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: April 2, 1999

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

Virginia	1-9819	52-1549373
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS 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)

Item 5. OTHER EVENTS.

Dynex Capital, Inc. (the "Company") is filing as an exhibit to this Form 8-K the Company's 1998 consolidated financial statements without the opinion of its auditors. The audit for the Company's 1998 financial statements has been completed. However, due to a comment received from the Securities and Exchange Commission ("SEC") during the fourth quarter of 1998, the Company changed its method of accounting for its investment in certain affiliates from the full consolidation method to the equity method. While the change did not impact reported earnings, certain 1997 and 1996 amounts were restated to conform to the new accounting method to provide consistency between years. Additionally, during 1998 the Company engaged new auditors, Deloitte & Touche, LLP ("D&T") for the 1998 year end audit. D&T and KPMG LLP, the Company's auditors for the years ended December 31, 1997 and 1996, are in the process of completing the audit of the restated 1997 and 1996 financial statements in light of the comment received from the SEC. Accordingly, the Company has filed a Form 12b-25 with respect to its financial statements for its Form 10-K and expects to file such audited financial statements within the 15 days permitted under Rule 12b-25.

Item 7. FINANCIAL STATEMENTS AND EXHIBITS.
<TABLE>
<CAPTION>

Exhibit Number	Exhibit
<S>	<C>
99.1	Consolidated financial statements of Dynex Capital, Inc. (filed herewith).

</TABLE>

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: April 2, 1999 DYNEX CAPITAL, INC.

By: /s/ Lynn K. Geurin

Lynn K. Geurin

Executive Vice President and
Chief Financial Officer

CONSOLIDATED BALANCE SHEETS
DYNEX CAPITAL, INC.

December 31, 1998 and 1997
(amounts in thousands except share data)
(unaudited)
<TABLE>
<CAPTION>

ASSETS	1998	1997
<S>	<C>	<C>
Investments:		
Collateral for collateralized bonds	$ 4,293,528	$ 4,375,561
Securities	217,612	515,501
Other investments	56,743	85,989
Loans held for securitization	388,782	233,958
	4,956,665	5,211,009
Investments in and advances to Dynex Holding, Inc.	169,384	119,356
Cash	30,103	18,502
Accrued interest receivable	4,162	5,572
Other assets	18,488	12,919
	$ 5,178,802	$ 5,367,358
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Non-recourse debt	$ 3,665,316	$ 3,632,079
Recourse debt:		
Secured by collateralized bonds retained	298,695	494,493
Secured by investments	588,735	499,935
Unsecured	145,303	139,108
	4,698,049	4,765,615
Accrued interest payable	8,403	7,214
Accrued expenses and other liabilities	16,318	14,127
Dividends payable	3,228	19,493
	4,725,998	4,806,449
SHAREHOLDERS' EQUITY		
Preferred stock, par value $.01 per share, 50,000,000 shares authorized:		
9.75% Cumulative Convertible Series A, 1,309,061 and 1,397,511 issued and outstanding, respectively	29,900	31,920
9.55% Cumulative Convertible Series B, 1,912,434 and 1,957,490 issued and outstanding, respectively	44,767	45,822
9.73% Cumulative Convertible Series C, 1,840,000 issued and outstanding,	52,740	52,740
Common stock, par value $.01 per share, 100,000,000 shares authorized, 46,027,426 and 45,146,242 issued and outstanding, respectively	460	451
Additional paid-in capital	352,382	342,570
Accumulated other comprehensive (loss) income	(3,097)	79,441
(Accumulated deficit) retained earnings	(24,348)	7,965
	452,804	560,909
	$ 5,178,802	$ 5,367,358

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

CONSOLIDATED STATEMENTS OF OPERATIONS
DYNEX CAPITAL, INC.

Years ended December 31, 1998, 1997 and 1996

(amounts in thousands except share data)
(unaudited)
<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Interest income:			
Collateral for collateralized bonds	$ 303,994	$ 208,946	$ 148,675
Securities	40,411	79,714	128,147
Other investments	5,679	4,909	4,702
Loans held for securitization	44,450	34,099	29,387
Net advances to Dynex Holding, Inc.	10,979	5,891	-
	405,513	333,559	310,911
Interest and related expense:			
Non-recourse debt	231,242	152,678	102,925
Recourse debt	99,119	90,777	127,981
Other	2,193	1,717	2,539
Net advances from Dynex Holding, Inc.	-	-	665
	332,554	245,172	234,110
Net interest margin before provision for losses	72,959	88,387	76,801
Provision for losses	(6,421)	(4,933)	(3,051)
Net interest margin	66,538	83,454	73,750
Impairment on AutoBond related assets	(17,632)	-	-
Equity in net earnings (loss) of Dynex Holding, Inc.	2,456	(1,109)	(4,309)
Gain on sale of single family operations	-	-	21,512
(Loss) gain on sale of investments and trading activities	(2,714)	11,584	(385)
Other income	2,852	1,716	606
Net revenue	51,500	95,645	91,174
General and administrative expenses	(8,973)	(9,531)	(8,365)
Net administrative fees and expenses to Dynex Holding, Inc.	(22,379)	(12,116)	(9,761)
Income before extraordinary item	20,148	73,998	73,048
Extraordinary item - loss on extinguishment of debt	(571)	-	-
Net income after extraordinary item	19,577	73,998	73,048
Dividends on preferred stock	(13,019)	(14,820)	(10,009)
Net income available to common shareholders	$ 6,558	$ 59,178	$ 63,039
Per common share before extraordinary item:			
Basic	$ 0.16	$ 1.38	$ 1.54
Diluted	$ 0.16	$ 1.37	$ 1.49
Per common share after extraordinary item:			
Basic	$ 0.14	$ 1.38	$ 1.54
Diluted	$ 0.14	$ 1.37	$ 1.49

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
DYNEX CAPITAL, INC.

Years ended December 31, 1998, 1997 and 1996
(amounts in thousands except share data)
(unaudited)
<TABLE>
<CAPTION>

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings (Accumulated Deficit)	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 1996	$ 86,885	$ 202	$ 281,508	$ (4,759)	$ (9,013)	$ 354,823
Comprehensive income:						
Net income - 1996	-	-	-	-	73,048	73,048
Change in net unrealized loss on investments classified as available-for-sale during the period	-	-	-	69,161	-	69,161
Total comprehensive income	-	-	-	69,161	73,048	142,209
Issuance of common stock	-	5	10,129	-	-	10,134
Series C preferred stock issued, net of issuance costs	52,740	-	-	-	-	52,740
Dividends on common stock at $1.1325 per share	-	-	-	-	(46,280)	(46,280)
Dividends on preferred stock	-	-	-	-	(10,009)	(10,009)
Balance at December 31, 1996	139,625	207	291,637	64,402	7,746	503,617
Comprehensive income:						
Net income - 1997	-	-	-	-	73,998	73,998
Change in net unrealized gain on investments classified as available-for-sale during the period	-	-	-	15,039	-	15,039
Total comprehensive income	-	-	-	15,039	73,998	89,037
Issuance of common stock	-	25	42,009	-	-	42,034
Conversion of preferred stock	(9,143)	6	9,137	-	-	-
Two-for-one common stock split	-	213	(213)	-	-	-
Dividends on common stock at $1.355 per share	-	-	-	-	(58,959)	(58,959)
Dividends on preferred stock	-	-	-	-	(14,820)	(14,820)

