UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 13D
(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO RULE 13D-1(A) AND AMENDMENTS THERETO FILED PURSUANT TO RULE 13D-2(A)*

(AMENDMENT NO.1)

Dynex Capital, Inc.
- ---
(Name of Issuer)

Common Stock, $0.01 par value per share
- ---
(Title of Class of Securities)

26817Q506
- ---
(CUSIP Number)

	with a copy to:
	Stephen Fraidin
Michael R. Kelly	Fried, Frank, Harris, Shriver & Jacobson
550 West C Street	One New York Plaza
San Diego, CA 92101	New York, NY 10004-1980
(619) 687-5000	(212) 859-4000

- ---
(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

September 12, 2000
- ---
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box [ ].

Note: Schedules filed in paper format shall include a signed original and five copies of the Schedule, including all exhibits. See Rule 13d-7(b) for other parties to whom copies are to be sent.

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

SCHEDULE 13D

CUSIP No. 26817Q506

1 NAME OF REPORTING PERSON
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

CALIFORNIA INVESTMENT FUND, LLC 33-0688954

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) [X] (b) [ ]

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) [ ]

NOT APPLICABLE

6 CITIZENSHIP OR PLACE OF ORGANIZATION

CALIFORNIA

NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 8 SHARED VOTING POWER

OWNED BY EACH 572,178

REPORTING 9 SOLE DISPOSITIVE POWER

PERSON WITH

10 SHARED DISPOSITIVE POWER

572,178

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

572,178

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions) [ ]

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

5.00%

14 TYPE OF REPORTING PERSON (See Instructions)

CO

SCHEDULE 13D

CUSIP No. 26817Q506

1 NAME OF REPORTING PERSON
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

MICHAEL R. KELLY

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) [X] (b) [ ]

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e) [ ]

NOT APPLICABLE

6 CITIZENSHIP OR PLACE OF ORGANIZATION

USA

NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 8 SHARED VOTING POWER

OWNED BY EACH 572,178

REPORTING 9 SOLE DISPOSITIVE POWER

PERSON WITH

10 SHARED DISPOSITIVE POWER

572,178

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

572,178

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (See Instructions) [ ]

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

5.00%

14 TYPE OF REPORTING PERSON (See Instructions)

IN

SCHEDULE 13D

CUSIP No. 26817Q506

1 NAME OF REPORTING PERSON
I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

RICHARD KELLY

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) [X]
(See Instructions) (b) [ ]

3 SEC USE ONLY

4 SOURCE OF FUNDS (See Instructions)

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED
PURSUANT TO ITEMS 2(d) or 2(e) [ ]

NOT APPLICABLE

6 CITIZENSHIP OR PLACE OF ORGANIZATION

USA

NUMBER OF 7 SOLE VOTING POWER

SHARES

BENEFICIALLY 8 SHARED VOTING POWER

OWNED BY EACH 572,178

REPORTING 9 SOLE DISPOSITIVE POWER

PERSON WITH

10 SHARED DISPOSITIVE POWER

572,178

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

572,178

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) [ ]
EXCLUDES CERTAIN SHARES (See Instructions)

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

5.00%

14 TYPE OF REPORTING PERSON (See Instructions)

IN

This amendment amends and supplements the Schedule 13D, dated March 29, 2000, and filed on April 4, 2000, with the Securities and Exchange Commission (the "Schedule 13D"). Except as amended by this amendment, there has been no change in the information previously reported on the Schedule 13D.

ITEM 4. PURPOSE OF TRANSACTION.

On September 12, 2000, California Investment Fund, LLC (the "Fund") submitted a letter to Dynex Capital, Inc. ("Dynex") detailing its proposal to acquire all of the outstanding shares of common stock (the "Common Stock") and Series A, B and C Redeemable Preferred Stock of Dynex (together, the "Preferred Stock") for an aggregate of $90 million in cash (the "Proposal Letter"). The Proposal Letter contemplates that the Fund would be prepared to offer $2.4631 per share in cash for all of the outstanding shares of Dynex common stock, $10.8788 per share for all outstanding shares of Series A Preferred Stock, $11.4946 per share for all outstanding shares of Series B Preferred Stock, and $13.9064 per share for all outstanding shares of Series C Preferred Stock. The Proposal Letter also indicates that the Fund is flexible with respect to the allocation of the total purchase price. As part of the transaction, all outstanding stock options of Dynex would be cancelled without consideration. A copy of the

Proposal Letter is attached hereto as Exhibit A and is specifically incorporated herein by reference, and the description herein of the Proposal Letter is qualified in its entirety by reference to the Proposal Letter.

