

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT

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

Date of Report: February 25, 1999

DYNEX CAPITAL, INC.
(Exact Name of Registrant as Specified in Charter)

Virginia (State or Other Jurisdiction of Incorporation)	1-9819 (Commission File Number)	52-1549373 (IRS Employer Identification No.)
10900 Nuckols Road, 3rd Floor, Glen Allen, Virginia (Address of Principal Executive Offices)		23060 (Zip Code)

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

Item 5. Other Events.

As disclosed in previous filings, on June 10, 1998, Dynex Capital, Inc. (the "Company" or "Dynex") entered into various agreements (the "Agreements") with AutoBond Acceptance Corporation ("AutoBond") (Amex: ABD) and AutoBond Master Funding Corporation V ("Funding"), a wholly-owned subsidiary of AutoBond, whereby the Company would provide Funding with limited funding over a one year period to finance its purchase of retail installment contracts from AutoBond up to \$20 million per month. These Agreements were subsequently amended to increase the funding amount to \$25 million per month and to extend the term through November 30, 1999. AutoBond is a specialty consumer finance company that underwrites, acquires, services and securitizes retail installment contracts originated by automobile dealers to borrowers that are credit impaired. In exchange, the Company, through an affiliate, received an option to purchase 5.5 million shares of common stock of AutoBond held by the three principal shareholders of AutoBond, for a price of \$6.00 per share. The Company also purchased from AutoBond a \$3.0 million senior note convertible into 500,000 shares of AutoBond's common stock. To date, the Company has funded \$169 million of funding notes related to auto contracts with a principal balance of \$163 million. As of February 15, 1999, the outstanding balance of the collateral is \$145 million and the outstanding balance of the funding notes is \$149 million. The funding notes had a weighted average coupon of 7.7% and the collateral has a weighted average coupon of 19.8%. The funding notes receive all the cash (less servicing fees) received on the auto loans until paid in full. The Company finances these funding notes with a \$100 million committed credit facility through Daiwa Finance Corp.

In anticipation of exercising the stock option and also to perform compliance review procedures as allowed for under the Agreements, Dynex notified AutoBond in late December that the Company would be performing due diligence and compliance procedures beginning January, 1999. Dynex hired outside consultants, experienced in subprime auto lending, to assist in designing and performing the various tests and procedures. These tests and procedures included, among others, the testing of compliance with AutoBond's underwriting criteria using a statistically significant sample of loans. In late January, Dynex received the results from the underwriting compliance tests which showed that a significant number of loans contained material deviations from AutoBond's underwriting criteria. Also during the due diligence process, AutoBond failed to provide Dynex and its consultants with a significant amount of requested information. Based on these findings and results, the Company notified AutoBond of these breaches to the Agreements, and discontinued funding. Subsequent to giving AutoBond notice of the breaches, Dynex personnel and one of the consultants met with AutoBond personnel over a three day period to review the results of the underwriting compliance tests. As Dynex maintained its position that the underwriting criteria were those attached to the Agreements, the parties were unable to agree on the underwriting criteria under which the loan files should be tested. Since February 8, 1999, AutoBond has refused access for Dynex personnel, its advisors and consultants to the loan files and related records, creating an additional breach under the Agreements.

As a consequence of the breaches by AutoBond, Dynex has filed suit against AutoBond in the Federal district court of the Eastern District of Virginia seeking declaratory relief with respect to its rights and obligations under these Agreements. AutoBond has filed suit against Dynex in the district court of Travis County, Texas alleging breach of contract and other claims.

The outside consultants also performed various tests and procedures to determine AutoBond's compliance with its servicing procedures and guidelines. In early February, Dynex received the results from the servicing compliance tests, which highlighted certain irregularities. Based upon such report, Dynex analyzed the loan data information that it has received monthly from AutoBond. Based upon such analysis, Dynex determined that the delinquency ratio reported and certified by AutoBond was understated, and that the delinquency ratio was such that a "Triggering Event" had occurred as specified in the Agreements. Such Triggering Event allowed Dynex to immediately terminate AutoBond as servicer. On February 22, 1999, Dynex notified AutoBond that it was terminating its servicing arrangement due to the Triggering Event, and named Systems & Services Technologies as successor servicer.

To this date AutoBond has still denied Dynex access to the loan files and related information, and has not cooperated on the servicing transfer.

Item 7. FINANCIAL STATEMENTS AND EXHIBITS.

Exhibit	
Number	Exhibit
99.1	Dynex Capital, Inc. Press Release, dated February 25, 1999 (filed herewith).

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 hereunto duly authorized.

Date: February 25, 1999

DYNEX CAPITAL, INC.

By: /s/ Lynn K. Geurin

Lynn K. Geurin
Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX

Exhibit	Sequentially Numbered Page
Dynex Capital, Inc. Press Release, dated February 25, 1999.	I

[Company Logo]
PRESS RELEASE

FOR IMMEDIATE RELEASE
February 25, 1999

CONTACT: Kathy Fern
804-217-5800

DYNEX CAPITAL, INC. UPDATES MARKET ON CERTAIN RECENT DEVELOPMENTS

Dynex Capital, Inc. (NYSE: DX) filed today an 8-K relating to recent developments in its relationship with AutoBond Acceptance Corporation (Amex: ABD). During January, as a result of a review conducted on its behalf by outside consultants experienced in subprime auto lending, Dynex discovered certain breaches by AutoBond of its representations, warranties and covenants under its agreements with Dynex. These breaches included, among other items, AutoBond's failure to follow required underwriting standards in accordance with the agreements, and AutoBond's failure to give Dynex access to its loan files for review, as provided for in the agreements.

Dynex notified senior management of AutoBond of these breaches and, as a result of such breaches, has ceased to make additional fundings as provided for under the governing agreements. Dynex also filed suit against AutoBond in the Federal district court of the Eastern District of Virginia seeking declaratory relief with respect to its rights and obligations under these agreements. AutoBond has filed suit against Dynex in the district court of Travis County, Texas alleging breach of contract and other claims. Dynex believes AutoBond's claims are without merit and intends to defend against them vigorously.

On February 22, 1999, Dynex terminated its servicing arrangement with AutoBond due to the occurrence of an event of servicing termination as provided for in the agreements. Dynex has named a third-party servicer to assume the servicing responsibilities. To date, AutoBond has not complied with provisions of the servicing termination, including the failure to surrender all files in its possession related to the servicing of the collateral.

Dynex Capital, Inc. is a financial services company that elects to be treated as a real estate investment trust (REIT) for federal income tax purposes. The Company's primary production operations include the origination of mortgage loans secured by multifamily and commercial real estate properties and the origination of loans secured by manufactured homes. Note: This document contains "forward-looking statements" (within the meaning of the Private Securities Litigation Act of 1995) that inherently involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of unforeseen external factors. As discussed in the Company's filings with the SEC, these factors may include, but are not limited to, changes in general economic conditions, disruptions in the capital markets, fluctuations in interest rates, increases in costs and other general competitive factors.