

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarter ended March 31, 1998

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

Commission file number 1-9819

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

Virginia	52-1549373
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
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. ☒ Yes ☐ No

On April 30, 1998, the registrant had 45,714,407 shares of common stock of
\$.01 value outstanding, which is the registrant's only class of common stock.

DYNEX CAPITAL, INC.
FORM 10-Q

INDEX

<TABLE>
<CAPTION>

	PAGE
PART I. FINANCIAL INFORMATION	
<S> <C>	<C>
Item 1. Financial Statements	
Consolidated Balance Sheets at March 31, 1998 and December 31, 1997.....	3
Consolidated Statements of Operations for the three months ended March 31, 1998 and 1997.....	4
Consolidated Statement of Shareholders' Equity for the three months ended March 31, 1998.....	5
Consolidated Statements of Cash Flows for the three months ended March 31, 1998 and 1997.....	6
Notes to Unaudited Consolidated Financial Statements.....	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	12
PART II. OTHER INFORMATION	

Item 1. Legal Proceedings.....	29
Item 2. Changes in Securities.....	29
Item 3. Defaults Upon Senior Securities.....	29
Item 4. Submission of Matters to a Vote of Security Holders.....	29
Item 5. Other Information.....	29
Item 6. Exhibits and Reports on Form 8-K.....	29

SIGNATURES.....	30
-----------------	----

</TABLE>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

DYNEX CAPITAL, INC.

CONSOLIDATED BALANCE SHEETS

(amounts in thousands except share data)

<TABLE>

<CAPTION>

	March 31, 1998	December 31, 1997
ASSETS		
<S>	<C>	<C>
Investments:		
Collateral for collateralized bonds	\$ 3,810,259	\$ 4,375,561
Mortgage securities	938,153	513,750
Other investments	245,661	214,120
Loans held for securitization	1,077,145	235,023
	6,071,218	5,338,454
Cash	16,273	18,329
Accrued interest receivable	12,505	5,628
Other assets	16,411	15,761
	\$ 6,116,407	\$ 5,378,172
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Non-recourse debt - collateralized bonds	\$ 3,090,979	\$ 3,632,079
Recourse debt:		
Secured by collateralized bonds retained	502,884	494,493
Secured by investments	1,795,058	510,491
Unsecured	140,485	140,711
Accrued interest payable	7,274	7,240
Accrued expenses and other liabilities	13,314	12,756
Dividends payable	16,966	19,493
	5,566,960	4,817,263
SHAREHOLDERS' EQUITY		
Preferred stock, par value \$.01 per share, 50,000,000 shares authorized:		
9.75% Cumulative Convertible Series A, 1,323,061 and 1,397,511 issued and outstanding, respectively	30,220	31,920
9.55% Cumulative Convertible Series B, 1,917,234 and 1,957,490 issued and outstanding, respectively	44,880	45,822
9.73% Cumulative Convertible Series C, 1,840,000 and 1,840,000 issued and outstanding, respectively	52,740	52,740
Common stock, par value \$.01 per share, 100,000,000 shares authorized, 45,584,622 and 45,146,242 issued and outstanding, respectively	456	451
Additional paid-in capital	347,849	342,570
Accumulated other comprehensive income	67,895	79,441
Retained earnings	5,407	7,965
	549,447	560,909
	\$ 6,116,407	\$ 5,378,172

<FN>

See notes to unaudited consolidated financial statements.

</FN>

</TABLE>

DYNEX CAPITAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(amounts in thousands except share data)

<TABLE>

<CAPTION>

	Three Months Ended March 31,	
	1998	1997
<S>	<C>	<C>
Interest income:		
Collateral for collateralized bonds	\$ 71,580	\$ 48,462
Mortgage securities	14,930	19,629
Other investments	4,993	2,375
Loans held for securitization	6,829	6,556
	98,332	77,022
Interest and related expense:		
Non-recourse debt	57,915	34,209
Recourse debt	20,374	20,671
Other	415	556
	78,704	55,436
Net interest margin before provision for losses	19,628	21,586
Provision for losses	(1,954)	(995)
Net interest margin	17,674	20,591
Gain on sale of investments and trading revenue	4,657	2,487
Other income	628	451
General and administrative expenses	(8,527)	(5,219)
Net income	14,432	18,310
Dividends on preferred stock	(3,287)	(3,687)
Net income available to common shareholders	\$ 11,145	\$ 14,623
Net income per common share:		
Basic	\$ 0.25	\$ 0.35
Diluted	\$ 0.25	\$ 0.35

<FN>

See notes to unaudited consolidated financial statements.

</FN>

</TABLE>

DYNEX CAPITAL, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(amounts in thousands except share data)

<TABLE>

<CAPTION>

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	
Total						---
<S>	<C>	<C>	<C>	<C>	<C>	
<C>						
Balance at December 31, 1997	\$ 130,482	\$ 451	\$ 342,570	\$ 79,441	\$ 7,965	\$
560,909						

Comprehensive income:

Net income - three months ended

March 31, 1998	-	-	-	-	14,432
14,432					
Change in net unrealized gain on investments classified as available-for-sale during (11,546) the period	-	-	-	(11,546)	-
-----	-----	-----	-----	-----	-----
Total comprehensive income	-	-	-	(11,546)	14,432
2,886					
Issuance of common stock	-	3	2,757	-	-
2,760					
Conversion of preferred stock	(2,642)	2	2,640	-	-
-					
Repurchase of common stock	-	-	(118)	-	-
(118)					
Dividends on common stock	-	-	-	-	(13,703)
at \$0.30 per share					
(13,703)					
Dividends on preferred stock	-	-	-	-	(3,287)
(3,287)					
-----	-----	-----	-----	-----	-----
Balance at March 31, 1998	\$ 127,840	\$ 456	\$ 347,849	\$ 67,895	\$ 5,407
549,447					\$
	=====	=====	=====	=====	=====

<FN>

See notes to unaudited consolidated financial statements.

