996 and $11.1 million for the three months ended March 31, 1996. The lower funding volume for the first quarter of 1997 compared to the fourth quarter of 1996 is due to longer than expected lease-up periods and construction delays. Principally all fundings are under the Company's lending programs for properties that have been allocated low income housing tax credits. As of March 31, 1997 commitments to fund multi-family loans over the next 20 months were approximately $516.6 million. The Company expects that it will have funded volume sufficient enough to securitize a portion of its multi-family loans in the second half of 1997 through the issuance of collateralized bonds. The Company will retain a portion of the credit risk after securitization and intends to continue servicing the loans.

As previously mentioned, during the first quarter of 1997 the Company expanded its production operations to include commercial loans. The Company funded $4.6 million of commercial loans during the first quarter. These commercial loans will be securitized with the Company's multi-family production.

Included in the first quarter specialty finance fundings are $33.1 million of model homes purchased from home builders which were simultaneously leased back to the builders. The terms of these leases are generally twelve to eighteen months at lease rates of typically one-month LIBOR plus a spread. At the end of each lease, the Company will sell the home. As of March 31, 1997, the Company had leases on $66.3 million of model homes, and had otherwise provided financing to home builders for model homes for an additional $13.0 million.

Additionally, during the first quarter of 1997, the Company purchased $98 million of single-family loans through two bulk purchases. This is compared to $409 million purchased during the first quarter of 1996. The Company will continue to purchase single-family loans on a bulk basis to the extent, upon securitization, such purchases would generate a favorable return on a proforma basis.

OTHER ITEMS

General and Administrative Expenses

General and administrative expenses (G&A expense) consist of expenses incurred in conducting the Company's production activities and managing the investment portfolio, as well as various other corporate expenses. G&A expense decreased for the three-month period ended March 31, 1997 as compared to the same period in 1996 primarily as a result of the sale of the Company's single-family mortgage operations during the second quarter of 1996. Offsetting a portion of this decrease is the addition of G&A expenses resulting from the current production operations. G&A related to the production operations will continue to increase over time as the Company expands its production activities with current and new product types.

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

	G&A Efficiency Ratio (1)	G&A Expense/Average Interest-Earning Assets (Annualized)	G&A Expense/Average Total Equity (2) (Annualized)
<S>	<C>	<C>	<C>
1995, Quarter 1	7.26%	0.52%	6.48%
1995, Quarter 2	7.07%	0.54%	6.13%
1995, Quarter 3	6.68%	0.51%	5.71%
1995, Quarter 4	7.51%	0.59%	5.50%
1996, Quarter 1	8.25%	0.64%	6.53%
1996, Quarter 2	6.77%	0.51%	5.60%
1996, Quarter 3	5.67%	0.43%	4.60%
1996, Quarter 4	6.09%	0.47%	4.57%
1997, Quarter 1	6.77%	0.55%	4.65%

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

Net Income and Return on Equity

Net income increased from $12.7 million for the three months ended March 31, 1996 to $18.3 million for the three months ended March 31, 1997. Return on common equity (excluding the impact of the net unrealized gain on investments available-for-sale) also increased from 15.12% for the three months ended March 31, 1996 to 18.82% for the three months ended March 31, 1997. The majority of the increase in both the net income and the return on common equity is due mostly to the increased net interest margin related to an increased level of interest-earning assets and, to a lesser extent, the increase in the net interest spread on interest-earning assets.

<TABLE>
<CAPTION>

Components of Return on 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>
1995, Quarter 1	11.17%	0.31%	5.30%	6.48%	N/A	9.68%	$ 6,596
1995, Quarter 2	13.91%	0.37%	4.64%	6.36%	N/A	11.81%	8,041
1995, Quarter 3	19.19%	1.72%	3.85%	6.45%	1.33%	13.53%	10,128
1995, Quarter 4	21.99%	1.82%	4.68%	7.22%	2.67%	14.96%	12,145
1996, Quarter 1	26.26%	0.58%	1.18%	8.58%	3.16%	15.12%	10,492
1996, Quarter 2	25.59%	0.55%	17.67%	7.26%	3.00%	32.45%	23,704
1996, Quarter 3	26.56%	1.20%	2.67%	5.93%	2.93%	19.17%	14,363
1996, Quarter 4	28.26%	1.87%	4.24%	6.75%	4.57%	19.31%	14,480
1997, Quarter 1	27.85%	1.28%	3.73%	6.72%	4.76%	18.82%	14,623

</TABLE>

Dividends and Taxable Income

The Company and its qualified REIT subsidiaries (collectively "Dynex 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 Dynex 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, in conjunction with the other quarterly dividends, will result in the distribution of most or all of the taxable income earned during the calendar year. 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 its taxable earnings, which may take precedence when determining the level of dividends.

<TABLE>
<CAPTION>

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

<S>	Taxable Net Income Available to Common <C>	Income <C>	Dividend <C>	<C>	<C>
1995, Quarter 1	$ 5,070	$ 0.126	$ 0.180	144%	$ 1,507
1995, Quarter 2	5,577	0.139	0.200	143%	(956)
1995, Quarter 3	11,223	0.279	0.220	79%	1,410
1995, Quarter 4	13,176	0.325	0.240	74%	4,882
1996, Quarter 1	12,719	0.314	0.255	81%	7,249
1996, Quarter 2	13,359	0.328	0.275	84%	9,376
1996, Quarter 3	13,973	0.341	0.293	86%	11,194
1996, Quarter 4	8,831	0.214	0.310	145%	5,672
1997, Quarter 1	23,849	0.572	0.325	57%	15,854

<FN>
(1) Adjusted for two-for-one common stock split.
</FN>
</TABLE>

Taxable income differs from the financial statement net income which is determined in accordance with generally accepted accounting principles (GAAP). For the three months ended March 31, 1997, the Company's taxable earnings per share of $0.572 were higher than the Company's declared dividend per share of $0.325. The majority of the difference was caused by GAAP and tax differences related to the sale of the single-family operations. For tax purposes, the sale is accounted for on an installment sale basis with annual taxable income of approximately $10 million from 1996 through 2001. 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. Such amounts also include certain estimates of taxable income until such time the company files its federal income tax returns for each year.