The Fund is prepared to take steps necessary to complete the proposed transaction, including, without limitation, the negotiation, execution and consummation of a definitive acquisition agreement. There can be no assurance, however, that such a transaction will be consummated; or, if it is consummated, that such a transaction will be consummated on the terms and conditions set forth in the Proposal Letter. Consummation of the proposed transaction would be subject to a number of conditions, including satisfaction of any regulatory requirements, receipt of all required consents including all consents required to deliver 100% of the fully-diluted equity of Dynex to the Fund at Closing, and receipt by the Fund of necessary financing. Upon execution of a definitive acquisition agreement, the Fund is prepared to deposit into escrow 572,178 shares of Common Stock and to forfeit those shares to Dynex if the transaction fails to close as a result of the failure of the Fund to obtain the necessary financing.

On September 13, 2000, the Fund issued a press release announcing that it had submitted the Proposal Letter. A copy of the press release is attached hereto as Exhibit B and is specifically incorporated herein by reference, and the description herein of such press release is qualified in its entirety by reference to such press release.

The offer set forth in the Proposal Letter is a result of recent discussions between the Fund and Dynex concerning a potential business combination. On April 6, 2000, the Fund entered into a confidentiality and limited standstill agreement with PaineWebber Incorporated pursuant to which it agreed, among other things, to (i) except as required by law, keep confidential information disclosed to the Fund regarding Dynex and (ii) not to purchase any of the securities of Dynex without the prior written consent of Dynex's board of directors for a period of 24 months following termination of discussions between the Fund and Dynex (the "April 6 Agreement"). A copy of the April 6 Agreement is attached hereto as Exhibit C and is specifically incorporated herein by reference, and the description herein of such agreement is qualified in its entirety by reference to such agreement.

On April 21, 2000, the Fund submitted a letter to Dynex outlining the principal terms it was prepared to offer in connection with a potential business combination (the "April 21 Letter.") The April 21 Letter was thereafter superceded by a letter from the Fund to Dynex dated April 26, 2000 (the "April 26 Letter"). The Fund received a letter from PaineWebber Incorporated dated May 22, 2000 outlining the items to be addressed by parties interested in submitting a merger or acquisition proposal in connection with Dynex and certain procedures to be followed in connection therewith (the "May 22 Letter"). The April 26 Letter was thereafter superseded by a letter from the Fund to Dynex dated June 1, 2000 (the "June 1 Letter"). On July 6, 2000, the Fund received from Dynex two letters outlining the potential terms upon which the Board of Directors of Dynex would consider a potential business combination transaction (the "July 6 Letters"). On July 12, 2000, the Fund responded to Dynex's July 6 Letter in two separate letters and proposed revised terms in connection with a potential transaction (the "July 12 Letters"). The Fund thereafter submitted two letters to Dynex dated July 24, 2000, in which it increased the consideration it would potentially pay to Dynex's stockholders in a potential business combination transaction (the "July 24 Letters"). Finally, on August 8, 2000, the Fund submitted a letter to Dynex in which it responded to the rejection by Dynex of the terms outlined in the Fund's July 24 Letters by terminating discussions between the Fund and Dynex regarding a potential business combination and requested the written consent of Dynex's Board of Directors to allow the Fund to purchase any of the securities of Dynex (the "August 8 Letter"). As of the date of the Proposal Letter, the Fund has not received a response to its August 8 Letter and has not acquired any securities of Dynex in addition to those disclosed on the Schedule 13D.

Copies of the April 6 Agreement, the April 21 Letter, the April 26 Letter, the May 22 Letter, the June 1 Letter, the July 6 Letters, the July 12 Letters, the July 24 Letters and the August 8 Letter are attached hereto as Exhibits C-N, respectively, and are each specifically incorporated herein by reference, and the descriptions herein of such letters are qualified in their entirety by reference to such letters.