</FN>

</TABLE>

DYNEX CAPITAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>

<CAPTION>

(amounts in thousands)	Three Months Ended March 31,	
	1998	1997
	----- <C>	----- <C>
Operating activities:		
Net income	\$ 14,432	\$ 18,310
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses	1,954	995
Net gain from sale of investments	(4,657)	(2,487)
Amortization and depreciation	13,291	6,027
Net (increase) decrease in accrued interest, other assets and other liabilities	(4,501)	2,345
Net cash provided by operating activities	20,519	25,190
Investing activities:		
Collateral for collateralized bonds:		
Principal payments on collateral	533,702	193,514
Decrease in accrued interest receivable	3,636	1,269
Net (increase) decrease in funds held by trustees	(56)	751
Net increase in loans held for securitization	(842,536)	(122,824)
Purchase of other investments	(57,714)	(34,943)
Payments on other investments	5,339	2,814
Proceeds from sale of other investments	11,784	157
Purchase of mortgage securities	(437,083)	(47,218)
Payments on mortgage securities	19,752	19,860
Proceeds from sales of mortgage securities	-	3,454
Proceeds from sale of single family operations	9,500	9,500
Capital expenditures	(1,038)	(1,566)
Net cash (used for) provided by investing activities	(754,714)	24,768
Financing activities:		
Collateralized bonds:		
Principal payments on securities	(541,962)	(193,290)
Decrease in accrued interest payable	(1,642)	(245)
Proceeds from borrowings, net	1,292,619	150,532
Net proceeds from issuance of common stock	2,760	6,298
Repurchase of common stock	(118)	-
Dividends paid	(19,518)	(16,234)

Net cash provided by (used for) financing activities	732,139	(52,939)
Net decrease in cash	(2,056)	(2,981)
Cash at beginning of year	18,329	11,396
Cash at end of year	\$ 16,273	\$ 8,415
Cash paid for interest	\$ 76,650	\$ 53,329

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

DYNEX CAPITAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1998
(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., 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, 1998 and December 31, 1997, the Consolidated Statements of Operations for the three months ended March 31, 1998 and 1997, the Consolidated Statement of Shareholders' Equity for the three months ended March 31, 1998, the Consolidated Statements of Cash Flows for the three months ended March 31, 1998 and 1997 and related notes to consolidated financial statements are unaudited. Operating results for the three months ended March 31, 1998 are not necessarily indicative of the results that may be expected for the year ending December 31, 1998. 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, 1997.

Certain amounts for 1997 have been reclassified to conform with the presentation for 1998.

NOTE 2--EARNINGS PER SHARE

Earnings per share ("EPS") as shown on the consolidated statements of operations for the three months ended March 31, 1998 and 1997 is presented on both a basic and diluted EPS basis. Diluted EPS assumes the conversion of the convertible preferred stock into common stock, using the if-converted method, and stock appreciation rights ("SARs"), using the treasury stock method but only if these items are dilutive. As a result of the two-for-one split of the Company's common stock in May 1997, the preferred stock is convertible into two shares of common stock for one share of preferred stock.

The following table reconciles the numerator and denominator for both the basic and diluted EPS for the three months ended March 31, 1998 and 1997.

<TABLE>
<CAPTION>

	Three Months Ended March 31,			
	1998		1997	
	Income	Weighted-Average Number of Shares	Income	Weighted-Average Number of Shares
<S>	<C>	<C>	<C>	<C>
Net Income	\$ 14,432		\$ 18,310	
Less: Dividends paid on preferred stock	(3,287)		(3,687)	

Basic	11,145	45,421,134	14,623	41,666,720
Effect of dividends and additional shares of preferred stock:				
Series A	-	-	975	3,058,576
Series B	-	-	1,369	4,345,343
Series C	-	-	-	-
Diluted	\$ 11,145	45,421,134	\$ 16,967	49,070,639
Basic EPS		\$ 0.25		\$ 0.35
Diluted EPS		\$ 0.25		\$ 0.35
Reconciliation of anti-dilutive shares:				
Dividends and additional shares of preferred stock:				
Series A	\$ 794	2,707,591	\$ -	-
Series B	1,150	3,872,464	-	-
Series C	1,343	3,680,000	1,343	3,680,000
Expense and incremental shares of stock appreciation rights	500	170,812	507	172,640
	\$ 3,787	10,430,867	\$ 1,850	3,852,640

</TABLE>

NOTE 3--COLLATERAL FOR COLLATERALIZED BONDS, MORTGAGE SECURITIES AND OTHER INVESTMENTS

The following table summarizes the Company's amortized cost basis and fair value of collateral for collateralized bonds, mortgage securities and other investments classified as available-for-sale at March 31, 1998 and December 31, 1997, and the related average effective interest rates (calculated excluding unrealized gains and losses) for the month ended March 31, 1998 and December 31, 1997:

<TABLE>
<CAPTION>

	March 31, 1998		December 31, 1997	
	Fair Value	Effective Interest Rate	Fair Value	Effective Interest Rate
<S>	<C>	<C>	<C>	<C>
Collateral for collateralized bonds:				
Amortized cost	\$ 3,767,953	7.1%	\$ 4,317,945	7.5%
Allowance for losses	(22,676)		(24,811)	
Amortized cost, net	3,745,277		4,293,134	
Gross unrealized gains	75,939		94,825	
Gross unrealized losses	(10,957)		(12,398)	
	\$ 3,810,259		\$ 4,375,561	
Mortgage securities:				
Adjustable-rate mortgage securities	\$ 679,850	7.4%	\$ 403,117	7.7%
Fixed-rate mortgage securities	168,083	7.6%	21,463	9.1%
Derivative and residual securities	91,115	15.0%	97,848	16.3%
	939,048		522,428	
Allowance for losses	(3,857)		(5,692)	
Amortized cost, net	935,191		516,736	
Gross unrealized gains	24,612		18,144	
Gross unrealized losses	(21,650)		(21,130)	
	\$ 938,153		\$ 513,750	
Other investments: (1)				
Amortized cost	\$ 54,232	7.2%	\$ 38,000	6.5%
Gross unrealized gains	-		-	
Gross unrealized losses	(49)		-	

\$ 54,183

\$ 38,000

<FN>

(1) Excludes \$191,478 and \$176,120 at amortized cost of other investments not classified as available-for-sale at March 31, 1998 and December 31, 1997, respectively.

</FN>

</TABLE>

Collateral for collateralized bonds consists of debt securities backed by adjustable-rate and fixed-rate mortgage loans secured by first liens on single family and multifamily residential housing, commercial properties and manufactured housing installment loans secured by either a UCC filing or a motor vehicle title. All collateral for collateralized bonds is pledged to secure repayment of the related collateralized bonds. All principal and interest (less servicing-related fees) on the collateral is remitted to a trustee and is available for payment on the collateralized bonds. The Company's exposure to loss on collateral for collateralized bonds is generally limited to the amount of collateral pledged in excess of the related collateralized bonds issued, as the collateralized bonds issued by the limited-purpose finance subsidiaries are non-recourse to the Company.

No mortgage securities were sold during the three months ended March 31, 1998. The specific identification method is used to calculate the basis of mortgage securities sold. Gain on sale of investments and trading revenue includes gains of \$4,550 on various trading positions entered into during the three months ended March 31, 1998. At March 31, 1998, the Company had an outstanding position with a notional value of \$1.3 billion remaining and a mark-to-market gain of \$1,484.