Balance at December 31, 1997	130,482	451	342,570	79,441	7,965	560,909
Comprehensive income:						
Net income - 1998	-	-	-	-	19,577	19,577
Change in net unrealized gain on investments classified as available-for-sale during the period	-	-	-	(82,538)	-	(82,538)
Total comprehensive income	-	-	-	(82,538)	19,577	(62,961)
Issuance of common stock	-	7	7,652	-	-	7,659
Conversion of preferred stock	(3,075)	3	3,072	-	-	-
Retirement of common stock	-	(1)	(912)	-	-	(913)
Dividends on common stock at $0.85 per share	-	-	-	-	(38,871)	(38,871)
Dividends on preferred stock	-	-	-	-	(13,019)	(13,019)
Balance at December 31, 1998	$ 127,407	$ 460	$ 352,382	$ (3,097)	$ (24,348)	$ 452,804

<FN>

See notes to consolidated financial statements.
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</TABLE>

CONSOLIDATED STATEMENTS OF CASH FLOWS
DYNEX CAPITAL, INC.

Years ended December 31, 1998, 1997 and 1996
(amounts in thousands except share data)
(unaudited)
<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Operating activities:			
Net income	$ 19,577	$ 73,998	$ 73,048
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for losses	6,421	4,933	3,051
Impairment charge on AutoBond related assets	17,632		
Net loss (gain) from sale of investments and trading activities	2,714	(11,584)	385
Gain on sale of single family operations	-	-	(21,512)
Equity in net (earnings) loss of Dynex Holding, Inc.	(2,456)	1,109	4,309
Amortization and depreciation	43,938	26,389	22,131
Net (increase) decrease in accrued interest, other assets and other liabilities	(4,471)	10,835	(5,698)
Net cash provided by operating activities	83,355	105,680	75,714
Investing activities:			
Collateral for collateralized bonds:			
Fundings of investments subsequently securitized	(1,857,617)	(2,302,831)	(1,571,955)
Principal payments on collateral	2,112,473	940,613	464,478
Decrease (increase) in accrued interest receivable	1,057	(10,316)	(10,775)
Net decrease in funds held by trustee	889	544	419
Net (increase) decrease in loans held for securitization	(155,497)	29,767	(50,456)
Purchase of other investments	(65,836)	(50,525)	(2,251)
Payments received on other investments	16,977	18,547	12,655
Purchase of securities	(572,225)	(848,663)	(111,596)
Payments received on securities	122,693	62,184	304,551
Proceeds from sales of securities	424,338	847,339	505,708
Investment in and advances to Dynex Holding, Inc.	(47,572)	(82,086)	(39,616)
Proceeds from sale of single family operations	19,000	9,500	20,413
Capital expenditures	(402)	(2,094)	(1,445)

Net cash used for investing activities	(1,722)	(1,388,021)	(479,870)
Financing activities:			
Collateralized bonds:			
Proceeds from issuance of bonds	1,817,179	2,400,191	1,770,965
Principal payments on bonds	(2,066,344)	(919,885)	(448,238)
(Decrease) increase in accrued interest payable	(262)	2,945	91
Proceeds from issuance of senior notes	-	98,223	-
Repayment of senior notes	(11,750)	(3,000)	(3,000)
Proceeds from (repayment of) recourse debt borrowings, net	252,554	(256,660)	(939,599)
Net proceeds from issuance of stock	7,659	42,034	62,874
Retirement of common stock	(913)	-	-
Dividends paid	(68,155)	(70,520)	(51,721)
Net cash (used for) provided by financing activities	(70,032)	1,293,328	391,372
Net increase (decrease) in cash	11,601	10,987	(12,784)
Cash at beginning of period	18,502	7,515	20,299
Cash at end of period	$ 30,103	$ 18,502	$ 7,515

<FN>

See notes to consolidated financial statements.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DYNEX CAPITAL, INC.

December 31, 1998, 1997 and 1996
(amounts in thousands except share data)
(unaudited)

NOTE 1 - BASIS OF PRESENTATION

Basis of Presentation The consolidated financial statements include the accounts of Dynex Capital, Inc. and its qualified REIT subsidiaries (together, "Dynex REIT"). The production operations are primarily conducted through Dynex Holding, Inc. ("DHI"), a taxable affiliate of Dynex REIT. Dynex REIT owns all the preferred stock which represents a 99% economic ownership interest in DHI. Accordingly, Dynex REIT accounts for its investment in DHI under a method similar to the equity method because management believes that Dynex REIT has the ability to exercise significant influence over the financial and operating policies of DHI through its ownership of the preferred stock and other agreements. Under this method, original investments are recorded at cost and adjusted by Dynex REIT's share of earnings or losses and decreased by dividends received. The common stock represents a 1% economic ownership of DHI and is owned by certain officers of Dynex REIT. References to the "Company" mean Dynex Capital, Inc., its consolidated subsidiaries, and DHI and its consolidated subsidiaries. All significant intercompany balances and transactions with Dynex REIT's consolidated subsidiaries have been eliminated in consolidation of Dynex REIT.

Accounting Change
In 1998, the Company changed its method of accounting for its investment in taxable affiliates from the full consolidation method to a method that approximates the equity method. The accounting change had no income statement impact. The 1997 and 1996 financial statements were restated to give retroactive effect to the change in accounting method.

Reclassifications
Certain reclassifications have been made to the financial statements for the periods ended December 31, 1997 and 1996 to conform to the December 31, 1998 presentation.

Stock Split
On May 5, 1997, Dynex REIT completed a two-for-one common stock split. All references to the per share amounts in the accompanying consolidated financial statements and related notes have been restated to reflect the stock split.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Federal Income Taxes
Dynex REIT has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code. As a result, Dynex REIT generally will

not be subject to federal income taxation at the corporate level to the extent that it distributes at least 95 percent of its taxable income to its shareholders and complies with certain other requirements. No provision has been made for income taxes for Dynex Capital, Inc. and its qualified REIT subsidiaries in the accompanying consolidated financial statements, as Dynex REIT believes it has met the prescribed requirements.

Investments

Pursuant to the requirements of Statement of Financial Accounting Standards No. 115 ("FAS No. 115"), "Accounting for Certain Investments in Debt and Equity Securities," Dynex REIT is required to classify certain of its investments as either trading, available-for-sale or held-to-maturity. Dynex REIT has classified collateral for collateralized bonds and securities as available-for-sale. These investments are therefore reported at fair value, with unrealized gains and losses excluded from earnings and reported as accumulated other comprehensive income. Any decline in fair value of an investment below its amortized cost which is deemed to be other than temporary is charged to earnings. The basis of any securities sold is computed using the specific identification method. Collateral for collateralized bonds can be sold only subject to the lien of the respective collateralized bond indenture, unless the related bonds have been redeemed.