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 of 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 investment portfolio 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 investments 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.

In order to grow its equity base, the Company may issue additional capital 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.

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 collateralized bonds and 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. These borrowings 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 March 31, 1997, the Company has three credit facilities aggregating $500 million to finance loan fundings and for working capital purposes of which $300 million expires in 1997 and $200 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 under this facility 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 March 31, 1997. 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 the majority of its portfolio assets through collateralized bonds and repurchase agreements. Collateralized bonds are non-recourse to the Company. Repurchase agreements allow the Company to sell 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 March 31, 1997, the Company had outstanding obligations of $1.1 billion under such repurchase agreements. As of March 31, 1997, $350 million of various classes of collateralized bonds issued by the Company have been retained by the Company and have been pledged as security for $365 million of repurchase agreements. For financial statement presentation purposes, the Company classified the $365 million of repurchase agreements, secured by collateralized bonds, as collateralized bonds outstanding. The remainder of the repurchase agreements were secured by ARM securities -- $716.3 million, fixed-rate securities -- $20.5 million and other mortgage securities -- $9.7 million.

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.

In addition to the lines of credit, the Company also may finance a portion of its loans held for securitization with repurchase agreements on an uncommitted basis. At March 31, 1997, the Company had $95.7 million outstanding obligations under such repurchase agreements.

To reduce the Company's exposure to changes in short-term interest rates on its repurchase agreements, the Company may lengthen the duration of its repurchase agreements secured by mortgage securities by entering into certain futures and/or option contracts. As of March 31, 1997, the Company had no such financial futures or option contracts outstanding. During the quarter, however, the Company settled several such positions, which have effectively extended the duration of approximately $500 million notional amount of repurchases agreements through the first half of 1998.

Potential immediate sources of liquidity for the Company include cash balances and unused availability on the credit facilities described above.

<TABLE>

<CAPTION>

Potential Immediate Sources of Liquidity
($ in millions)

<S>	Cash Balance <C>	Estimated Unused Borrowing Capacity <C>	Potential Immediate Sources of Liquidity <C>	Potential Immediate Sources of Liquidity as a % of Recourse Borrowings (1) <C>
1996, Quarter 1	$ 8.5	$ 32.6	$ 41.1	1.79%
1996, Quarter 2	20.9	102.8	123.7	6.56%
1996, Quarter 3	13.8	118.7	132.5	10.13%
1996, Quarter 4	11.4	131.8	143.2	10.16%
1997, Quarter 1	8.4	139.9	148.3	10.26%

<FN>
(1) Excludes borrowings, such as collateralized bonds, that are non-recourse to the Company.
</FN>
</TABLE>

Unsecured Borrowings

The Company issued two series of unsecured notes payable totaling $50 million in 1994. The proceeds from this issuance were used for general corporate purposes. These notes payable have an outstanding balance at March 31, 1997 of $44 million. The first principal repayment on one of the series of notes payable was due October 1995 and annually thereafter, with quarterly interest payments due. Principal repayment on the second note payable is contracted to begin in October 1998. The notes mature between 1999 and 2001 and bear fixed interest rates of 9.56% and 10.03%, respectively. The note agreements contain certain financial covenants which the Company met as of March 31, 1997. 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 payable totaling $2.0 million at March 31, 1997.

FORWARD-LOOKING STATEMENTS

Certain written statements in this Form 10-Q made by the Company, that are not historical fact constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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 causes 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 variable rate collateral for collateralized bonds and adjustable-rate investments. These investments are financed through non-recourse long-term collateralized bonds and recourse short-term repurchase agreements. The net interest spread for these investments could decrease during a period of rapidly rising interest rates, since the investments generally have periodic 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 and hamper the Company's efforts to expand its production sources.

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 expanded both its manufactured housing and commercial lending businesses. 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 these businesses could all impact these new production sources.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On March 20, 1997, American Model Homes ("Plaintiff") filed a complaint against the Company in Federal District Court in the Central District of California alleging that the Company, among other things, misappropriated Plaintiff's trade secrets and confidential information in connection with the Company's establishment of its model home lending business. The Plaintiff seeks injunctive relief and money damages. The Company believes the claims are without merit and will vigorously defend against such claims.

Item 2. Changes in Securities

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

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

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

<TABLE>
<CAPTION>

(a) Exhibits

<S>	<C>
3.10	Amendment to Articles of Incorporation, effective April 25, 1997 (filed herewith.)
3.11	Amendment to Articles of Incorporation, effective May 5, 1997 (filed herewith.)
10.10	Directors Stock Appreciation Rights Plan (filed herewith.)
10.11	1992 Stock Incentive Plan as amended (filed herewith.)

</TABLE>

(b) Reports on Form 8-K
Current Report on Form 8-K filed with the Commission on February 27, 1997, regarding the consolidated financial statements of Resource Mortgage Capital, Inc. and the independent auditor's report thereon, for the year ended December 31, 1996.

SIGNATURES

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

DYNEX CAPITAL, INC.