NOTE 4--ADOPTION OF FINANCIAL ACCOUNTING STANDARDS

In January 1998, the Company adopted the Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income" ("FAS No. 130"). FAS No. 130 requires companies to classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The impact of adopting FAS No. 130 did not result in a material change to the Company's financial position and results of operations.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FAS No. 131"). FAS No. 131 establishes standard for reporting information about operating segments and is effective for financial statements issued for fiscal years beginning after December 15, 1997. There will be no significant changes to the Company's disclosures pursuant to the adoption of FAS No. 131.

In January 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits" ("FAS No. 132"). FAS No. 132 revises employers' disclosures about pension and other postretirement benefit plans and is effective for financial statements issued for fiscal years beginning after December 15, 1998. There will be no significant changes to the Company's disclosures pursuant to the adoption of FAS No. 132.

NOTE 5--DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into interest rate swap agreements, interest rate cap agreements, interest rate floor agreements, financial forwards, financial futures and options on financial futures ("Interest Rate Agreements") to manage its sensitivity to changes in interest rates. These Interest Rate Agreements are intended to provide income and cash flow to offset potential reduced net interest income and cash flow under certain interest rate environments. At trade date, these instruments are designated as either hedge positions or trade positions.

For Interest Rate Agreements designated as hedge instruments, the Company evaluates the effectiveness of these hedges periodically against the financial instrument being hedged under various interest rate scenarios. The revenues and costs associated with interest rate swap agreements are recorded as adjustments to interest income or expense on the asset or liability being hedged. For interest rate cap agreements, the amortization of the cost of the agreements is recorded as a reduction in the net interest income on the related investment. The unamortized cost is included in the carrying amount of the related investment. Revenues or cost associated with futures and option contracts are recognized in income or expense in a manner consistent with the accounting for the asset or liability being hedged. Amounts payable to or receivable from counterparties are included in the financial statement line of the item being hedged. Interest Rate Agreements that are hedge instruments and hedge an asset

which is carried at its fair value are also carried at fair value, with unrealized gains and losses reported as a separate component of shareholders' equity.

The Company may also enter into forward delivery contracts and interest rate futures and options contracts for hedging interest rate risk associated with commitments made to fund loans. Gains and losses on such contracts are either (i) deferred as an adjustment to the carrying value of the related loans until the loan has been funded and securitized, after which the gains or losses will be amortized into income over the remaining life of the loan using a method that approximates the effective yield method, or (ii) deferred until such time as the related loans are funded and sold.

If a hedged instrument is sold or matures, or the criteria that was executed at the time the hedge instrument was entered into no longer exists, the Interest Rate Agreement is no longer accounted for as a hedge. Under these circumstances, the accumulated change in the market value of the hedge is recognized in current income to the extent that the effects of interest rate or price changes of the hedged item have not offset the hedge results.

For Interest Rate Agreements entered into for trading purposes, realized and unrealized changes in fair value of these instruments are recognized in the consolidated statements of operations in gain on sale of assets in the period in which the changes occur or when such trade instruments are settled. Amounts payable to or receivable from counterparties, if any, are included on the consolidated balance sheets in accrued expenses and other liabilities.

NOTE 6 - EMPLOYEE BENEFITS

During the three months ended March 31, 1998, 24,000 SARs were exercised for a total value of \$322. The total SARs remaining to be exercised was 663,640 at March 31, 1998. The Company expensed \$500 related to the Employee and Board Incentive Plans during the first quarter 1998.

NOTE 7 -- OTHER MATTERS

During the three months ended March 31, 1998, the Company issued 218,968 shares of its common stock pursuant to its dividend reinvestment program for net proceeds of \$2,760 during the three months ended March 31, 1998.

The Company repurchased 10,000 of its common stock outstanding at an aggregate purchase price of \$118, or \$11.75 per share, during the three months ended March 31, 1998. The Company is authorized to repurchase up to one million shares of its common stock.

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

FINANCIAL CONDITION

<TABLE>

<CAPTION>

(amounts in thousands except per share data)		
	March 31, 1998	December 31, 1997
<S>	<C>	<C>
Investments:		
Collateral for collateralized bonds	\$ 3,810,259	\$ 4,375,561
Mortgage securities	938,153	513,750
Other investments	245,661	214,120
Loans held for securitization	1,077,145	235,023
Non-recourse debt - collateralized bonds	3,090,979	3,632,079
Recourse debt	2,438,427	1,145,695
Shareholders' equity	549,447	560,909
Book value per common share	9.25	9.53

</TABLE>

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 multifamily and commercial properties and the origination of loans secured by manufactured homes. The Company will generally securitize the loans funded as collateral for collateralized bonds, thereby limiting its credit risk and providing long-term

financing for its portfolio.

Collateral for collateralized bonds As of March 31, 1998, the Company had 33 series of collateralized bonds outstanding. The collateral for collateralized bonds decreased to \$3.8 billion at March 31, 1998 compared to \$4.4 billion at December 31, 1997. This decrease of \$0.6 billion is primarily the result of prepayments on the collateral during the three months ended March 31, 1998.

Mortgage securities

Mortgage securities increased to \$938.2 million at March 31, 1998 compared to \$513.8 million at December 31, 1997. The increase was primarily the result of the Company purchasing \$148.1 million of fixed-rate securities during the three months ended March 31, 1998. In addition, the Company exercised its call right on \$288.9 million of adjustable-rate mortgage ("ARM") securities during the same period. The Company intends to securitize approximately \$752.0 million of ARM securities during the second quarter of 1998.

Other investments

Other investments consists primarily of single family homes leased to home builders, property tax receivables and a note receivable received in connection with the sale of the Company's single family mortgage operations in May 1996. Other investments increased from \$214.1 million at December 31, 1997 to \$245.7 million at March 31, 1998. The increase is primarily the result of additional purchases or financing of \$30.4 million of model homes during the three months ended March 31, 1998. In addition, the Company purchased \$25.0 million of corporate bonds during the three months ended March 31, 1998. These increases were partially offset during the same period by the sale of \$11.6 million in model homes and the receipt of the \$9.5 million annual principal payment on the note receivable from the 1996 sale of the single family mortgage operations.

Loans held for securitization

Loans held for securitization increased from \$235.0 million at December 31, 1997 to \$1.1 billion at March 31, 1998. The increase was a result from new loan fundings from the Company's production operations during the three months ended March 31, 1998, totaling \$256.0 million and bulk purchases of single family loans, totaling \$562.0 million. The Company intends to securitize approximately \$810 million of the loans held for securitization during the second quarter of 1998.

Non-recourse debt - collateralized bonds

Collateralized bonds decreased to \$3.1 billion at March 31, 1998 from \$3.6 billion at December 31, 1997 primarily as a result of paydowns on the collateralized bonds during the three months ended March 31, 1998.