Collateral for Collateralized Bonds. Collateral for collateralized bonds consists of securities which have been pledged to secure collateralized bonds. These securities are primarily backed by single family, multifamily and commercial properties and installment loans on manufactured housing. Substantially all of the collateral for collateralized bonds is pledged to secure non-recourse debt in the form of collateralized bonds issued by limited-purpose finance subsidiaries and is not available for the satisfaction of general claims of Dynex REIT. As the collateralized bonds are non-recourse to Dynex REIT, Dynex REIT's exposure to loss on the assets pledged as collateral for collateralized bonds is generally limited to the amount of collateral pledged to the collateralized bonds in excess of the amount of the collateralized bonds issued.

Securities. Securities consist of fixed-rate funding notes secured by fixed-rate automobile installment contracts ("funding notes"), adjustable-rate mortgage ("ARM") securities, fixed-rate mortgage securities, mortgage derivative securities and mortgage residual interests.

Other Investments. Other investments consist primarily of corporate bonds, an installment note receivable received in connection with the sale of the Company's single family mortgage operations in May 1996 (see Note 9), property tax receivables and manufactured housing inventory lines of credit. Only the corporate bonds are considered securities pursuant to FAS No. 115, and therefore are reported at fair value as they are classified as available for sale. All other investments are carried at their amortized cost basis.

Loans Held for Securitization Loans held for securitization primarily include mortgage loans secured by multifamily and commercial properties and installment loans secured by manufactured homes. These assets will generally be securitized as collateral for collateralized bonds and are carried at amortized cost. Premiums paid or discounts obtained on these loans are deferred as an adjustment to the carrying value of the loans. Deferred hedging gains or losses, if any, are netted against the outstanding asset balances.

Construction loans on multifamily properties are also included in loans held for securitization. Such loans are carried at the balance funded to date. Interest earned on these loans is capitalized and included as a component of the amount funded until construction is completed and the property is stabilized.

Price Premiums and Discounts Price premiums and discounts on investments and obligations are amortized into interest income or expense, respectively, over the life of the related investment or obligation using a method that approximates the effective yield method.

Deferred Issuance Costs

Costs incurred in connection with the issuance of collateralized bonds and unsecured notes are deferred and amortized over the estimated lives of their respective debt obligations using a method that approximates the effective yield method.

Derivative Financial Instruments

Dynex REIT may enter 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 hedging positions or trading positions.

For Interest Rate Agreements designated as hedge instruments, Dynex REIT 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 available for sale investment which is carried at its fair value are also carried at fair value, with the unrealized gains and losses reported as accumulated other comprehensive income.

As a part of Dynex REIT's interest rate risk management process, Dynex REIT may be required periodically to terminate hedge instruments. Any realized gain or loss resulting from the termination of a hedge is amortized into income or expense of the corresponding hedged instrument over the remaining period of the original hedge or hedged instrument as a yield adjustment.

Dynex REIT 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 in a collateralized bond structure, 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 the underlying asset, liability or commitment 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 as trading activities 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.

Cash Approximately $24,437 and $12,489 of cash at December 31, 1998 and 1997, respectively, is held as collateral for outstanding letters of credit; is held in trust to cover losses not otherwise covered by insurance; or is restricted for the payment of premiums on various insurance policies related to certain securities.

Net Income Per Common Share

Net income per common share is presented on both a basic net income per common share and diluted net income per common share basis. Diluted net income per common share assumes the conversion of the convertible preferred stock into common stock, using the if-converted method, and stock appreciation rights, using the treasury stock method, but only if these items are dilutive. As a result of the two-for-one split of the Dynex REIT's common stock in May 1997, the preferred stock is convertible into two shares of common stock for each share of preferred stock.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. The primary estimates inherent in the accompanying consolidated financial statements are discussed below.

Fair Value. Dynex REIT uses estimates in establishing fair value for its financial instruments. Estimates of fair value for financial instruments may be based on market prices provided by certain dealers. Estimates of fair value for certain other financial instruments are determined by calculating the present value of the projected cash flows of the instruments using appropriate discount rates, prepayment rates and credit loss assumptions. The discount rates used are based on management's estimates of market rates. Estimates of fair value for other financial instruments are based primarily on management's judgment. Since the fair value of Dynex REIT's financial instruments is based on estimates, actual gains and losses recognized may differ from those estimates recorded in the consolidated financial statements. The fair value of all on- and off-balance sheet financial instruments is presented in Note 8.

Allowance for Losses. As discussed in Note 5, Dynex REIT has credit risk on certain investments. An allowance for losses has been estimated and established for such credit risk based on management's judgment. The allowance for losses is evaluated and adjusted periodically by management based on the actual and projected timing and amount of probable credit losses, as well as industry loss experience. Provisions made to increase the allowance related to credit risk are presented as provision for losses in the accompanying consolidated statements of operations. Dynex REIT's actual credit losses may differ from those estimates used to establish the allowance.

Derivative and Residual Securities. Income on certain derivative and residual securities is accrued using the effective yield method based upon estimates of future cash flows to be received over the estimated remaining lives of the related securities. Reductions in carrying value are made when the total projected cash flow is less than the Company's basis, based on either the dealers' prepayment assumptions or, if it would accelerate such adjustments, management's expectations of interest rates and future prepayment rates.

Recent Accounting Pronouncements

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 separately, either in a separate statement of comprehensive income, in the statement of shareholders' equity, or in the statement of operations.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS No. 133"). FAS No. 133 establishes accounting and reporting standards for derivative instruments and for hedging activities. FAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The impact of adopting FAS No. 133 has not yet been determined.

In October 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 134, "Accounting for Mortgage-Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise" ("FAS No. 134"). FAS No. 134 requires that after the securitization of mortgage loans held for sale that meets all of the criteria of FAS No. 125 and is accounted for as a sale, an entity engaged in mortgage banking activities classify the resulting mortgage-backed securities or other retained interests based on its ability and intent to sell or hold those investments. FAS No. 134 is effective for fiscal quarters beginning after December 15, 1998. FAS No. 134 did not have a material impact on the financial statements as Dynex REIT typically accounts for securitization of assets as secured financing transactions.