By:/s/ Thomas H. Potts
Thomas H. Potts, President
authorized officer of registrant)

/s/ Lynn K. Geurin
Lynn K. Geurin, Executive Vice
President and Chief Financial Officer
(principal accounting officer)

Dated: May 15, 1997

<TABLE>
<CAPTION>

EXHIBIT INDEX

Exhibit		Sequentially Numbered Page
<S>	<C>	<C>
3.10	Amendment to Articles of Incorporation, effective April 25, 1997	I
3.11	Amendment to Articles of Incorporation, effective May 5, 1997	II
10.10	Directors Stock Appreciation Rights Plan	III
10.11	1992 Stock Incentive Plan as amended	IV

</TABLE>

ARTICLES OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF
RESOURCE MORTGAGE CAPITAL, INC.

1. The name of the corporation is Resource Mortgage Capital, Inc.

2. The first sentence of Article I shall be deleted and in place thereof shall be the following sentence:

> The name of the corporation is Dynex Capital, Inc. (the "Corporation").

3. This amendment to the Articles of Incorporation was proposed by the Board of Directors and submitted to the shareholders for approval in accordance with Section 13.1-707 of the Virginia Stock Corporation Act at the annual meeting on April 24, 1997.

4. The designation, number of outstanding shares and number of votes entitled to be cast by each voting group entitled to vote separately on the amendment are as follows:

<TABLE>
<CAPTION>

<S>	<C>	<C>
Designation of Voting Group Entitled to Vote Separately	Number of Shares Outstanding	Number of Votes Entitled to be Cast
Holders of Common Stock	Common Stock - 20,822,465	Common Stock - 20,822,465

</TABLE>

5. There were 18,759,383 undisputed votes cast by the holders of the Company's common stock in favor of the amendment and these votes were sufficient for approval of the amendment.

6. The effective date of this amendment is April 25, 1997 at 5:00 p.m.

IN WITNESS WHEREOF, the undersigned President of the Corporation has executed these Articles of Amendment on behalf of the Corporation.

Dated: April 24, 1997 RESOURCE MORTGAGE CAPITAL, INC.

By: /S/ Thomas H. Potts
Thomas H. Potts
President

Exhibit 3.11

ARTICLES OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF
DYNEX CAPITAL, INC.

1. The name of the corporation is Dynex Capital, Inc.

2. The first sentence of Article III shall be deleted and in place thereof shall be the following sentences:

The number of shares of Common Stock that the Corporation shall have the authority to issue shall be 100,000,000 shares of Common Stock with the par value of $.01 each. Each issued and outstanding share of Common Stock, par value $.01 per share, as of the date this amendment to the Articles of Incorporation shall have become effective, shall be changed into two shares of Common Stock, par value $.01 per share and at the close of business on such date, each holder of record of Common Stock, without further action, shall be and become the holder of one additional share for each share of Common Stock held of record immediately prior thereto.

3. This amendment to the Articles of Incorporation was proposed by the Board of Directors and submitted to the shareholders for approval in accordance with Section 13.1-707 of the Virginia Stock Corporation Act at the annual meeting on April 24, 1997.

4. The designation, number of outstanding shares and number of votes entitled to be cast by each voting group entitled to vote separately on the amendment are as follows:

Designation of Voting Group Entitled to Vote Separately	Number of Shares Outstanding	Number of Votes Entitled to be Cast
Holders of Common Stock	Common Stock - 20,822,465	Common Stock - 20,822,465

5. There were 18,911,262 undisputed votes cast by the holders of the Company's common stock in favor of the amendment and these votes were sufficient for approval of the amendment.

6. The effective date of this amendment shall be May 5, 1997.

IN WITNESS WHEREOF, the undersigned President of the Corporation has executed these Articles of Amendment on behalf of the Corporation.

Dated: April 24, 1997

RESOURCE MORTGAGE CAPITAL, INC.

By: /S/ Thomas H. Potts
Thomas H. Potts
President

RESOURCE MORTGAGE CAPITAL, INC.

1995 DIRECTORS STOCK INCENTIVE PLAN

SECTION 1. Purpose. The purpose of this Resource Mortgage Capital, Inc., 1995 Directors' Stock Incentive Plan (the "Plan") are to promote the interest of Resource Mortgage Capital, Inc. (together with any successor thereto, the "Company") and its stockholders by (i) attracting and retaining the services of experienced and knowledgeable directors, (ii) encouraging such directors to acquire a proprietary and vested interest in the growth and performance of the Company and (iii) generating an increased incentive for such directors to contribute to the Company's future success and prosperity, thus enhancing the value of the Company for the benefit of its stockholders. The Plan is intended to permit the grant of SARs and the award of DERs.

SECTION 2. Definitions. As used in the Plan, the following terms shall have the meanings set forth below:

"Affiliate" shall mean (i) any entity that, directly or indirectly, controls or is controlled by the Company, and (ii) any entity in which the Company has a significant equity interest.

"Average Net Worth" shall for any period mean the arithmetic average of the Net Worth of the Company at the beginning of such period and at the end of such period.

"Average Ten Year Treasury Rate" shall be an the arithmetic average of the weekly per annum average yield to maturity for actively traded marketable U.S. Treasury fixed rate securities (adjusted to constant maturities of ten years) published by the Federal Reserve Board.

"Board" shall mean the Board of Directors of the Company.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Common Equivalent Share" shall mean any Share that would be outstanding if all contingent issuances of Shares and all other shares convertible into Shares were exercised.

"Dividend Equivalent Right" shall mean any right granted under Section 6(c) of the Plan.

"Eligible Director" shall mean each director of the Company, who is not an employee of the Company or any of the Company's Affiliates.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"Exchange Act" shall bean the Securities Exchange Act of 1934, as amended.

"Fair Market Value" shall mean, on any given date, the closing price of a share of Common Stock as reported on the New York Stock Exchange composite tape on such date, or if the Common Stock was not traded on the New York Stock Exchange on such day, then on the next preceding day that the Common Stock was traded on such exchange, all as reported by such source as the Administrator may select.

"Net Worth" shall mean the excess of the Company's assets over liabilities, as determined in accordance with generally accepted accounting principles.