Depending on the response of the Board of Directors of Dynex to the Proposal Letter, the Fund reserves the right to formulate other plans and/or make other proposals, and take such actions with respect to its investment in Dynex, including any or all of the actions set forth in paragraphs (a) through (j) of Item 4 of Schedule 13D and any other actions as it may determine. The Fund also reserves the right to amend or withdraw the proposal at any time.

Except as stated in this response to Item 4 and in furtherance of the proposed business combination, the Fund has no current plans or proposals with respect to Dynex or its securities of the types enumerated in paragraphs (a) through (j) of Item 4 of Schedule 13D.

ITEM 6. CONTRACTS, ARRANGEMENTS, UNDERSTANDINGS OR RELATIONSHIPS WITH RESPECT TO SECURITIES OF THE ISSUER.

As described in Item 4 above, the Fund has entered into the April 6 Agreement with respect to further acquisitions of securities of Dynex. A copy of the April 6 Agreement is attached hereto as Exhibit C and is incorporated herein by reference, and the description herein of such agreement is qualified in its entirety by reference to such agreement.

ITEM 7. MATERIAL TO BE FILED AS EXHIBITS.

	DOCUMENT
Exhibit A --	Letter from the Fund to Dynex, dated September 12, 2000
Exhibit B --	Press Release of Dynex, dated September 13, 2000
Exhibit C --	Letter Agreement between PaineWebber Incorporated and the Fund, dated April 6, 2000
Exhibit D --	Letter from the Fund to Dynex, dated April 21, 2000
Exhibit E --	Letter from the Fund to Dynex, dated April 26, 2000
Exhibit F --	Letter from PaineWebber Incorporated to the Fund, dated May 22, 2000
Exhibit G --	Letter from the Fund to Dynex dated June 1, 2000
Exhibit H --	Letter from Dynex to the Fund, dated July 6, 2000
Exhibit I --	Letter from Dynex to the Fund, dated July 6, 2000
Exhibit J --	Letter from the Fund to Dynex, dated July 12, 2000
Exhibit K --	Letter from the Fund to Dynex, dated July 12, 2000
Exhibit L --	Letter from the Fund to Dynex, dated July 24, 2000
Exhibit M --	Letter from the Fund to Dynex, dated July 24, 2000
Exhibit N --	Letter from the Fund to Dynex, dated August 8, 2000

SIGNATURES

After reasonable inquiry and to the best of our knowledge and belief, we certify that the information set forth in this statement is true, complete and correct.

Date: September 12, 2000

California Investment Fund, LLC,
a California limited liability company

By: /s/ Michael R. Kelly
Michael R. Kelly
Its: Managing Member

Date: September 12, 2000

Michael R. Kelly

By: /s/ Michael R. Kelly
Michael R. Kelly, as an Individual

Date: September 12, 2000

Richard Kelly

By: /s/ Richard Kelly
Richard Kelly, as an Individual

EXHIBIT INDEX

	DOCUMENT
Exhibit A --	Letter from the Fund to Dynex, dated September 12, 2000

Exhibit B -- Press Release of Dynex, dated September 13, 2000

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Exhibit D -- Letter from the Fund to Dynex, dated April 21, 2000

Exhibit E -- Letter from the Fund to Dynex, dated April 26, 2000

Exhibit F -- Letter from PaineWebber Incorporated to the Fund, dated May 22, 2000

Exhibit G -- Letter from the Fund to Dynex dated June 1, 2000

Exhibit H -- Letter from Dynex to the Fund, dated July 6, 2000

Exhibit I -- Letter from Dynex to the Fund, dated July 6, 2000

Exhibit J -- Letter from the Fund to Dynex, dated July 12, 2000

Exhibit K -- Letter from the Fund to Dynex, dated July 12, 2000

Exhibit L -- Letter from the Fund to Dynex, dated July 24, 2000

Exhibit M -- Letter from the Fund to Dynex, dated July 24, 2000

Exhibit N -- Letter from the Fund to Dynex, dated August 8, 2000

EXHIBIT A

[CALIFORNIA INVESTMENT FUND, LLC LETTERHEAD]