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

The following table summarizes Dynex REIT's amortized cost basis and fair value of investments, as of December 31, 1998 and 1997, classified as available-for-sale and the related average effective interest rates:
<TABLE>
<CAPTION>

	1998		1997	
	Fair Value	Effective Interest Rate	Fair Value	Effective Interest Rate
<S>	<C>	<C>	<C>	<C>
Collateral for collateralized bonds:				
Amortized cost	$ 4,288,520	7.5%	$ 4,317,945	7.5%
Allowance for losses	(16,593)		(24,811)	
Amortized cost, net	4,271,927		4,293,134	
Gross unrealized gains	67,236		94,825	
Gross unrealized losses	(45,635)		(12,398)	
	$ 4,293,528		$ 4,375,561	
Securities:				
Funding notes	$ 122,009	8.0%	$ -	-
Adjustable-rate mortgage securities	58,935	6.2%	403,117	5.4%
Fixed-rate mortgage securities	28,851	8.3%	21,463	9.1%
Derivative and residual securities	33,480	2.9%	97,848	16.2%
	243,275		522,428	
Allowance for losses	(2,746)		(3,941)	
Amortized cost, net	240,529		518,487	
Gross unrealized gains	1,479		18,144	
Gross unrealized losses	(24,396)		(21,130)	
	$ 217,612		$ 515,501	

Other investments (1):				
Amortized cost	$ 28,153	7.5%	$ -	
Gross unrealized gains	87		-	
Gross unrealized losses	(1,868)		-	
	$ 26,372		$ -	

<FN>

(1) Excludes $30,371 and $85,989 of other investments at amortized cost at December 31, 1998 and 1997, respectively, which are not classified as debt securities according to Statement of Financial Accounting Standard No. 115 "Accounting for Certain Investments in Debt and Equity Securities" and as such are not included in this table.
</FN>
</TABLE>

Collateral for collateralized bonds. Collateral for collateralized bonds consists of securities backed by adjustable-rate and fixed-rate mortgage loans secured by first liens on single family housing, fixed-rate loans on multifamily and 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. Dynex REIT'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 Dynex REIT.

During 1998, Dynex REIT securitized $2.2 billion of collateral, through the issuance of two series of collateralized bonds. The collateral securitized primarily included single-family mortgage loans, manufactured housing loans, commercial real estate and multifamily mortgage loans. One of the securitizations was accounted for as part financing and part sale of the underlying collateral pursuant to Statement of Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("FAS No. 125"). Under FAS No. 125, if an entity retains a call provision on the bonds in excess of a "clean-up" call, usually defined as 10% of the initial principal amount of the bond, the entity is precluded from accounting for the securitization of the collateral and the issuance of the bonds as a sale. The call provision is considered individually for each bond issued. On all but one class of bonds issued in this securitization, Dynex REIT retained call rights which are substantially in excess of a clean-up call. For the one class of bonds with an original principal amount totaling $55,007, Dynex REIT retained only a clean-up call provision of 10%. Dynex REIT therefore treated the issuance of this class as a sale and recognized a gain of $7,500 in connection with the sale of that class of bonds. The issuance of the remaining classes of bonds was considered a financing transaction.

The components of collateral for collateralized bonds at December 31, 1998 and 1997 are as follows:
<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Collateral, net of allowance	$ 4,161,000	$ 4,199,777
Funds held by trustees	1,104	2,092
Accrued interest receivable	27,834	28,891
Unamortized premiums and discounts, net	81,989	62,374
Unrealized gain, net	21,601	82,427
	$ 4,293,528	$ 4,375,561

</TABLE>

Securities. Funding notes consist of fixed-rate funding notes secured by fixed-rate automobile installment contracts. ARM securities consist of mortgage certificates secured by ARM loans. Fixed-rate mortgage securities consist of mortgage certificates secured by mortgage loans that have a fixed rate of interest for at least one year from the balance sheet date. Derivative securities are classes of collateralized bonds, mortgage pass-through certificates or mortgage certificates that pay to the holder substantially all interest (i.e., an interest-only security), or substantially all principal (i.e., a principal-only security). Residual interests represent the right to receive the excess of (i) the cash flow from the collateral pledged to secure related mortgage-backed securities, together with any reinvestment income thereon, over (ii) the amount required for principal and interest payments on the mortgage-backed securities or repurchase arrangements, together with any related administrative expenses.

Other investments. Other investments primarily include an installment note receivable in connection with the sale of the Company's single family mortgage operations in May 1996 (see Note 9), corporate bond obligations purchased by Dynex REIT and property tax receivables.

Sale of investments. Proceeds from sales of securities totaled $424,338, $847,339, and $505,708 in 1998, 1997 and 1996, respectively. Gross gains of $8,481, $2,743, and $4,489 and gross losses of $8,532, $2,163, and $6,887 were realized on those sales in 1998, 1997 and 1996, respectively. Gross realized losses in 1996 included writedowns for permanent impairment of certain mortgage derivative securities of $1,460.

In 1998, Dynex REIT recorded an impairment charge on the funding notes of $14,004. Dynex REIT also recorded a $628 impairment charge related to certain equity securities at December 31, 1998 and fully reserved for a $3,000 senior convertible note.

NOTE 4 - LOANS HELD FOR SECURITIZATION

The following table summarizes Dynex REIT's loans held for securitization at December 31, 1998 and 1997, respectively.

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Secured by multifamily and commercial properties	$ 160,101	$ 125,338
Secured by manufactured homes	197,076	56,497
Secured by single family residential properties	1,243	33,951
	358,420	215,786
Deferred hedging positions	52,355	27,677
Net discount	(21,014)	(8,046)
Allowance for losses	(979)	(1,459)
Total loans held for securitization	$ 388,782	$ 233,958

</TABLE>

The Company originates fixed-rate loans secured by first mortgages or deeds of trust on multifamily properties, commercial properties and manufactured homes, when the underlying land is also pledged. The Company also originates fixed-rate and adjustable-rate installment loans on manufactured homes which are secured by either a UCC filing or a motor vehicle title. While the Company originates these assets throughout the United States, as of December 31, 1998 approximately 60% of the multifamily and commercial loans held for securitization are located in Louisiana, Minnesota and Maryland and approximately 50% of the manufactured housing loans held for securitization are located in Texas, North Carolina, Michigan and South Carolina.

Net discount on loans held for securitization includes premiums paid and discounts obtained on loans held for securitization. The deferred hedging position includes the gains and losses generated from corresponding hedging transactions, primarily used to hedge the pipeline of commitments to fund multifamily and commercial loans, which totaled $751.9 million at December 31, 1998. Deferred hedging positions are deferred as an adjustment to the carrying value of the loans until the loans are funded and either securitized or sold.

The Company funded loans with an aggregate principal balance of $1,150,271, $565,058, and $744,001 during 1998, 1997 and 1996, respectively. Included in these amounts are $228,613 and $49,191 of multifamily construction loans and tax exempt bonds closed during the years ended December 31, 1998 and 1997, respectively. Only the amount drawn on the construction loans of $46,146 is included in the balance of the loans held for securitization at December 31, 1998. Additionally, Dynex REIT purchased loans on a bulk basis, principally single family ARM loans, totaling $562,045, $1,271,479, and $731,460 in 1998, 1997 and 1996, respectively.

NOTE 5 - ALLOWANCE FOR LOSSES

The following table summarizes the activity for the allowance for losses on investments for the years ended December 31, 1998, 1997 and 1996:

<TABLE>
<CAPTION>

	1998	1997	1996

	1998	1997	1996
Allowance at beginning of year	$ 30,270	$ 39,781	$ 11,498
Provision for losses	6,421	4,933	3,051
Provision recorded due to sale of single family operations (See Note 9)	-	-	30,084
Credit losses, net of recoveries	(16,321)	(14,444)	(4,852)
Allowance at end of year	$ 20,370	$ 30,270	$ 39,781

Collateral for collateralized bonds. Dynex REIT has limited exposure to credit risk retained on loans that it has securitized through the issuance of collateralized bonds. The aggregate loss exposure is generally limited to the amount of collateral in excess of the related investment-grade collateralized bonds issued (commonly referred to as "overcollateralization"), excluding price premiums and discounts and hedge gains and losses. The allowance for losses on the overcollateralization totaled $16,593 and $24,811 at December 31, 1998 and 1997 respectively, and is included in collateral for collateralized bonds in the accompanying consolidated balance sheets. Overcollateralization (net of discounts, reserves and third party guarantees) at December 31, 1998 and 1997 totaled $152,248 and $79,837, respectively.