"Participant" shall mean any Eligible Director granted an award under the Plan.

"Person" shall mean any individual, corporation, partnership, association, joint-stock company, trust, unincorporated organization, government or political sub-division thereof or other entity.

"Rule 16b-3" shall mean Rule 16b-3 promulgated by the SEC under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

"SAR Agreement" shall mean any written agreement, contract, or other instrument or document evidencing any SAR, which may, but need not, be executed or acknowledged by a Participant.

"SAR" means a stock appreciation right that entitles the holder to receive, with respect to each share of Common Stock encompassed by the exercise of such SAR, the amount determined by the Administrator and specified in an Agreement. In the absence of such a determination, the holder shall be entitled to receive, with respect to each share of Common Stock encompassed by the exercise of such SAR, the excess of the Fair Market Value on the date of exercise over the Initial Value. References to "SARs" include both Corresponding SARs and SARs granted independently of SARs, unless the context requires otherwise.

"SEC" shall mean the Securities and Exchange Commission, or any successor thereto.

"Shares" shall mean the common shares of the Company.

SECTION 3. Administration. The Plan shall be administered by the Board. Subject to the terms of the Plan, the Board shall have the power to interpret the provisions and supervise the administration of the Plan.

SECTION 4. SARs. On May 1, 1995, each Eligible Director, as of such date, shall be granted an SAR Award of ten thousand (10,000) Shares. Any individual who becomes an Eligible Director after May 1, 1995 shall be granted an SAR Award of ten thousand (10,000) Shares as of the date such individual becomes an Eligible Director. On May 1, 1996 and on May 1 of each subsequent year through and including the year 2005, each Eligible Director, as of the relevant May 1, shall be granted an SAR Award to acquire one thousand (1,000) Shares.

(a) Exercise Price. The exercise price per Share under an SAR Award shall be the per Share Fair Market Value on the date of the grant of such SAR.

(b) Dividend Equivalent Rights. Each SAR will accrue, at no cost to the Participant, Dividend Equivalent Rights. Dividend Equivalent Rights will accrue on May 2, 1995 and on each May 1, excluding the May 1 on which the particular SAR was granted, (a"DER Award Date") in an amount determined by the following formula: the number of Shares subject to the SAR, including for this purpose only the number of Shares subject to Dividend Equivalent Rights accrued on such SAR, will be multiplied by the Dividend Excess (as hereinafter defined) per Common Equivalent Share and the resulting product will be divided by the Fair Market Value per Share on the DER award Date. The "Divided Excess", if any, shall equal the excess of dividends actually paid by the Company on Shares and preferred shares during the calendar year preceding the DER Award Date, which excess shall not exceed the Company's net income for such calendar year, over the Benchmark Earnings (as hereinafter defined) for such calendar year. The Benchmark Earnings shall equal the product of the Average Ten Year Treasury Rate for the relevant calendar year plus one percentage point and the Company's Average Net Worth during such calendar year.

(c) Time and Method of Exercise. Except as otherwise provided in this Plan, each SAR shall be immediately exercisable upon grant and shall remain exercisable until the expiration date of such SAR. Upon exercise of the SAR, a number of accrued Dividend Equivalent Rights shall be deemed to have been exercised equal to the total number of such accrued Dividend Equivalent Rights on such exercise date multiplied by a fraction, the numerator of which is the number of Shares for which the SAR is being exercised on such date, and the denominator of which is the maximum number of Shares for which the SAR could have been exercised immediately prior to such exercise; provided, however, that any fractional Dividend Equivalent Rights resulting from this calculation shall not be deemed to have been exercised. Each Dividend Equivalent Right shall entitle the SAR holder to receive one Share upon the deemed exercise of such Right. Fractional Dividend Equivalent Rights shall continue to accrue with respect to any SAR that has not been totally exercised. Upon the total exercise of any SAR, any fractional Dividend Equivalent Rights accrued with respect thereto shall be canceled.

(d) Limits on Transfer of SARs. Each SAR and each DER under any SAR shall be exercisable only by the Participant, any individual who received the SAR pursuant to a qualified domestic relations order as defined in the Code or Title I of ERISA (or the rules thereunder), or any guardian or legal representative of the Participant or any such individual if permissible under applicable law.

No SAR and no DER under any such SAR may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant otherwise than by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Code or Title I of ERISA, or the rules thereunder, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided, that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance.

(e) Term of SARs. The maximum period in which an SAR may be exercised shall not exceed 10 years from the date of grant; provided, that under the applicable SAR Agreement the SAR may expire within a shorter period.

(f) Payment Terms for Exercise of SARs. The payment of the SAR price and corresponding DER shall be made in cash.

(g) Termination of Service. If a Participant's service as an Eligible director is terminated for any reason, any SAR held by such Participant shall remain exercisable for 90 days after such termination, but in no event beyond the expiration date of such SAR. Upon the expiration of such 90 day period, any unexercised SARs held by such Participant shall be canceled.

(h) Shareholder Rights. No Participant shall have any rights as a stockholder with respect to shares subject to his SAR.

SECTION 5. Amendment and Termination Except to the extent prohibited by applicable law and unless otherwise expressly provided in an SAR Agreement or in the Plan:

(a) Amendments to the Plan. The Board may amend, alter, suspend, discontinue, or terminate the Plan; provided, that any such amendment, alteration, suspension, discontinuation, or termination that would materially impair the rights of any Participant or a beneficiary thereof as to any outstanding SAR shall not to that extent be effective without the approval of the affected Participant or beneficiary; and provided further, that notwithstanding any other provision of the Plan or any SAR Agreement, no such amendment, alteration, suspension, discontinuation, or termination shall be made that would:

(i) permit SARs encompassing rights to purchase Shares to be granted with per Share exercise or purchase prices of less than the Fair Market Value of Share on the date of grant thereof; or

(iii) otherwise cause the Plan to cease to comply with any tax or regulatory requirement, including for these purposes any approval or other requirement which is a prerequisite for exemptive relief from Section 16(b) of the Exchange Act.