Recourse debt

Recourse debt increased to \$2.4 billion at March 31, 1998 from \$1.1 billion at December 31, 1997. This increase was primarily due to the addition of \$1.0 billion of repurchase agreements and \$0.3 billion of notes payable as a result of \$1.3 billion of additional assets purchased or funded during the three months ended March 31, 1998.

Shareholder' equity

Shareholders' equity decreased to \$549.4 million at March 31, 1998 from \$560.9 million at December 31, 1997. This decrease was primarily the result of a \$11.5 million decrease in the net unrealized gain on investments available-for-sale from \$79.4 million at December 31, 1997 to \$67.9 million at March 31, 1998. Also, the Company repurchased 10,000 of its common shares at an aggregate purchase price of \$0.1 million, or \$11.75 per share, during the three months ended March 31, 1998. These decreases were partially offset by \$2.8 million of common stock proceeds received through the dividend reinvestment plan during the quarter.

Loan Production Activity (\$ in thousands)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	1998	1997
<S>	<C>	<C>
Commercial	\$ 203,339 (1)	\$ 12,676
Manufactured housing	83,948	29,077
Specialty finance	33,403	35,242
	-----	-----

Total fundings through direct production	320,690	76,995
Securities acquired through bond calls	288,930	7,836
Single family fundings through bulk purchases	562,045	98,144
	=====	=====
Total fundings	\$ 1,171,665	\$ 182,975
	=====	=====

<FN>

(1) Included in commercial fundings were \$32.7 million of construction loans closed during the three months ended March 31, 1998. Only the draw amount for these is included in the balance of the loans held for securitization.

</FN>

</TABLE>

RESULTS OF OPERATIONS

<TABLE>

<CAPTION>

(amounts in thousands except per share information)	Three Months Ended March 31,	
	1998	1997
<S>	<C>	<C>
Net interest margin	\$ 17,674	\$ 20,591
Gain on sale of assets, net	4,657	2,487
General and administrative expenses	8,527	5,219
Net income	14,432	18,310
Basic net income per common share (1)	0.25	0.35
Diluted net income per common share (1)	0.25	0.35
Total fundings	1,171,665	182,975
Dividends declared per share:		
Common (1)	\$ 0.30	\$ 0.325
Series A and B Preferred	0.60	0.650
Series C Preferred	0.73	0.730

<FN>

(1) Adjusted for two-for-one common stock split effective May 5, 1997.

</FN>

</TABLE>

Three Months Ended March 31, 1998 Compared to Three Months Ended March 31, 1997. The decrease in the Company's earnings during the three months ended March 31, 1998 as compared to the same period in 1997 is primarily the result of the decrease in the net interest margin and increase in general and administrative expenses.

Net interest margin for the three months ended March 31, 1998 decreased to \$17.7 million, or 14%, below the \$20.6 million for the same period for 1997. This decrease was primarily the result of a \$4.7 million increase in premium amortization expense, which resulted from a higher rate of prepayments in the investment portfolio during the first quarter 1998. Amortization expense arises from the amortization of premiums on assets in the Company's investment portfolio due to scheduled payments and prepayments received. The net interest spread on the Company's investment portfolio decreased to 1.24% for the three months ended March 30, 1998 from 1.71% for the same period in 1997. The decrease in net interest spread for the three months ended March 31, 1998 relative to the same period in 1997 is also primarily the result of the higher premium amortization as a result of the increase in principal prepayments.

The gain on sale of assets, net, for the three months ended March 31, 1998 increased to \$4.7 million, as compared to \$2.5 million for the three months ended March 31, 1997. The increase in the net gain is primarily the result of gains recognized of \$4.6 million on trading positions entered into during the three months ended March 31, 1998.

General and administrative expenses increased \$3.3 million, or 63%, to \$8.5 million for the three months ended March 31, 1998 as compared to the same period for 1997. The increase is a result of the growth in the Company's production operations.

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.

Average Balances and Effective Interest Rates

<TABLE>

<CAPTION>

Three Months Ended March 31,

(amounts in thousands)	1998		1997	
	Average Balance	Effective Rate	Average Balance	Effective Rate
<S>	<C>	<C>	<C>	<C>
Interest-earning assets : (1)				
Collateral for collateralized bonds (2) (3)	\$ 3,917,023	7.31 %	\$ 2,500,179	7.75 %
Mortgage securities	700,872	8.52	911,107	8.62
Other investments	204,687	9.78	100,769	9.58
Loans held for securitization	317,706	8.60	310,424	8.45
Total interest-earning assets	\$ 5,140,288	7.65 %	\$ 3,822,479	8.06 %
Interest-bearing liabilities:				
Non-recourse debt-collateralized bonds(3)	\$ 3,424,160	6.62 %	\$ 2,017,545	6.58 %
Recourse debt - collateralized bonds retained	501,937	5.88	365,439	5.63
	3,926,097	6.52	2,382,984	6.43
Recourse debt secured by investments:				
Mortgage securities	501,512	5.61	755,564	6.13
Other investments	93,787	7.36	13,776	7.93
Loans held for securitization	141,047	2.93	188,301	5.18
Recourse debt - unsecured	139,541	8.87	43,631	10.02
Total interest-bearing liabilities	\$ 4,801,984	6.41 %	\$ 3,384,256	6.35 %
Net interest spread on all investments (3)		1.24 %		1.71 %
Net yield on average interest-earning assets (3)		1.67 %		2.44 %

<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 \$2,190 and \$2,285 for the three months ended March 31, 1998 and March 31, 1997, respectively.
- (3) Effective rates are calculated excluding non-interest related collateralized bond expenses and provision for credit losses.

</FN>

</TABLE>

The net interest spread decreased to 1.24% for the three months ended March 31, 1998 from 1.71% for the same period in 1997. This decrease was primarily the result of the decline in the spread on collateral for collateralized bonds, which constituted the largest portion of the Company's investment portfolio on a weighted-average basis. The overall yield on interest-earning assets decreased to 7.65% for three months ended March 31, 1998, from 8.06% for the same period in 1997. This decrease of 0.41% is primarily due to an increase in amortization expense, which resulted from a higher rate of prepayments in the investment portfolio during the first quarter of 1998.

Individually, the net interest spread on collateral for collateralized bonds decreased 53 basis points, from 132 basis points for the three months ended March 31, 1997 to 79 basis points for the same period in 1998. This decline was primarily due to the securitization of lower coupon collateral, principally A+ quality single family ARM loans during 1997 coupled with higher premium amortization caused by increased prepayments during the first quarter of 1998 and the decline in spread between six-month LIBOR and one-month LIBOR. The net interest spread on mortgage securities increased 42 basis points, from 249 basis points for the three months ended March 31, 1997 to 291 basis points for the three months ended March 31, 1998. This increase is partially attributed to the higher yielding ARM residual trusts the Company purchased during the first three quarters of 1997. The net interest spread on other investments increased 77 basis points, from 165 basis points for the three months ended March 31, 1997, to 242 basis points for the same period in 1998, due primarily to lower borrowing costs associated with the Company's single family model home purchase and leaseback business during 1998 than during the same period in 1997. The net interest spread on loans held for securitization increased 240 basis points, from 327 basis points for the three months ended March 31, 1997, to 567 basis points for the same period in 1998. This increase is primarily attributable to lower borrowing costs as a result of compensating balances during the first quarter 1998 than during the same period in 1997.