Securities. On certain securities collateralized by mortgage loans purchased by Dynex REIT for which mortgage pool insurance is used as the primary source of credit enhancement, Dynex REIT has limited exposure to certain credit risks such as fraud in the origination and special hazards not covered by such insurance. An allowance was established based on the estimate of losses at the time of securitization. The allowance for losses for securities is $2,746 and $3,941 at December 31, 1998 and 1997, respectively, and is included in securities in the accompanying consolidated balance sheets.

Other investments. Dynex REIT has established reserves for potential losses for property tax receivables totaling $53 and $59 at December 31, 1998 and 1997, respectively.

Loans held for securitization. Dynex REIT has exposure to credit losses on loans held for securitization until those loans are securitized. Upon securitization, Dynex REIT's exposure is generally limited to the overcollateralization as discussed above. Dynex REIT has established reserves for potential losses for the loans held for securitization totaling $978 and $1,459 at December 31, 1998 and 1997, respectively.

NOTE 6 - NON-RECOURSE DEBT

Dynex REIT, through limited-purpose finance subsidiaries, has issued non-recourse debt in the form of collateralized bonds. Each series of collateralized bonds may consist of various classes of bonds, either at fixed or variable rates of interest. Payments received on the collateral for collateralized bonds and any reinvestment income thereon are used to make payments on the collateralized bonds (see Note 3). The obligations under the collateralized bonds are payable solely from the collateral for collateralized bonds and are otherwise non-recourse to Dynex REIT. 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. As a result, the actual maturity of any class of a collateralized bonds series is likely to occur earlier than its stated maturity.

During 1998, Dynex REIT redeemed six series of previously issued collateralized bonds, which resulted in $571 of additional costs related to such redemptions. Total retained bonds at December 31, 1998 were $375,108.

The components of collateralized bonds along with certain other information at December 31, 1998 and 1997 are summarized as follows:

	1998		1997	
	Bonds Outstanding	Range of Interest Rates	Bonds Outstanding	Range of Interest Rates
Variable-rate classes	$ 3,028,108	5.1% - 7.0%	$ 3,192,049	5.9% - 7.4%
Fixed-rate classes	630,074	6.3% - 11.5%	433,028	6.5% - 11.5%
Accrued interest payable	5,687		5,949	
Deferred bond issuance costs	(6,880)		(4,875)	
Unamortized net premium	8,327		5,928	

	$ 3,665,316			$ 3,632,079	
Range of stated maturities	2009-2032			1998-2031	
Number of series	33			33	

</TABLE>

The variable rate classes are based on one-month London InterBank Offered Rate (LIBOR). The average effective rate of interest expense for non-recourse debt was 6.4%, 6.7%, and 6.6% for the years ended December 31, 1998, 1997 and 1996, respectively.

NOTE 7 - RECOURSE DEBT

Dynex REIT utilizes repurchase agreements, notes payable and warehouse credit facilities (together, "recourse debt") to finance certain of its investments. The following table summarizes Dynex REIT's recourse debt outstanding and the weighted-average annual rates at December 31, 1998 and 1997:
<TABLE>
<CAPTION>

	1998			1997		
	Amount Outstanding	Weighted-Average Annual Rate	Market Value of Collateral	Amount Outstanding	Weighted-Average Annual Rate	Market Value of Collateral
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Recourse debt secured by:						
Collateralized bonds	$ 298,695	6.01%	$ 348,494	$ 494,493	6.18%	$ 523,907
Securities	170,519	6.56%	219,003	394,551	6.23%	418,611
Other investments	165,070	6.22%	185,749	50,525	7.33%	119,416
Loans held for securitization	250,589	7.19%	334,855	51,423	6.95%	64,043
Other assets	2,557	7.46%	4,520	3,436	7.25%	3,619
	887,430		1,092,621	994,428		1,129,596
Unsecured debt:						
7.875% senior notes	98,718	7.88%	-	98,380	7.88%	-
Series B 10.03% senior notes	26,116	10.03%	-	34,795	10.03%	-
Series A 9.56% senior notes	2,969	9.56%	-	5,933	9.56%	-
Bank credit facility	17,500	8.03%	-	-	-	-
	$ 1,032,733		$ 1,092,621	$ 1,133,536		$ 1,129,596

</TABLE>

Secured Debt. At December 31, 1998 and 1997, recourse debt consisted of $528,283 and $889,044, respectively, of repurchase agreements secured by investments, and $357,111 and $101,971, respectively, outstanding under warehouse credit facilities which are secured by loans held for securitization, securities and other investments. At December 31, 1998, substantially all recourse debt in the form of repurchase agreements had maturities within thirty days and bear interest at rates indexed to LIBOR. If the counterparty to the repurchase agreement fails to return the collateral, the ultimate realization of the security by Dynex REIT may be delayed or limited. The excess market value of the assets securing Dynex REIT's repurchase obligations at December 31, 1998 did not exceed 10% of shareholders' equity for any of the individual counterparties with whom Dynex REIT had contracted these agreements.

At December 31, 1998, Dynex REIT had four committed credit facilities aggregating $925,000 to finance the funding of loans and securities, three of which expire in 1999 and one that expires in 2000. The interest rates on $750,000 of these facilities range from one-month LIBOR plus 0.75% to one-month LIBOR plus 2.5%. The interest rate on $175,000 of these facilities is the federal funds rate plus 1.5%. The contractual rates paid on these facilities may be reduced by credits for compensating cash balances. In addition to the $925,000 of committed facilities, Dynex REIT also has $700,000 available on an uncommitted basis. Dynex REIT expects that these credit facilities will be renewed, if necessary, at their respective expiration dates, although there can be no assurance of such renewal.

In 1997, Dynex REIT entered into capital leases for financing its furniture and computer equipment. Interest expense on these capital leases was $274 and $52 for the years ended December 31, 1998 and 1997, respectively. The aggregate payments due under the capital leases for five years after December 31, 1998 are $904, $975, $541, $439, and none, respectively.

Unsecured Debt. Dynex REIT's $100,000 unsecured 7.875% senior notes are due 2002. Interest is payable semi-annually in arrears. Dynex REIT's Series A 9.56% senior notes are payable in annual installments through 1999. Dynex REIT's Series B 10.03% senior notes are payable in annual installments through 2001. The aggregate principal payments due under the unsecured notes for the five years after December 31, 1998 are $11,750, $8,750, $8,750, $100,000, and none, respectively.