(b) Limitation on Amendments. This Plan shall not be amended more than once every six months, other than to comport with changed in the Code.

(c) Correction of Defects, Omissions and Inconsistencies. The Board may correct any defect, supply any omission, or reconcile any inconsistency in the Plan or any SAR or SAR Agreement in the manner and to the extent it shall deem desirable to carry the Plan into effect. In the event of a conflict between any term or provision contained in SAR or an SAR Agreement and a term or provision contained in the Plan, the applicable terms and conditions of the Plan shall govern and prevail.

SECTION 6. General Provisions.

(a) No Rights to SAR Awards. No Person shall have any claim to be granted any SAR, and there is no obligation for uniformity of treatment of Participants or holders or beneficiaries of SARs. The terms and conditions of SARs need not be the same with respect to each recipient.

(b) Withholding. The Company or any Affiliate is hereby authorized to withhold from any payment pursuant to the exercise of an SAR or from any compensation or other amount owing to a Participant the amount of any applicable withholding taxes in respect of the exercise of an SAR and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes.

(c) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(d) Governing Law. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the Commonwealth of Virginia.

(e) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or SAR, or would disqualify the Plan or any SAR under any law deemed applicable by the Board, such provision shall be construed or deemed amended to conform applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Board, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or SAR and the remainder of the Plan and any such SAR shall remain in full force and effect.

(f) No Trust or Fund Created. Neither the Plan nor any SAR shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an SAR, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(g) Headings. Headings are given to the Sections and subsections of the

Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

SECTION 7. Effective Date of the Plan. The Plan shall be effective as of May 1, 1995.

Exhibit 10.11

RESOURCE MORTGAGE CAPITAL, INC.

1992 STOCK INCENTIVE PLAN

(As Amended)

TABLE OF CONTENTS

RESOURCE MORTGAGE CAPITAL, INC.
1992 STOCK INCENTIVE PLAN
(As Amended)

ARTICLE I
DEFINITIONS

1.01 Administrator means the Committee.

1.02 Affiliate means any entity in which the Company has a significant equity interest, as determined by the Company.

1.03 Agreement means a written agreement (including any amendment or supplement thereto) between the Company and a Participant specifying the terms and conditions of an award of Restricted Stock or an Option or SAR granted to such Participant.

1.04 Average Net Worth means for any period the arithmetic average of the Net Worth of the Company at the beginning of such period and at the end of such period.

1.05 Board means the Board of Directors of the Company.

1.06 Code means the Internal Revenue Code of 1986, and any amendments thereto.

1.07 Committee means a committee of the Board; such Committee may be the Compensation Committee of the Board, a subcommittee thereof, or any other committee the Board may appoint, and in all events shall consist of at least two members.

1.08 Common Stock means the Common Stock of the Company.

1.09 Company means Resource Mortgage Capital, Inc., or any successor thereto.

1.10 Corresponding SAR means an SAR that is granted in relation to a particular Option and that can be exercised only upon the surrender to the Company, unexercised, of that portion of the Option to which the SAR relates.

1.11 DER Accrual Period means any period that begins with the previous DER Award Date, or any date determined by the Committee after the grant date of the related Option or SAR if there is no previous DER Award Date, and ends on the next DER Award Date.

1.12 DER Award Date means any date determined by the Committee on which Dividend Equivalent Rights are awarded.

1.13 Dividend Equivalent Right means any right granted under Section 9.01 of the Plan.

1.14 Fair Market Value means, on any given date, the closing price of a share of Common Stock as reported on the New York Stock Exchange composite tape on such date, or if the Common Stock was not traded on the New York Stock Exchange on such day, then on the next preceding day that the Common Stock was traded on such exchange, all as reported by such source as the Administrator may select.

1.15 Initial Value means, with respect to an SAR, the Fair Market Value of one share of Common Stock on the date of grant.

1.16 Net Worth means the excess of the Company's assets over liabilities, as determined in accordance with generally accepted accounting principles.

1.17 Option means a stock option that entitles the holder to purchase from the Company a stated number of shares of Common Stock at the price set forth in an Agreement.

1.18 Participant means a key employee of the Company or an Affiliate, including an employee who is a member of the Board and is selected by the Administrator to receive a Restricted Stock award, an Option, an SAR, or a combination thereof.

1.19 Plan means the Resource Mortgage Capital, Inc. 1992 Stock Incentive Plan.

1.20 Restricted Stock means Common Stock awarded to a Participant under Article X. Shares of Common Stock shall cease to be Restricted Stock when, in accordance with the terms of the applicable Agreement, they become transferable and free of substantial risks of forfeiture.

1.21 SAR means a stock appreciation right that entitles the holder to receive, with respect to each share of Common Stock encompassed by the exercise of such SAR, the amount determined by the Administrator and specified in an Agreement. In the absence of such a determination, the holder shall be entitled to receive, with respect to each share of Common Stock encompassed by the exercise of such SAR, the excess of the Fair Market Value on the date of exercise over the Initial Value. References to "SARs" include both Corresponding SARs and SARs granted independently of Options, unless the context requires otherwise.

ARTICLE II
PURPOSES

2.01 The Plan is intended to assist the Company in recruiting and retaining individuals with ability and initiative who provide services to the Company or an Affiliate by enabling such persons to participate in its future success and to associate their interests with those of the Company and its shareholders. The Plan is intended to permit the award of shares of Restricted Stock, the grant of SARs, the grant of Options not qualifying for special tax treatment under Section 422 of the Code and the award of Dividend Equivalent Rights. The proceeds received by the Company from the sale of any Common Stock pursuant to this Plan shall be used for general corporate purposes.