Interest Income and Interest-Earning Assets

The Company's average interest-earning assets were \$5.1 billion for the three months ended March 31, 1998, an increase of approximately 34% from \$3.8 billion of average interest-earning assets during the same period of 1997. This increase in average interest-earning assets was primarily the result of the addition of \$2.7 billion of collateral for collateralized bonds during 1997. Of this amount, \$0.3 billion resulted from the pledge of ARM securities already owned by the Company as collateral for collateralized bonds. In addition, the Company acquired \$1.3 billion of investments during the first quarter 1998. These were partially offset by \$1.4 billion of principal paydowns on investments during the twelve months ended March 31, 1998. Total interest income rose approximately 28%, from \$77.0 million for the three months ended March 31, 1997 to \$98.3 million for the same period of 1998. This increase in total interest income was due to the growth in average interest-earnings assets. Overall, the yield on interest-earning assets declined to 7.65% for the three months ended March 31, 1998 from 8.06% for the three months ended March 31, 1997, as the premium amortization expense grew due to an increase in principal prepayments on investments. Premium amortization expense reduced the average interest-earning asset yield 0.66% for the first quarter of 1998 versus 0.40% for the first quarter of 1997. As indicated in the table below, average asset yields were 1.98% and 2.37% higher than the average daily London InterBank Offered Rate ("LIBOR") for six-month deposits ("six-month LIBOR") during the three months ended March 31, 1998 and 1997, respectively. While a 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, approximately 21% are indexed to and reset based upon the level of the One Year Constant Maturity Treasury Index (CMT).

Earning Asset Yield
(\$ in millions)

<TABLE>
<CAPTION>

	Average Interest- Earning Assets	Interest Income	Average Interest- Earnings Asset Yield	Daily Average Six Month LIBOR	Asset Yield versus Six Month LIBOR
<S>	<C>	<C>	<C>	<C>	<C>
1996, Quarter 2	\$ 4,164.8	\$ 78.3	7.52%	5.64%	1.88%
1996, Quarter 3	4,106.5	78.4	7.63%	5.80%	1.83%
1996, Quarter 4	4,308.6	83.1	7.72%	5.60%	2.12%
1997, Quarter 1	3,822.5	77.1	8.06%	5.69%	2.37%
1997, Quarter 2	4,326.4	85.7	7.93%	5.97%	1.96%
		(1)			
1997, Quarter 3	4,806.5	92.7	7.71%	5.84%	1.87%
		(1)			
1997, Quarter 4	5,147.6	100.1	7.78%	5.88%	1.90%
		(1)			
1998, Quarter 1	5,140.3	98.3	7.65%	5.67%	1.98%

<FN>
(1) Interest income includes the gross interest income on certain securities which are accounted for net of their relate debt in the financial statements.

</FN>
</TABLE>

The average asset yield is reduced for the amortization of premiums, net of discounts on the Company's investment portfolio. By creating its investments through its production operations, the Company believes that premium amounts are less than if the investments were acquired in the market. As indicated in the table below, net premiums on the Company's collateral for collateralized bonds, ARM securities and fixed-rate securities at March 31, 1998 were \$49.5 million, or approximately 1.09% of the aggregate investment portfolio balance as compared to \$50.2 million and 1.58% at March 31, 1997. The principal repayment rate for the Company (indicated in the table below as "CPR Annualized Rate") was approximately 47% for the three months ended March 31, 1998. CPR or "constant prepayment rate" is a measure of the annual prepayment rate on a pool of loans.

Premium Basis and Amortization
(\$ in millions)

<TABLE>
<CAPTION>

	Net Premium (Discount)	Amortization Expense	CPR Annualized Rate	Principal Paydowns	Amortization Expense as a % of Principal Paydowns
<S>	<C>	<C>	<C>	<C>	<C>

1996, Quarter 2	\$	56.0	\$	4.0	28%	\$	226.3	1.75%
1996, Quarter 3		60.8		2.8	19%		156.8	1.80%
1996, Quarter 4		54.1		3.7	24%		196.9	1.89%
1997, Quarter 1		50.2		3.8	29%		209.7	1.84%
1997, Quarter 2		62.7		4.0	30%		205.1	1.94%
1997, Quarter 3		57.9		4.8	29%		258.8	1.85%
1997, Quarter 4		56.9		5.8	37%		319.6	1.80%
1998, Quarter 1		49.5		8.5	47%		546.7	1.56%

</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 repurchase agreements or non-recourse collateralized bonds, both of which are primarily indexed to LIBOR, principally one-month LIBOR. 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. The Company's average borrowed funds increased from \$3.4 billion for the three months ended March 31, 1997 to \$4.8 billion for the same period in 1998. This increase resulted primarily from the issuance of \$2.6 billion of collateralized bonds during 1997. In addition, the Company financed \$1.3 billion of investments acquired during the first quarter 1998 with \$1.0 billion of repurchase agreements and \$0.3 billion of notes payable. These increases were partially offset by a reduction of repurchase agreements during 1997 primarily as a result of the Company securitizing \$311.1 million of ARM securities previously financed with repurchase agreements as collateral for collateralized bonds. For the three months ended March 31, 1998, interest expense increased to \$76.9 million from \$53.7 million for the three months ended March 31, 1997, while the average cost of funds increased to 6.41% for the three months ended March 31, 1998 compared to 6.35% for the same period in 1997. The increased average cost of funds for the first quarter of 1998 compared to the first quarter of 1997 was due mainly to the increase in one-month LIBOR from 5.46% at March 31, 1997 to 5.65% at March 31, 1998.

Cost of Funds (\$ in millions)

<TABLE>
<CAPTION>

		Average Borrowed Funds		Interest Expense (1) (2)		Cost of Funds		Average One-month LIBOR
<S>		<C>		<C>		<C>		<C>
1996, Quarter 2	\$	3,782.8	\$	57.6		6.09%		5.45%
1996, Quarter 3		3,718.0		57.1		6.14%		5.46%
1996, Quarter 4		3,869.6		60.1		6.21%		5.46%
1997, Quarter 1		3,384.6		53.7		6.35%		5.46%
1997, Quarter 2		3,876.1		61.4		6.34%		5.69%
1997, Quarter 3		4,365.3		69.0		6.32%		5.65%
1997, Quarter 4		4,579.6		74.4		6.50%		5.76%
1998, Quarter 1		4,802.0		76.9		6.41%		5.65%

<FN>
(1) Excludes non-interest collateralized bond-related expenses.
(2) Includes the net amortization expense of bond discounts and bond premiums.
</FN>
</TABLE>

Interest Rate Agreements

As part of the Company's asset/liability management process for its investment portfolio, 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, the mismatching of the fixed interest rates on certain portfolio investments versus the floating rate on the related 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 income and 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 loan 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.