NOTE 8 - FAIR VALUE AND ADDITIONAL INFORMATION ABOUT FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standard No. 107, "Disclosures about Fair Value of Financial Instruments" ("FAS No. 107") requires the disclosure of the estimated fair value of on-and off-balance-sheet financial instruments. The following table presents the amortized cost and estimated fair values of Dynex REIT's financial instruments as of December 31, 1998 and 1997:

<TABLE>
<CAPTION>

	1998			1997		
Recorded financial instruments:	Notional Amount	Amortized Cost	Fair Value	Notional Amount	Amortized Cost	Fair Value
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Assets:						
Collateral for collateralized bonds	$ -	$4,267,268	$4,293,159	$ -	$4,285,079	$4,375,626
Securities	-	235,555	217,217	-	512,207	513,971
Other investments	-	58,524	55,621	-	85,989	96,229
Loans held for securitization	-	356,895	354,102	-	212,490	227,968
Interest rate cap agreements	1,599,000	9,634	764	1,599,000	14,335	1,465
Liabilities:						
Non-recourse debt	-	3,665,316	3,665,316	-	3,632,079	3,632,079
Recourse debt:						
Secured by collateralized bonds retained	-	298,695	298,695	-	494,493	494,493
Secured by investments	-	588,735	588,735	-	499,935	499,935
Unsecured	-	145,303	105,205	-	139,108	147,477
Off-balance sheet financial instruments:						
Financial futures contracts	-	-	-	538,500	5,179	(4,904)
Options on futures contracts	700,000	4,589	2,441	50,000	(195)	90
Interest rate swap agreements	1,139,863	-	(3,699)	1,378,778	-	(3,940)
Forward delivery contracts	-	-	-	74,200	(8,270)	(8,270)
Commitments to fund loans	823,030	27,908	849,713	697,840	11,750	758,542

</TABLE>

The fair value of collateral for collateralized bonds, securities, other investments, loans held for securitization and interest rate cap agreements is based on actual market price quotes, or by determining the present value of the projected future cash flows using appropriate discount rates, credit losses and prepayment assumptions. Non-recourse debt and secured recourse debt are short-term borrowings that reprice frequently. Therefore, the carrying value approximates the fair value. For unsecured debt maturing in less than one year, carrying value approximates fair value. For unsecured debt with a maturity of greater than one year, the fair value was determined by calculating the present value of the projected cash flows using appropriate discount rates. The fair value of the off-balance sheet financial instruments excluding the commitments to fund loans was determined from actual market quotes. The fair value of the commitments to fund loans was estimated assuming the loans were securitized at current market rates.

Derivative Financial Instruments Used for Interest Rate Risk Management

Dynex REIT may engage in derivative financial instrument activities for the purpose of interest rate risk management and yield enhancement. As of December 31, 1998, all of Dynex REIT's outstanding derivative financial positions were for interest rate risk management. For all derivative financial instruments, Dynex REIT has credit risk to the extent that the counterparties do not perform their obligation under the agreements. If one of the counterparties does not perform, Dynex REIT would not receive the cash to which it would otherwise be entitled under the conditions of the agreement.

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

Financial futures, forwards and options contracts. Dynex REIT may use financial futures, forward and option contracts to reduce exposure to the effect of changes in interest rates on funded loans, as well as those loans that Dynex REIT has committed to fund. As of December 31, 1998, Dynex REIT had entered into commitments to fund multifamily and commercial loans of $751,943 at fixed interest rates ranging from 5.90% to 9.45% and manufactured housing loans of $71,087 primarily at fixed interest rates ranging from 7.99% to 11.75%. The multifamily and commercial commitments had original terms of not more than 18 months. The manufactured housing commitments generally had original terms of not more than 90 days. Dynex REIT has deferred net hedging losses of $39,697 at December 31, 1998 and $15,088 at December 31, 1997 related to these positions. At December 31, 1998, Dynex REIT had purchased $400,000 notional amount of put options to hedge these positions and had sold $300,000 notional amount of put options to offset part of the cost of the purchase of options. The purpose of these positions was to reduce exposure to the effect of changes in interest rate on loans that Dynex REIT has committed to fund.

Interest rate swap agreements. Dynex REIT may enter into various interest rate swap agreements to limit its exposure to changes in financing rates of collateral for collateralized bonds and certain securities. Dynex REIT has entered into a series of interest rate swap agreements which limits the increase in borrowing costs in any six-month period to 1% for $1,020,000 notional amount of short-term borrowings. Pursuant to the terms of this agreement, Dynex REIT pays the lesser of current six-month LIBOR, or six-month LIBOR in effect 180-days prior plus 1%, and receives current 6-month LIBOR. These agreements expire in 2001. Dynex REIT also has an amortizing interest rate swap agreement with a remaining notional balance of $119,863 related to Prime rate-based ARM loans financed with LIBOR-based variable-rate collateralized bonds. Under the terms of the agreement, the Company receives one-month LIBOR plus 2.65% and pays one-month average Prime rate in effect three months prior. This agreement expires in 2003.

During 1998, Dynex REIT terminated interest rate swap agreements with a notional value of $1,240,848. These interest rate swap agreements related primarily to Dynex REIT's fixed-rate manufactured housing collateral, which was being financed with variable-rate debt in the form of collateralized bonds, repurchase agreements or warehouse lines. The Company paid a fixed rate ranging from 5.40% to 6.15% and received one-month LIBOR. The cost of terminating these agreements was $10,071, which was deferred and is being recognized as a yield adjustment over the remaining life of the underlying loans.

During 1997 and 1998, Dynex REIT entered into interest rate swap agreements with a notional balance of $73,000 and $25,134, respectively, related to tax-exempt bonds for which Dynex REIT facilitates the issuance. As the facilitator of the issuance of the bonds, Dynex REIT is required to pay interest due to the bondholders in excess of a fixed rate. The bonds are floating rate based on the current weekly Bond Market Association ("BMA") index. Dynex REIT, simultaneous to the issuance of the bonds, may enter into interest rate swap agreements to pay fixed and receive weekly BMA. During the fourth quarter of 1998, Dynex REIT terminated all of these agreements. The cost of terminating these agreements was $3,419. The cost was deferred and is being amortized over the remaining life of the tax-exempt bonds.

Derivative Financial Instruments Used for Other Than Risk Rate Management Purposes

The Company may enter into financial futures, forwards and options contracts to enhance the overall yield on its investment portfolio. Such derivative contracts are accounted for as trading positions, and generally are for terms of less than three months. The Company realized gross gains of $4,136 and $9,862 from these contracts in 1998 and 1997, respectively, primarily from premium income received on options contracts written. The Company realized gross losses of $5,565 and $281 from these contracts in 1998 and 1997, respectively. There were no open trading positions at December 31, 1998 and 1997.