September 12, 2000

VIA FACSIMILE AND FEDERAL EXPRESS

The Board of Directors of Dynex Capital, Inc.
c/o Thomas H. Potts
President
Dynex Capital, Inc.
10900 Nuckols Road, 3rd Floor
Glen Allen, VA 23060

Gentlemen:

California Investment Fund LLC ("CIF") hereby proposes to acquire 100% of the equity of Dynex Capital, Inc. (the "Company") for a purchase price of $90 million in cash. This constitutes a premium of approximately 64.2% over the current aggregate market capitalization of the Company's equity and represents an opportunity for your shareholders to realize substantial value from their investment. We hope that after consideration of this proposal you will agree that it is in the best interests of the Company's stockholders.

As you know, we own 572,178 shares of the Company's common stock, approximately 5% of the outstanding number of shares. As a significant stockholder of the Company, we have watched with great dismay as Dynex's stockholder equity has declined by over $380 million since December 1997, with approximately $130 million of this loss occurring between March and June of this year. Despite the sale of its operating business units, the Company's stock prices continue to languish and the Company is also faced with numerous other issues. These issues include adverse litigation, defaults under its debt instruments, and failure to pay dividends on its preferred stock for five consecutive quarters.

Since April, 2000 we have advised you of our serious interest in acquiring the Company. While we are disappointed that you have rejected our interest in the Company in the past, we hope that the substantial value we are offering, and our commitment to complete this transaction, as demonstrated in this proposal, will convince your Board that our proposal is in the interest of all parties.

CIF and its affiliates have, in the last several years, consummated a substantial number of significant transactions. We are sufficiently certain that we will be able to complete this transaction that, if you accept our proposal, we will agree to forfeit to the Company the 572,178 shares of Company common stock which we own if we are not able to finance this transaction.

The following specifically addresses certain terms of our proposal.

1. VALUATION

CIF is offering to acquire all issued and outstanding shares of common stock of the Company for a price of $2.4631 per share totaling $28,188,504.21; CIF is offering to acquire all issued and outstanding shares of preferred stock of the Company at the following prices: (a) $10.8788 per share of class A preferred, totaling $14,241,035.06; (b) $11.4946 per share of class B preferred, totaling $21,982,662.12; and $13.9064 per share of class C preferred totaling $25,587,798.62. You should understand, however, that we are flexible with respect to the allocation of the total purchase price and we welcome the views of the Board of the Company with respect to that aspect of our offer.

All accrued and unpaid dividends through the date of this proposal, as well as all dividends accruing between the date of this letter and closing, will be cancelled or satisfied with a portion of the Purchase Price. All options will be cancelled without consideration.

CIF will also have the option to acquire all of the issued and outstanding shares of common stock of the Company's affiliate, Dynex Holding, Inc., at its book value of approximately $200,000.

2. DEFINITIVE ACQUISITION AGREEMENT; CERTAIN CONDITIONS

CIF will cooperate with Company and use its reasonable best efforts to negotiate, draft and execute a definitive acquisition agreement as promptly as is practicable. The definitive acquisition agreement, which is a prerequisite to the proposed transaction, will include customary representations, covenants and closing conditions. The closing conditions will include the following: (i) approval of all required shareholders of Seller necessary to ensure delivery of

100% of the equity to CIF at closing; (ii) any required approval of the holders of senior notes to the proposed transaction; (iii) the receipt of all required governmental approvals and material third party consents; and (iv) receipt of financing necessary for the completion of the transaction. In connection with the condition referred to in subparagraph (iv) you should note that upon the execution of a definitive acquisition agreement, CIF will deposit into escrow 572,178 shares of common stock of the Company; if CIF does not complete the transaction because the condition set forth in subparagraph (iv) is not complied with, those shares will be forfeited to the Company.

3. STRUCTURE

CIF anticipates that the transaction will be structured either as a one-step merger or a tender offer and merger. In connection therewith, CIF will form an acquisition subsidiary ("Acquisition Sub"). Certain assets of the Company that may not be transferred to Acquisition Sub (which will not be either a REIT or qualified REIT subsidiary) will, at the direction of CIF, either be (i) transferred to a REIT or qualified REIT subsidiary designated by Buyer or (ii) sold by Seller in transactions prearranged by Buyer. Any such sale or transfer will occur prior to (or simultaneously with) closing, but in any event after all closing conditions have been satisfied.