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

<TABLE>
<CAPTION>

Notional Amounts	Interest Rate Caps	Interest Rate Swaps	Financial Futures	Options on Futures
<S>	<C>	<C>	<C>	<C>
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	-	-
1997, Quarter 2	1,499	1,442	-	-
1997, Quarter 3	1,499	1,381	-	-
1997, Quarter 4	1,499	1,354	-	-
1998, Quarter 1	1,499	1,559	-	-

<FN>
(1) Excludes all interest rate agreements in effect for the Company's loan 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, 1998, net hedging expense amounted to \$1.23 million compared to \$1.39 million and \$2.65 million for the quarters ended December 31, 1997 and March 31, 1997, respectively. Such amounts exclude the hedging costs and benefits associated with the Company's production activities as these amounts are deferred as additional premium or discount on the loans funded and amortized over the life of the loans as an adjustment to their yield. The decrease in the net interest rate agreement expense for the three months ended March 31, 1998 compared to the same period in 1997 is primarily related to costs on financial futures used to lengthen repurchase agreement maturities during the first quarter of 1997.

Net Interest Rate Agreement Expense
(\$ in millions)

<TABLE>
<CAPTION>

	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>
1996, Quarter 2	\$ 1.02	0.10%	0.11%
1996, Quarter 3	1.29	0.13%	0.14%
1996, Quarter 4	2.67	0.25%	0.28%
1997, Quarter 1	2.65	0.28%	0.31%
1997, Quarter 2	1.23	0.11%	0.13%
1997, Quarter 3	1.35	0.11%	0.12%
1997, Quarter 4	1.39	0.11%	0.12%
1998, Quarter 1	1.23	0.10%	0.10%

</TABLE>

Fair Value

The fair value of the available-for-sale portion of the Company's investment portfolio as of March 31, 1998, as measured by the net unrealized gain on investments available-for-sale, was \$67.9 million above its cost basis, which represents a \$11.5 million decrease from \$79.4 million at December 31, 1997. This decrease in the portfolio's value is primarily attributable to the accelerated prepayment activity for the quarter ended March 31, 1998.

Credit Exposures

The Company securitizes its loan production into 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 as a form of credit enhancement. With all forms of credit enhancement, the Company may retain a

limited portion of the direct credit risk after securitization.

The following table summarizes the aggregate principal amount of collateral for collateralized bonds and pass-through securities outstanding; the maximum direct credit exposure retained by the Company (represented by the amount of overcollateralization pledged and subordinated securities rated below BBB owned by the Company), net of the credit reserves maintained by the Company for such exposure; and the actual credit losses incurred for each year. The table excludes any risks related to representations and warranties made on loans funded by the Company and securitized in mortgage pass-through securities generally funded prior to 1995. This table also excludes any credit exposure on loans held for securitization and other investments. The increase from 0.83% at March 31, 1997 to 2.22% at March 31, 1998 is related primarily to the credit exposure retained by the Company on its \$2.7 billion in securitizations during 1997. The increase from 1.68% at December 31, 1997 to 2.22% at March 31, 1998 is principally due to the principal balance of certain subordinated securities owned by the Company being reduced to \$0 during the first quarter 1998, which as a result, eliminated that credit risk and are excluded from this table at March 31, 1998. The net credit exposure in the table below includes \$22 million of credit exposure from the Company's commercial loan securitization in October 1997. The Company anticipates that such exposure will be substantially eliminated during the second half of 1998 through the sale or resecuritization of currently retained classes from that securitization, though no assurance can be given that these retained classes will be sold or resecuritized. There were no delinquencies on loans included in this security at March 31, 1998.

Credit Reserves and Actual Credit Losses
(\$ in millions)

<TABLE>
<CAPTION>

	Outstanding Loan Balance	Maximum Credit Exposure, Net of Credit Reserves	Actual Credit Losses	Maximum Credit Exposure, Net of Credit Reserves to Outstanding Loan Balance
<S>	<C>	<C>	<C>	<C>
1996, Quarter 2	\$ 3,130.9	\$ 27.7	\$ 1.1	0.88%
1996, Quarter 3	3,995.6	29.5	2.0	0.74%
1996, Quarter 4	3,848.1	30.0	2.1	0.78%
1997, Quarter 1	3,583.2	29.6	2.6	0.83%
1997, Quarter 2	4,305.5	50.3	4.9	1.17%
1997, Quarter 3	3,975.7	50.2	5.8	1.26%
1997, Quarter 4	5,153.1	86.6	6.5	1.68%
1998, Quarter 1	4,209.5	93.6	6.3	2.22%

</TABLE>

The following table summarizes single family mortgage loan, manufactured housing loan and commercial mortgage loan delinquencies as a percentage of the outstanding collateral balance for those securities mentioned above in which the Company has retained a portion of the direct credit risk. As of March 31, 1998, 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.

Delinquency Statistics

<TABLE>
<CAPTION>

	60 to 90 days delinquent	90 days and over delinquent (includes REO and foreclosures)	Total
<S>	<C>	<C>	<C>
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%
1997, Quarter 2	0.59%	3.25%	3.84%
1997, Quarter 3	0.86%	3.31%	4.17%
1997, Quarter 4	0.48%	2.56%	3.04%
1998, Quarter 1	0.38%	2.36%	2.74%

</TABLE>

The following table summarizes the credit rating for securities held in the Company's investment portfolio. This table excludes the Company's other residual and derivative securities (as the risk on such securities is primarily prepayment-related, not credit-related), certain other investments which are not debt securities and loans held for securitization. The carrying balances of the investments rated below A are net of credit reserves and discounts. The average

credit rating of the Company's investments at the end of the first quarter of 1998 was AAA. At March 31, 1998, securities with a credit rating of AA or better were \$4.6 billion, or 97.6% of the Company's total investments compared to 98.3% and 99.1% at December 31, 1997 and March 31, 1997, respectively. At the end of the first quarter 1998, \$738.4 million of 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.