NOTE 9 - SALE OF SINGLE-FAMILY MORTGAGE OPERATIONS

On May 13, 1996, the Company sold its single family correspondent, wholesale and servicing operations (collectively, the "single family mortgage operations") to a subsidiary of Dominion Resources, Inc. for $67,958. The terms of the purchase included an initial cash payment of $20,458, with the remainder of the purchase price paid in five annual installments of $9,500 beginning January 2, 1997, pursuant to a note agreement. The note bears interest at a rate of 6.50% and is classified as other investments in the consolidated balance sheet. As a result of the sale, the Company recorded a net gain of $21,512. Such amount included a provision of $30,084 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, of which $10,593 is remaining as of December 31, 1998

NOTE 10 - EARNINGS PER SHARE

The following table reconciles the numerator and denominator for both the basic and diluted EPS for the years ended December 31, 1998, 1997 and 1996.
<TABLE>
<CAPTION>

	1998		1997		1996	
	Income	Weighted-Average Number of Shares	Income	Weighted-Average Number of Shares	Income	Weighted-Average Number of Shares
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Income before extraordinary item	$ 20,148		$ 73,998		$ 73,048	
Extraordinary item - loss on extinguishment of debt	(571)		-		-	
Net income after extraordinary item	19,577		73,998		73,048	
Less: Dividends paid to preferred stock	(13,019)		(14,820)	-	(10,009)	
Basic	6,558	45,746,394	59,178	43,031,381	63,039	40,889,581
Effect of dividends and additional shares of preferred stock:						
Series A	-	-	3,948	2,953,413	3,687	3,105,000
Series B	-	-	5,500	4,138,945	5,218	4,393,648
Series C	-	-	-	-	1,104	771,585
Diluted	$ 6,558	45,746,394	$ 68,626	50,123,739	$ 73,048	49,159,814
Earnings per share before extraordinary item:						
Basic EPS		$0.16		$1.38		$1.54
Diluted EPS		$0.16		$1.37		$1.49

Earnings per share after extraordinary item:						
Basic EPS		$0.14		$1.38		$1.54
Diluted EPS		$0.14		$1.37		$1.49
Reconciliation of anti-dilutive shares:						
Dividends and additional shares of preferred stock:						
Series A	$ 3,111	2,643,248	$ -	-	$ -	-
Series B	4,535	3,837,128	-	-	-	-
Series C	5,373	3,680,000	5,372	3,679,474	-	-
Expense and incremental shares of stock appreciation rights	929	60,904	2,019	207,395	1,827	165,542
	$ 13,948	10,221,280	$ 7,391	3,886,869	$ 1,827	165,542

</TABLE>

During 1998, Dynex REIT recognized an extraordinary loss of $571 on the redemption of six series of previously issued collateralized bonds. During 1998, both the basic and diluted earnings per share was reduced by $0.01 due to these early redemptions.

NOTE 11 - PREFERRED STOCK

The following table presents a summary of Dynex REIT's issued and outstanding preferred stock:
<TABLE>
<CAPTION>

	Liquidation Preference Per Share	Dividends Per Share 1998	1997	1996
<S>	<C>	<C>	<C>	<C>
Series A 9.75% Cumulative Convertible Preferred Stock	$24.00	$2.370	$2.710	$2.375
Series B 9.55% Cumulative Convertible Preferred Stock	24.50	2.370	2.710	2.375
Series C 9.73% Cumulative Convertible Preferred Stock	30.00	2.920	2.920	0.600

</TABLE>

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

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

During 1998, the Company issued 267,012 shares of common stock due to the conversion of Series A and Series B preferred stock. No shares of Series C preferred stock were converted during 1998.

NOTE 12 - EMPLOYEE BENEFITS

Stock Incentive Plan Pursuant to the Company's 1992 Stock Incentive Plan, as amended on April 24, 1997 (the "Employee Incentive Plan"), the Company may grant to eligible employees stock options, stock appreciation rights ("SARs") and restricted stock awards. An aggregate of 2,400,000 shares of common stock is available for distribution pursuant to the Employee Incentive Plan. The Company may also grant dividend equivalent rights ("DERs") in connection with the grant of options or SARs. These SARs and related DERs generally become exercisable as to 20 percent of the granted amounts each year after the date of the grant. The Company expensed $1,830, and $1,664 for SARs and DERs related to the Employee Incentive Plan during 1997 and 1996, respectively, and there was no expense during 1998. There were no stock options outstanding as of December 31, 1998, 1997 and 1996.

Stock Incentive Plan for Outside Directors

In 1995, Dynex REIT adopted a Stock Incentive Plan for its Board of Directors (the "Board Incentive Plan") with terms similar to the Employee Incentive Plan. On May 1, 1995, the date of the initial date of grant under the Board Incentive Plan, each member of the Board of Directors was granted 14,000 SARs. Each Board member has subsequently received a grant of 2,000 SARs on May 1, 1996, 1997 and 1998 and will receive an additional grant of 2,000 SARs on May 1, 1999. The SARs granted on May 1, 1995 were fully vested on May 1, 1998. Each successive award will become exercisable as to 20% of the granted amounts each year after the date of grant. The maximum period in which any SAR may be exercised is 73 months from the date of grant. The maximum number of shares of common stock encompassed by the SARs granted under the Board Incentive Plan is 200,000. Dynex REIT expensed $189 and $163 for SARs and DERs related to the Board Incentive Plan during 1997 and 1996, respectively and there was no expense during 1998.

The following table presents a summary of the SARs activity for both the Employee Incentive Plan and the Board Incentive Plan.
<TABLE>
<CAPTION>

	Years ended December 31,					
	1998		1997		1996	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
SARs outstanding at beginning of year	694,890	$10.87	631,818	$8.98	669,020	$8.38
SARs granted	259,101	11.75	208,300	13.75	152,130	10.43
SARs forfeited	(21,211)	12.12	-	-	(23,034)	9.48
SARs exercised	(54,000)	7.04	(145,228)	6.82	(32,228)	5.25
SARs terminated at sale of single- family mortgage operations	-	-	-	-	(134,070)	8.43
SARs outstanding at end of year	878,780	11.18	694,890	$10.87	631,818	$8.98
SARs vested and exercisable	340,481	$10.38	223,638	$9.71	234,094	$8.37

</TABLE>

The Company adopted the disclosure-only option under Statement of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" ("FAS No. 123"). If the fair value accounting provisions of FAS No. 123 had been adopted as of January 1, 1996 the pro forma effect on the 1998, 1997 and 1996 results would have been immaterial. The exercise price range for the SARs outstanding at December 31, 1998 was $6.38 - $14.50 with a weighted-average exercise price of $11.18 and a weighted-average contractual remaining life of 4 years.

Employee Savings Plan The Company provides an Employee Savings Plan under

Section 401(k) of the Internal Revenue Code. The Employee Savings Plan allows eligible employees to defer up to 12% of their income on a pretax basis. The Company matches the employees' contribution, up to 6% of the employees' eligible compensation. The Company may also make discretionary contributions based on the profitability of the Company. The total expense related to the Company's matching and discretionary contributions in 1998, 1997 and 1996 was $497, $424, and $248, respectively. The Company does not provide post employment or post retirement benefits to its employees.