ARTICLE III
ADMINISTRATION

3.01 The Plan shall be administered by the Administrator. The Administrator shall have authority to award Restricted Stock and to grant Options (with or without Dividend Equivalent Rights) and SARs (with or without Dividend Equivalent Rights) upon such terms (not inconsistent with the provisions of this Plan) as the Administrator may consider appropriate. Such terms may include conditions (in addition to those contained in this Plan) on the exercisability of all or any part of an Option, an SAR or Dividend Equivalent Rights or on the transferability or forfeitability of Restricted Stock. Such conditions may be based on business criteria contemplated by Section 162(m) of the Code and may include earnings per share, share price, revenue growth, return on equity, return on assets or net assets, timely completion of specific projects, retention or hiring of key employees, net interest margin, income or net income (before or after taxes), sales, operating income or net operating income, operating margin, return on operating revenue, delinquency ratios, credit loss levels, market share, cash flow, expenses, total shareholders' equity, return on capital, return on portfolio assets, portfolio growth, servicing volume, production volume, total return and dividends. Notwithstanding any such conditions, the Administrator may, in its discretion, accelerate the time at which any Option, SAR or Dividend Equivalent Rights may be exercised or the time at which Restricted Stock may become transferable or nonforfeitable. In addition, the Administrator shall have complete authority to interpret all provisions of this Plan; to prescribe the form of Agreements; to adopt, amend, and rescind rules and regulations pertaining to the administration of the Plan; and to make all other determinations necessary or advisable for the administration of this Plan. The express grant in the Plan of any specific power to the Administrator shall not be construed as limiting any power or authority of the Administrator. Any decision made, or action taken, by the Administrator or in connection with the administration of this Plan shall be final and conclusive. Neither the Administrator nor any member of the Committee shall be liable for any act done in good faith with respect to this Plan or any Agreement, Option, SAR, Dividend Equivalent Right or Restricted Stock award. All expenses of administering this Plan shall be borne by the Company.

3.02 Anything in the Plan to the contrary notwithstanding, all members of the Committee shall be persons who qualify as "outside directors" as defined in Section 162 of the Code. The Board may require that all members of the Committee also be "non-employee directors" as defined in Rule 16b-3 of the Securities and Exchange Commission. 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.

ARTICLE IV
ELIGIBILITY

4.01 General. Any employee of the Company or an Affiliate (including a corporation that becomes an Affiliate after the adoption of this Plan) is eligible to participate in this Plan if the Administrator, in its sole discretion, determines that such person has contributed significantly or can be expected to contribute significantly to the profits or growth of the Company or an Affiliate. Directors of the Company (whether or not employees of the Company or an Affiliate) may also be selected to participate in this Plan.

4.02 Grants. The Administrator will designate individuals to whom shares of Restricted Stock are to be awarded and to whom Options (with or without Dividend Equivalent Rights) and SARs (with or without Dividend Equivalent Rights) are to be granted and will specify the number of shares of Common Stock subject to each award or grant. An Option may be granted with or without a related SAR. An SAR may be granted with or without a related Option. All shares of Restricted Stock awarded, and all Options, SARs and Dividend Equivalent Rights granted, under this Plan shall be evidenced by Agreements which shall be subject to applicable provisions of this Plan and to such other provisions as the Administrator may adopt.

ARTICLE V
STOCK SUBJECT TO GRANTS

5.01 Upon the award of shares of Restricted Stock the Company may issue authorized but unissued Common Stock. Upon the exercise of any Option, SAR or Dividend Equivalent Right, the Company may deliver to the Participant (or the Participant's broker if the Participant so directs), authorized but unissued Common Stock. The maximum aggregate number of shares of Common Stock that may be issued pursuant to the exercise of Options, SARs and Dividend Equivalent Rights and the award of Restricted Stock under this Plan is 1,200,000. Anything in the Plan to the contrary notwithstanding, no Participant, in any fiscal year, may be awarded grants hereunder covering in the aggregate more than 100,000 shares of Common Stock; provided, however, that shares of Common Stock underlying a tandem grant of Options and Corresponding SARs shall be counted only once in calculating this limit. The maximum aggregate number of shares of Common Stock that may be issued under this Plan as a whole, as well as the per Participant limit described in the immediately preceding sentence hereof, shall be subject to adjustment as provided in Article XI. If an Option is terminated, in whole or in part, for any reason other than its exercise or the exercise of a Corresponding SAR, the number of shares of Common Stock allocated to the Option and any related Dividend Equivalent Rights or portion thereof may be reallocated to other Options, SARs, Dividend Equivalent Rights and Restricted Stock awards to be granted under this Plan. Upon the termination of an SAR, in whole or in part, other than in connection with its exercise (or the exercise of a related Option) for shares of Common Stock, the number of shares of Common Stock allocated to the SAR and any related Dividend Equivalent Rights or portion thereof may be reallocated to other Options, SARs, Dividend Equivalent Rights and Restricted Stock awards to be granted under this Plan.

ARTICLE VI
OPTION PRICE

6.01 The price per share for Common Stock purchased on the exercise of an Option shall be determined by the Committee on the date of grant.

ARTICLE VII
EXERCISE OF OPTIONS

7.01 Maximum Option or SAR Period. The maximum period in which an Option or SAR may be exercised shall be determined by the Administrator on the date of grant, but will not exceed 10 years from the date of the grant.