4. CERTAIN OTHER PROVISIONS

The definitive acquisition agreement will include customary deal protection provisions.

Enclosed is Amendment No. 1 to our Schedule 13D.

We hope you view our proposal, which supersedes all of our prior letters to you regarding this matter, favorably, and give it your prompt attention. This offer will terminate if you have not communicated your acceptance to us by the close of business on October 2, 2000.

If you have any questions, please contact me at 619-687-5000.

We look forward to hearing from you.

Very truly yours,

/s/ Michael R. Kelly

Michael R. Kelly
Managing Member

cc: Stephen Fraidin, Esq.
Fried, Frank, Harris, Shriver & Jacobson

Ray La Soya, Esq.
Fried, Frank, Harris, Shriver & Jacobson

EXHIBIT B

CALIFORNIA INVESTMENT FUND, LLC

PRESS RELEASE - FOR IMMEDIATE RELEASE

CONTACTS:
Michael Kelly
California Investment Fund
(619) 687-5000

Judy Brennan / Jonathan Gasthalter
Citigate Sard Verbinnen
(212) 687-8080

CALIFORNIA INVESTMENT FUND PROPOSES TO ACQUIRE DYNEX CAPITAL FOR $90 MILLION

(SAN DIEGO, CALIFORNIA - September 13, 2000)-California Investment Fund, LLC (CIF), a private company headquartered in San Diego, California, today confirmed that it has delivered a proposal to Dynex Capital, Inc. (NYSE: DX) to acquire 100% of the equity of Dynex for a purchase price of $90 million in cash. The proposal constitutes a premium of approximately 64.2% over the current market capitalization of Dynex's equity as of the market close on September 8, 2000.

CIF is proposing to acquire all issued and outstanding shares of common stock of Dynex, for a price of $2.4631 per share, totaling $28,188,504.21, and all issued and outstanding shares of preferred stock of Dynex at the following prices: (i) $10.8788 per share of Class A Preferred, totalling $14,241,035.06; (ii) $11.4946 per share of Class B Preferred, totaling $21,982,662.12; and (iii) $13.9064 per share of Class C Preferred, totaling $25,587,798.62. CIF has also indicated that it is flexible with respect to the allocation of the total purchase price.

CIF currently owns 572,178 shares of the common stock of Dynex, approximately 5% of the outstanding shares. CIF and its affiliates have, in the last several years, consummated a substantial number of significant transactions. To demonstrate its confidence that it can complete the proposed transaction, CIF has indicated its willingness to deposit the 572,178 shares of common stock of Dynex it currently owns into escrow and to forfeit the shares to Dynex if CIF is unable to finance the transaction.

Consummation of the proposed transaction is subject to execution of a definitive acquisition agreement and to a number of customary conditions.

In connection with its proposal, CIF amended its Schedule 13D. Additional information regarding CIF's proposal can be found in such amended Schedule 13D.

The following is the full text of the letter sent last night to Dynex Capital.

[CALIFORNIA INVESTMENT FUND, LLC LETTERHEAD]
550 WEST C STREET, 10TH FLOOR
SAN DIEGO, CALIFORNIA 92101
(619) 687-5000 (619) 687-5010 FAX

September 12, 2000

VIA FACSIMILE AND FEDERAL EXPRESS

The Board of Directors of Dynex Capital, Inc.
c/o Thomas H. Potts
President
Dynex Capital, Inc.
10900 Nuckols Road, 3rd Floor
Glen Allen, VA 23060

Gentlemen:

California Investment Fund LLC ("CIF") hereby proposes to acquire 100% of the equity of Dynex Capital, Inc. (the "Company") for a purchase price of $90 million in cash. This constitutes a premium of approximately 64.2% over the current aggregate market capitalization of the Company's equity and represents an opportunity for your shareholders to realize substantial value from their investment. We hope that after consideration of this proposal you will agree that it is in the best interests of the Company's stockholders.