401(k) Overflow Plan During 1997, the Company adopted a non-qualifying overflow plan which covers employees who have contributed to the Employee Savings Plan the maximum amount allowed under the Internal Revenue Code. The excess contributions are made to the overflow plan on an after-tax basis. However, the Company partially reimburses employees for the effect of the contributions being made on an after-tax basis. The Company matches the employee's contribution up to 6% of the employee's eligible compensation. The total expense related to the Company's reimbursements in 1998 and 1997 was $56 and $17, respectively.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

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

Dynex REIT facilitates the issuance of tax-exempt multifamily housing bonds, the proceeds of which are used to fund mortgage loans on multifamily properties. Dynex REIT enters into standby commitment agreements. Dynex REIT is required to pay principal and interest to the bondholders in the event there is a payment shortfall from the construction proceeds. In addition, Dynex REIT is required to purchase the bonds if such bonds are not able to be remarketed by the remarketing agent. Dynex REIT provided letters of credit to support its obligations in amounts equal $144,216 and $25,878 at December 31, 1998 and 1997, respectively.

On June 10, 1998, Dynex REIT entered into a credit agreement with AutoBond Acceptance Corporation ("AutoBond") and AutoBond Master Funding Corporation V ("Funding"), whereby Dynex REIT would provide Funding with limited funding over a one-year period to finance its purchase of automobile installment contracts from AutoBond up to $20 million per month. This agreement was 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. The common stock of AutoBond trades on the American Stock Exchange under the symbol "ABD" In addition, DHI 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. Dynex REIT also purchased from AutoBond a $3.0 million senior note convertible into 500,000 shares of AutoBond's common stock. As of December 31, 1998, Dynex REIT had funded $149,189 million in funding notes related to the auto contracts. Based upon results of a compliance review conducted by third party consultants during January 1999, the Company ceased funding additional contracts effective February 3, 1999 (see Note 16).

As of December 31, 1998, Dynex REIT is obligated under noncancelable operating leases with expiration dates through 2004. Rent expense under those leases was $336, $295, and $204, respectively in 1998, 1997 and 1996. The future minimum lease payments under these noncancelable leases are as follows: 1999--$566; 2000--$582; 2001--$600; 2002--$618; 2003--$636, and thereafter--$8.

NOTE 14 - SUPPLEMENTAL CONSOLIDATED STATEMENTS OF CASH FLOWS INFORMATION
<TABLE>
<CAPTION>

	Years ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Cash paid for interest	$ 319,626	$ 232,598	$ 228,027
Supplemental disclosure of non-cash activities:			
Securities owned subsequently securitized	$ 257,959	$ 311,117	$ 562,757
Other investments owned subsequently securitized	$ 37,221	$ -	$ -

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</TABLE>

NOTE 15 - RELATED PARTY TRANSACTIONS

Dynex REIT has a credit arrangement with DHI whereby DHI and any of DHI's subsidiaries can borrow funds from Dynex REIT to finance its production operations. Under this arrangement, Dynex REIT can also borrow funds from DHI. The terms of the agreement allows DHI and its subsidiaries to borrow up to $50 million from Dynex REIT at a rate of Prime plus 1.0%. Dynex REIT can borrow up to $50 million from DHI at a rate of one-month LIBOR plus 1.0%. This agreement has a one-year maturity which is extended automatically unless notice is received from one of the parties to the agreement within 30 days of the anticipated termination of the agreement. As of December 31, 1998 and 1997, net borrowings due to DHI under this agreement totaled $8,583 and $14,010 , respectively. Net interest expense under this agreement was $992, $462 and $1,096 for the years ended December 31, 1998, 1997 and 1996, respectively.

Dynex REIT also has a loan funding agreement with Dynex Financial, Inc. ("DFI"), an operating subsidiary of DHI, whereby Dynex REIT pays DFI on a fee plus cost basis for the origination of manufactured housing loans on behalf of Dynex REIT. During 1998, 1997 and 1996, Dynex REIT paid DFI $15,771, $9,722 and $5,172, respectively under such agreement.

Dynex REIT has a funding agreement with Dynex Commercial, Inc. ("DCI"), an operating subsidiary of DHI, whereby Dynex REIT pays DCI a fee per loan originated on behalf of Dynex REIT. Dynex REIT paid DCI $4,753, $1,694 and none, respectively under this agreement for the years ended December 31, 1998, 1997 and 1996.

Dynex REIT has note agreements with Dynex Residential, Inc. ("DRI"), an operating subsidiary of DHI, whereby DRI and its subsidiaries can borrow up to $287,000 from Dynex REIT on a secured basis to finance the acquisition of model homes from single-family home builders. The interest rate on the note is adjustable and is based on 30-day LIBOR plus 2.5%-2.875%. The outstanding balance of the note as of December 31, 1998 and 1997 was $159,377 and $115,905, respectively. Interest income recorded by Dynex REIT for the years ended December 31, 1998 1997 and 1996 was $11,971, $6,354 and $431, respectively.

Dynex REIT has entered into subservicing agreements with DCI and DFI to service single family, consumer and manufactured housing loans. For servicing the commercial loans, DCI received an annual servicing fee of 0.02% of the aggregate unpaid principal balance of the loans plus credit for compensating balances. For servicing the single family mortgage, consumer and manufactured housing loans, DFI received annual fees of $10, $8 and $5 per loan, respectively, and certain incentive fees. Servicing fees paid by Dynex REIT under such agreements were $1,061, $321 and $none in 1998, 1997 and 1996, respectively.

NOTE 16 - INVESTMENT IN AND ADVANCES TO DYNEX HOLDING, INC.

Investments in and advances to Dynex Holding, Inc. accounted for under a method similar to the equity method amounted to $169,384 and $119,356 at December 31, 1998 and 1997, respectively. The results of operations and financial position of Dynex Holding, Inc. is summarized below:
<TABLE>
<CAPTION>

Condensed Income Statement Information	Years ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Total revenues	$ 30,126	$ 17,338	$ 13,365
Total expenses	27,645	18,458	17,718
Net income	2,481	1,120	(4,353)

</TABLE>

<TABLE>
<CAPTION>

Condensed Balance Sheet Information	December 31,	
	1998	1997
<S>	<C>	<C>
Total assets	$ 196,324	$ 144,606
Total liabilities	177,050	126,720
Total equity	19,274	17,886

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</TABLE>

NOTE 17 - SUBSEQUENT EVENTS

In anticipation of exercising the stock option (discussed previously in Note 13), the Company notified AutoBond in late December that the Company would be performing due diligence and compliance procedures beginning January, 1999. The Company 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, the Company 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 the Company 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.

As a consequence of the breaches by AutoBond, on February 9, 1999, the Company 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 the Agreements. The Company subsequently amended its compliant and is seeking unspecified damages from AutoBond.

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 a third-party as successor servicer. As of this date, AutoBond has not cooperated in the transfer of servicing.

On February 8, 1999, AutoBond, along with three principal shareholders of AutoBond, ("Plaintiffs") commenced an action in the District Court of Travis County, Texas (250th Judicial District) against the Company. The Plaintiffs allege that the Company breached the terms of the Agreements. The Plaintiffs also allege that the Company conspired to misrepresent and mischaracterize AutoBond's credit underwriting criteria and its compliance with such criteria with the intention of interfering and causing actual damage to AutoBond's business, prospective business and contracts. In addition to actual, punitive and exemplary damages, the Plaintiffs also seek injunctive relief compelling the Company to fund immediately all advances due AutoBond under the credit agreement. The Company believes AutoBond's claims are without merit and intends to defend against them vigorously.