Investments by Credit Rating (1)
(\$ in millions)

<TABLE>
<CAPTION>

of	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 Total
-----	-----	-----	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
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%
1997, Quarter 2	3,372.2	588.4	2.5	57.0	83.9%	14.6%	0.1%	1.4%
1997, Quarter 3	2,867.6	601.0	6.7	56.4	81.2%	17.0%	0.2%	1.6%
1997, Quarter 4	4,346.3	358.8	-	82.9	90.8%	7.5%	-	1.7%
1998, Quarter 1	4,067.4	501.9	25.7	87.4	86.9%	10.7%	0.5%	1.9%

<FN>

(1) Carrying value does not include derivative and residual securities, certain other investments which are not debt securities and loans held for securitization.

</FN>
</TABLE>

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 increased for the three month period ended March 31, 1998 as compared to the same period in 1997, primarily as a result of continued costs in connection with the build-up of the production infrastructure for the manufacturing housing, commercial lending, and specialty finance businesses.

The following table summarizes the Company's efficiency and the ratio of G&A expense to average interest-earning assets.

Operating Expense Ratios

<TABLE>
<CAPTION>

	G&A Efficiency Ratio (1)	G&A Expense/Average Interest-Earning Assets (Annualized)
-----	-----	-----
<S>	<C>	<C>
1996, Quarter 2	6.77%	0.51%
1996, Quarter 3	5.67%	0.43%
1996, Quarter 4	6.09%	0.47%
1997, Quarter 1	6.78%	0.55%
1997, Quarter 2	7.11%	0.53%
1997, Quarter 3	7.35%	0.54%
1997, Quarter 4	7.86%	0.56%
1998, Quarter 1	8.67%	0.66%

<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 decreased from \$18.3 million for the three months ended March 31, 1997 to \$14.4 million for the three months ended March 31, 1998. Net income available to common shareholders decreased from \$14.6 million to \$11.1 million for the same periods, respectively. Return on common equity (excluding the impact of the net unrealized gain on investments available-for-sale) decreased

from 18.8% for the three months ended March 31, 1997 to 12.5% for the three months ended March 31, 1998. The decrease in the return on common equity is a combined result of the issuance of new common shares through the continuous offering program and the dividend reinvestment program and a decrease in net income available to common shareholders due to an increase in amortization expense and G&A.

Components of Return on Equity
(\$ in thousands)

<TABLE>
<CAPTION>

	Net Interest Margin/ Average Common Equity (annualized)	Provision for Losses /Average Common Equity (annualized)	Gains and Other Income /Average Common Equity (annualized)	G&A Expense/ Average Common Equity (annualized)	Preferred Dividend/ Average Common Equity (annualized)	Return on Average Common Equity (annualized)	Net Income Available to Common Shareholders
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1996, Quarter 2	25.6%	0.5%	17.7%	7.3%	3.0%	32.5%	\$ 23,704
1996, Quarter 3	26.5%	1.2%	2.7%	5.9%	2.9%	19.2%	14,363
1996, Quarter 4	28.2%	1.9%	4.3%	6.7%	4.6%	19.3%	14,480
1997, Quarter 1	27.8%	1.3%	3.8%	6.7%	4.8%	18.8%	14,623
1997, Quarter 2	28.3%	1.8%	3.5%	7.1%	4.6%	18.3%	14,668
1997, Quarter 3	26.4%	1.6%	6.2%	7.7%	4.5%	18.8%	15,784
1997, Quarter 4	27.1%	2.3%	3.5%	8.1%	4.2%	16.0%	14,103
1998, Quarter 1	22.0%	2.2%	5.9%	9.5%	3.7%	12.5%	11,145

</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 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.

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

<TABLE>
<CAPTION>

	Estimated Taxable Net Income Available to Common Shareholders	Estimated Taxable Net Income Per Common Share (1)	Dividend Declared Per Common Share (1)	Dividend Pay-out Ratio	Estimated Cumulative Undistributed Taxable Income (Loss)
<S>	<C>	<C>	<C>	<C>	<C>
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
1997, Quarter 2	12,016	0.283	0.335	118%	13,524
1997, Quarter 3	10,531	0.248	0.345	139%	9,392
1997, Quarter 4	10,132	0.228	0.350	154%	3,949
1998, Quarter 1	21,970	0.484	0.300	62%	12,293

<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, 1998, the Company's taxable income per share of \$0.484 was higher than the Company's declared dividend per share of \$0.300. The majority of the difference was caused by GAAP and tax differences related to the sale of the single-family operations in May 1996. For tax purposes, the sale of the single-family operations 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 that the Company files its federal income tax returns for each year.

Year 2000

The Year 2000 issue affects virtually all companies and organizations. Many companies have existing computer applications which use only two digits to identify a year in the date field. These applications were designed and developed without considering the impact of the change of the century. If not corrected these computer applications may fail or create erroneous results by the year 2000.

The majority of the Company's information critical systems have been developed internally since 1992. The development of these systems was undertaken with full awareness of issues involving the Year 2000, and consequently the Company does not expect to encounter any significant Year 2000 problems with these systems.

The Company also relies upon a small number of third party software vendors for certain information systems. Testing of these vendors' systems is expected to be completed by the end of 1998, and the Company does not expect to see any significant impact to the operations supported by these vendors as a result of Year 2000 problems. Additionally, the Company does not expect that any expenses incurred as a result of any necessary modifications will be material to the results of operations.

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 net interest margin and the return of principal on the portfolio of investments. The Company's primary source of borrowings is through the issuance of collateralized bonds. Other borrowings such as repurchase agreements and warehouse lines of credit 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 that is funded with recourse debt 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. During the three months ended March 31, 1998, the Company issued 218,968 shares of its common stock pursuant to its dividend reinvestment program for net proceeds of \$2.8 million.

The Company borrows funds on a short-term basis to support the accumulation of loans prior to the issuance of collateralized bonds. 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.

Non-recourse Debt

The Company, through limited-purpose finance subsidiaries, has issued non-recourse debt in the form of collateralized bonds to fund its investment growth. The obligations under the collateralized bonds are payable solely from the collateral for collateralized bonds and are otherwise non-recourse to the Company. Collateral for collateralized bonds are not subject to margin calls. The maturity of each class is directly affected by the rate of principal prepayments on the related collateral. Each series is also subject to redemption according to specific terms of the respective indentures, generally when the remaining balance of the bonds equals 35% or less of the original principal balance of the bonds. At March 31, 1998, the Company has \$3.1 billion of collateralized bonds outstanding as compared to \$3.6 billion at December 31, 1997.

Recourse Debt

Secured. At March 31, 1998, the Company had three credit facilities aggregating \$600 million to finance loan fundings of which \$300 million expires in 1998 and \$300 million expires in 1999. One of these facilities includes several sublines aggregating \$200 million to serve various purposes, such as multifamily loan fundings, working capital, and manufactured housing loan fundings. Unsecured working capital borrowings under this facility are limited to \$30 million. The Company expects 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, 1998. However, changes in asset levels or results of operations could result in the violation of one or more covenants in the future. At March 31, 1998, the Company had \$364.2 million outstanding under its credit facilities.