7.02 Nontransferability. Any Option, SAR or Dividend Equivalent Right granted under this Plan shall be nontransferable except by will or by the laws of descent and distribution or as permitted by the Committee. In the event of any such transfer, the Option and any Corresponding SAR or Dividend Equivalent Right that relates to such Option must be transferred to the same person or person(s). During the lifetime of the Participant to whom the Option, SAR or Dividend Equivalent Right is granted, the Option, SAR or Dividend Equivalent Right may be exercised only by the Participant. No right or interest of a Participant in any Option, SAR or Dividend Equivalent Right shall be liable for, or subject to, any lien, obligation, or liability of such Participant.

7.03 Employee Status. The terms of any Option or SAR may provide for exercise within a period following termination of employment. In the event that the terms of any Option or SAR provide that it may be exercised only during employment or continued service or within a specified period of time after termination of employment or service, the Administrator may decide to what extent leaves of absence for governmental or military service, illness, temporary disability, or other reasons shall not be deemed interruptions of continuous employment or service.

ARTICLE VIII
METHOD OF EXERCISE

8.01 Exercise. Subject to the provisions of Articles VII and XII, an Option or SAR may be exercised in whole at any time or in part from time to time at such times and in compliance with such requirements as the Administrator shall determine. An Option or SAR granted under this Plan may be exercised with respect to any number of whole shares less than the full number for which the Option or SAR could be exercised. A partial exercise of an Option or SAR shall not affect the right to exercise the Option or SAR from time to time in accordance with this Plan and the applicable Agreement with respect to the remaining shares subject to the Option or related to the SAR. The exercise of either an Option or Corresponding SAR shall result in the termination of the other to the extent of the number of shares with respect to which the Option or Corresponding SAR is exercised.

8.02 Payment Terms for Exercise of Options. Unless otherwise provided by the

Agreement, payment of the Option price shall be made in cash or a cash equivalent acceptable to the Administrator. If the Agreement provides, payment of all or part of the Option price may be made by surrendering shares of Common Stock to the Company. If Common Stock is used to pay all or part of the Option price, the shares surrendered must have a Fair Market Value (determined as of the day preceding the date of exercise) that is not less than such Option price or such portion of the Option price paid by surrender of shares.

8.03 Determination of Payment of Cash and/or Common Stock Upon Exercise of SAR. At the Administrator's discretion, the amount payable as a result of the exercise of an SAR (and any related DERs) may be settled in cash, Common Stock, or a combination of cash and Common Stock. No fractional share shall be deliverable upon the exercise of an SAR but a cash payment will be made in lieu thereof.

8.04 Shareholder Rights. No Participant shall have any rights as a stockholder with respect to shares subject to his Option or SAR until the date of exercise of such Option or SAR and then only to the extent shares of Common Stock are issued.

ARTICLE IX
DIVIDEND EQUIVALENT RIGHTS

9.01 Dividend Equivalent Rights. If provided in an Agreement, any Option or SAR granted hereunder will accrue Dividend Equivalent Rights on each DER Award Date following the grant of such Option or SAR in an amount determined by the following formula: the number of shares of Common Stock subject to the Option or SAR (including for this purpose the number of shares of Common Stock subject to Dividend Equivalent Rights previously accrued on such Option or SAR) will be multiplied by the Dividend Excess (as hereinafter defined) per outstanding share of Common Stock, and the resulting product will be divided by the Fair Market Value on the DER Award Date. The "Dividend Excess," if any, for any DER Award Date shall equal the excess of dividends actually paid on shares of Common Stock during the DER Accrual Period ending with the DER Award Date, which excess shall not exceed the Company's net income for such period, over the Benchmark Earnings (as hereinafter defined). The Benchmark Earnings for any DER Award Date shall equal the product of (i) the Designated Yield (as hereinafter defined) for the DER Accrual Period ending with the DER Award Date, (ii) the Company's Average Net Worth during such DER Accrual Period and (iii) a fraction, the numerator of which is the number of days in the DER Accrual Period ending with the DER Award Date and the denominator of which is 365. The Designated Yield shall be set by the Committee on each DER Award Date, but will not be less than 2%. The Committee will determine if the DERs are to be paid in additional Options (if Options were granted), in additional SARs (if SARs were granted), in Common Stock or in cash.

9.02 Time and Method of Exercise. Upon exercise of the Option or the SAR, a number of accrued Dividend Equivalent Rights shall be deemed to have been exercised equal to the total number of such accrued Dividend Equivalent Rights as of the end of the month preceding the month of exercise multiplied by a fraction, the numerator of which is the number of shares of Common Stock for which the Option or SAR is being exercised on such date, and the denominator of which is the maximum number of shares of Common Stock for which the Option or the SAR could have been exercised immediately prior to such exercise; provided, however, that any fractional Dividend Equivalent Rights resulting from this calculation shall not be deemed to have been exercised. As provided in an Agreement, each Dividend Equivalent Right shall entitle the Option or the SAR holder to receive either (i) additional Options or SARs, as the case may be; (ii) Common Stock or (iii) cash upon the deemed exercise of such Right. Fractional Dividend Equivalent Rights shall continue to accrue with respect to any Option or SAR that has not been totally exercised. Upon the total exercise of any Option or SAR, any remaining fractional Dividend Equivalent Rights accrued with respect thereto shall be canceled if paid in stock. Upon the exercise of the Dividend Equivalent Rights on an Option, the proportionate number of Dividend Equivalent Rights on any Corresponding SAR will be canceled and vice versa.

ARTICLE X
RESTRICTED STOCK

10.01 Award. In accordance with the provisions of Article IV, the Administrator will designate each individual to whom an award of Restricted Stock is to be made and will specify the number of shares of Common Stock covered by the award.

10.02 Vesting. The Administrator, on the date of the award, may prescribe that a Participant's rights in the Restricted Stock shall be forfeitable or otherwise restricted for a period of time set forth in the Agreement. By way of example and not of limitation, the restrictions may postpone transferability of the shares or may provide that the shares will be forfeited if the Participant separates from the service of the Company and its Affiliates before the expiration of a stated term or if the Company, the Company and its Affiliates or the Participant fails to achieve stated objectives.

10.03 Shareholder Rights. If provided in the Agreement, prior to their forfeiture (in accordance with the terms of the Agreement and while the shares are Restricted Stock), a Participant will have all rights of a shareholder with respect to Restricted Stock, including the right to receive dividends and vote the shares; provided, however, that (i) a Participant may not sell, transfer, pledge, exchange, hypothecate, or otherwise dispose of Restricted Stock, (ii) the Company shall retain custody of the certificates evidencing shares of Restricted Stock, and (iii) the Participant will deliver to the Company a stock power, endorsed in blank, with respect to each award of Restricted Stock. The limitations set forth in the preceding sentence shall not apply after the shares cease to be Restricted Stock.

ARTICLE XI
ADJUSTMENT UPON CHANGE IN COMMON STOCK

11.01 The maximum number of shares as to which Restricted Stock may be awarded and as to which Options, SARs and Dividend Equivalent Rights may be granted under this Plan shall be proportionately adjusted, and the terms of outstanding Restricted Stock awards, Options, SARs and Dividend Equivalent Rights shall be adjusted, as the Administrator shall determine to be equitably required in the event that (a) the Company (i) effects one or more stock dividends, stock split-ups, subdivisions or consolidations of shares or (ii) engages in a transaction described in Section 424 of the Code or (b) there occurs any other extraordinary event which, according to generally accepted accounting principles, necessitates such action. Any determination made under this Article XI by the Administrator shall be final and conclusive.

11.02 The issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services, either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, outstanding awards of Restricted Stock, Options, SARs and Dividend Equivalent Rights.

11.03 The Administrator may award shares of Restricted Stock, may grant Options (with or without Dividend Equivalent Rights), and may grant SARs (with or without Dividend Equivalent Rights) in substitution for stock awards, stock options, stock appreciation rights, or similar awards held by an individual who becomes an employee of the Company or an Affiliate in connection with a transaction described in the first paragraph of this Article XI. Notwithstanding any provision of the Plan (other than the limitation of Article V), the terms of such substituted Restricted Stock awards and Option, SAR or Dividend Equivalent Rights grants shall be as the Administrator, in its discretion, determines is appropriate.

ARTICLE XII
COMPLIANCE WITH LAW AND APPROVAL OF REGULATORY BODIES

12.01 No Option or SAR shall be exercisable, no Common Stock shall be issued, no certificates for shares of Common Stock shall be delivered, and no payment shall be made under this Plan except in compliance with all applicable federal and state laws and regulations (including, without limitation, withholding tax requirements), any listing agreement to which the Company is a party, and the rules of all domestic stock exchanges on which the Company's shares may be listed. The Company shall have the right to rely on an opinion of its counsel as to such compliance. Any share certificate issued to evidence Common Stock for which shares of Restricted Stock are awarded or for which an Option or SAR is exercised may bear such legends and statements as the Administrator may deem advisable to assure compliance with federal and state laws and regulations. No Option or SAR shall be exercisable, no Restricted Stock shall be awarded, no Common Stock shall be issued, no certificate for shares shall be delivered, and no payment shall be made under this Plan until the Company has obtained such consent or approval as the Administrator may deem advisable from regulatory bodies having jurisdiction over such matters.

ARTICLE XIII
GENERAL PROVISIONS

13.01 Effect on Employment. Neither the adoption of this Plan, its operation, nor any documents describing or referring to this Plan (or any part thereof) shall confer upon any individual any right to continue in the employ or service of the Company or an Affiliate or in any way affect any right and power of the Company or an Affiliate to terminate the employment or service of any individual at any time with or without assigning a reason therefor.

13.02 Unfunded Plan. The Plan, insofar as it provides for grants, shall be unfunded, and the Company shall not be required to segregate any assets that may at any time be represented by grants under this Plan. Any liability of the Company to any person with respect to any grant under this Plan shall be based solely upon any contractual obligations that may be created pursuant to this Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

13.03 Rules of Construction. Headings are given to the articles and sections of this Plan solely as a convenience to facilitate reference. The reference to any statute, regulation, or other provision of law shall be construed to refer to any amendment to or successor of such provision of law.

ARTICLE XIV
AMENDMENT

14.01 The Board may at any time amend or terminate this Plan. The Board, in its discretion, may require any Plan amendments to be submitted for approval by the shareholders of the Company, including, but not limited to, cases in which such approval is deemed necessary for compliance with Section 162(m) or other requirements of the Code or with the requirements of any listing exchange, or to secure exemption from Section 16(b) of the Securities Exchange Act of 1934. No amendment shall, without a Participant's consent, adversely affect any rights of such Participant under any outstanding Restricted Stock award or under any Option or SAR outstanding at the time such amendment is made.

ARTICLE XV
DURATION OF PLAN

15.01 No shares of Restricted Stock may be awarded and no Option, SAR or Dividend Equivalent Right may be granted under this Plan more than ten years after the earlier of the date that the Plan is adopted by the Board or the date that the Plan is approved by shareholders as provided in Article XV. Restricted Stock awards and Options, SARs and Dividend Equivalent Rights granted before that date shall remain valid in accordance with their terms.

ARTICLE XVI
EFFECTIVE DATE OF PLAN

16.01 Shares of Restricted Stock may be awarded and Options, SARs and Dividend Equivalent Rights may be granted under this Plan upon its adoption by the Board, provided that no Restricted Stock award, Option, SAR or Dividend Equivalent Right will be effective unless this Plan is approved by a majority of the votes entitled to be cast by the Company's shareholders, voting either in person or by proxy, at a duly held shareholders' meeting within twelve months of such adoption.

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