The Company finances a portion of its investments through repurchase agreements. Repurchase agreements allow the Company to sell investments for cash together with a simultaneous agreement to repurchase the same investments on a specified date for a price which is equal to the original sales price plus an interest component. At March 31, 1998, the Company had outstanding obligations of \$1,861.3 million under such repurchase agreements compared to \$889.0 million at December 31, 1997.

Increases in either short-term interest rates or long-term interest rates could negatively impact the valuation of mortgage securities and may limit the Company's borrowing ability or cause various lenders to initiate margin calls for mortgage securities financed using repurchase agreements. 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 may 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 investments in order to maintain liquidity. If required, these sales could be at prices lower than the carrying value of the assets, which could result in losses.

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 investments by entering into certain interest rate futures and/or purchased option contracts. As of March 31, 1998, the Company had no such financial futures or option contracts outstanding.

Unsecured. Since 1994, the Company has issued three series of unsecured notes payable totaling \$150 million. The proceeds from these issuances have been used to reduce short-term debt related to financing loans held for securitization during the accumulation period as well as for general corporate purposes. These notes payable have an outstanding balance at March 31, 1998 of \$141 million. The Company also has various acquisition notes payable totaling \$1.3 million at March 31, 1998. The above note agreements contain certain financial covenants which the Company met as of March 31, 1998. However, changes in asset levels or results of operations could result in the violation of one or more covenants in the future. On May 11, 1998, the Company filed with the Securities and Exchange Commission a preliminary prospectus supplement to issue \$60 million of unsecured senior notes due July 1, 2008.

Total recourse debt increased from \$1.1 billion for December 31, 1997 to \$2.4 billion for March 31, 1998. This increase is primarily a result of the \$1.3 billion of loans and investments acquired during the first quarter. Total recourse debt should decline during the second quarter of 1998 as the Company anticipates it will finance on a long-term basis a portion of the loans held for securitization and a portion of the mortgage securities through the issuance of collateralized bonds.

Total Recourse Debt
(\$ in millions)

<TABLE>
<CAPTION>

- - - - -

	Total Recourse Debt	Total Recourse Debt to Equity	Fixed Charge Coverage Ratio
<S>	<C>	<C>	<C>
1996, Quarter 2	\$ 2,314.0	6.08	1.73
1996, Quarter 3	1,750.0	4.01	1.53
1996, Quarter 4	1,299.9	2.56	1.72
1997, Quarter 1	1,450.8	2.84	1.89
1997, Quarter 2	1,802.2	3.47	1.73
1997, Quarter 3	1,862.6	3.43	1.86
1997, Quarter 4	1,145.7	2.05	1.76
1998, Quarter 1	2,438.4	4.35	1.71

Potential immediate sources of liquidity for the Company include cash balances and unused availability on the credit facilities described above. The potential immediate sources of liquidity decreased 45% at March 31, 1998 in comparison to December 31, 1997. This decrease in potential immediate sources of liquidity was due primarily to the significant increase in fundings during the three months ended March 31, 1998. The Company anticipates that the potential immediate sources of liquidity will return to fourth quarter 1997 levels as a result of the securitization planned for the end of May which is expected to reduce recourse borrowings by approximately \$1.5 billion.

Potential Immediate Sources of Liquidity
(\$ in millions)

<TABLE>
<CAPTION>

	Unrestricted Cash Balance	Estimated Unused Borrowing Capacity	Potential Immediate Sources of Liquidity	Potential Immediate Sources of Liquidity as a % of Total Recourse Debt
<S>	<C>	<C>	<C>	<C>
1996, Quarter 2	\$ 15.2	\$ 102.8	\$ 118.0	6.26%
1996, Quarter 3	9.7	118.7	128.4	9.82%
1996, Quarter 4	7.6	131.8	139.4	10.74%
1997, Quarter 1	4.4	139.9	144.3	9.99%
1997, Quarter 2	2.7	59.7	62.4	4.60%
1997, Quarter 3	4.8	164.6	169.4	9.14%
1997, Quarter 4	8.1	154.8	162.9	14.22%
1998, Quarter 1	7.1	82.5	89.6	3.68%

</TABLE>

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

Economic Conditions. The Company is affected by consumer demand for manufactured housing, multifamily housing and other products which it finances. A material decline in demand for these products 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 short-term interest rates, since the investments generally have periodic interest rate caps and the related borrowing have no such interest rate caps.

Defaults. Defaults by borrowers on loans retained by the Company may have an adverse impact on the Company's financial performance, if actual credit losses differ materially from estimates made by the Company 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 by borrowers on loans securitized by the Company may have an adverse impact on the Company's financial performance. Prepayments are expected to increase during a declining interest rate or flat yield curve environment. The Company's exposure to rapid prepayments is primarily (i) the faster amortization of premium on the investments and, to the extent applicable, amortization of bond discount, and (ii) the replacement of investments in its portfolio with lower yield securities. At March 31, 1998, the yield curve was still considered flat relative to its normal shape, and as a result, the Company expects continued high levels of prepayment through the second quarter of 1998.

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

None

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

(a) Exhibits

None

(b) Reports on Form 8-K

None

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, 1998

<TABLE> <S> <C>

<ARTICLE>	5
<MULTIPLIER>	1,000
<S>	<C>
<PERIOD-TYPE>	3-mos
<FISCAL-YEAR-END>	Dec-31-1998
<PERIOD-START>	Jan-01-1998
<PERIOD-END>	Mar-31-1998
<CASH>	16,273
<SECURITIES>	4,994,073
<RECEIVABLES>	12,505
<ALLOWANCES>	0
<INVENTORY>	0
<CURRENT-ASSETS>	0 <F1>
<PP&E>	0
<DEPRECIATION>	0
<TOTAL-ASSETS>	6,116,407
<CURRENT-LIABILITIES>	0 <F1>
<BONDS>	3,090,979
<PREFERRED-MANDATORY>	0
<PREFERRED>	127,840
<COMMON>	456
<OTHER-SE>	421,151
<TOTAL-LIABILITY-AND-EQUITY>	6,116,407
<SALES>	0
<TOTAL-REVENUES>	103,617
<CGS>	0
<TOTAL-COSTS>	0
<OTHER-EXPENSES>	12,229
<LOSS-PROVISION>	1,954
<INTEREST-EXPENSE>	78,289
<INCOME-PRETAX>	11,145
<INCOME-TAX>	0
<INCOME-CONTINUING>	11,145
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	11,145
<EPS-PRIMARY>	0.25
<EPS-DILUTED>	0.25
<FN>	

<F1> The Company's balance sheet is unclassified.
</FN>

</TABLE>