As you know, we own 572,178 shares of the Company's common stock, approximately 5% of the outstanding number of shares. As a significant stockholder of the Company, we have watched with great dismay as Dynex's

stockholder equity has declined by over $380 million since December 1997, with approximately $130 million of this loss occurring between March and June of this year. Despite the sale of its operating business units, the Company's stock prices continue to languish and the Company is also faced with numerous other issues. These issues include adverse litigation, defaults under its debt instruments, and failure to pay dividends on its preferred stock for five consecutive quarters.

Since April, 2000 we have advised you of our serious interest in acquiring the Company. While we are disappointed that you have rejected our interest in the Company in the past, we hope that the substantial value we are offering, and our commitment to complete this transaction, as demonstrated in this proposal, will convince your Board that our proposal is in the interest of all parties.

CIF and its affiliates have, in the last several years, consummated a substantial number of significant transactions. We are sufficiently certain that we will be able to complete this transaction that, if you accept our proposal, we will agree to forfeit to the Company the 572,178 common shares of Company common stock which we own if we are not able to finance this transaction.

The following specifically addresses certain terms of our proposal.

1. VALUATION

CIF is offering to acquire all issued and outstanding shares of common stock of the Company for a price of $2.4631 per share totaling $28,188,504.21; CIF is offering to acquire all issued and outstanding shares of preferred stock of the Company at the following prices: (a) $10.8788 per share of class A preferred, totaling $14,241,035.06; (b) $11.4946 per share of class B preferred, totaling $21,982,662.12; and $13.9064 per share of class C preferred totaling $25,587,798.62. You should understand, however, that we are flexible with respect to the allocation of the total purchase price and we welcome the views of the Board of the Company with respect to that aspect of our offer.

All accrued and unpaid dividends through the date of this proposal, as well as all dividends accruing between the date of this letter and closing, will be cancelled or satisfied with a portion of the Purchase Price. All options will be cancelled without consideration.

CIF will also have the option to acquire all of the issued and outstanding shares of common stock of the Company's affiliate, Dynex Holding, Inc., at its book value of approximately $200,000.

2. DEFINITIVE ACQUISITION AGREEMENT; CERTAIN CONDITIONS

CIF will cooperate with Company and use its reasonable best efforts to negotiate, draft and execute a definitive acquisition agreement as promptly as is practicable. The definitive acquisition agreement, which is a prerequisite to the proposed transaction, will include customary representations, covenants and closing conditions. The closing conditions will include the following: (i) approval of all required shareholders of Seller necessary to ensure delivery of 100% of the equity to CIF at closing; (ii) any required approval of the holders of senior notes to the proposed transaction; (iii) the receipt of all required governmental approvals and material third party consents; and (iv) receipt of financing necessary for the completion of the transaction. In connection with the condition referred to in subparagraph (iv) you should note that upon the execution of a definitive acquisition agreement, CIF will deposit into escrow 572,178 shares of common stock of the Company; if CIF does not complete the transaction because the condition set forth in subparagraph (iv) is not complied with, those shares will be forfeited to the Company.

3. STRUCTURE

CIF anticipates that the transaction will be structured either as a one-step merger or a tender offer and merger. In connection therewith, CIF will form an acquisition subsidiary ("Acquisition Sub"). Certain assets of the Company that may not be transferred to Acquisition Sub (which will not be either a REIT or qualified REIT subsidiary) will, at the direction of CIF, either be (i) transferred to a REIT or qualified REIT subsidiary designated by Buyer or (ii) sold by Seller in transactions prearranged by Buyer. Any such sale or transfer will occur prior to (or simultaneously with) closing, but in any event after all closing conditions have been satisfied.

4. CERTAIN OTHER PROVISIONS

The definitive acquisition agreement will include customary deal protection provisions.

Enclosed is Amendment No. 1 to our Schedule 13D.

We hope you view our proposal, which supersedes all of our prior letters to you regarding this matter, favorably, and give it your prompt attention. This offer will terminate if you have not communicated your acceptance to us by the close of business on October 2, 2000.

If you have any questions, please contact me at 619-687-5000.

We look forward to hearing from you.

Very truly yours,

Michael R. Kelly
Managing Member

cc: Stephen Fraidin, Esq.
Fried, Frank, Harris, Shriver & Jacobson

Ray La Soya, Esq.
Fried, Frank, Harris, Shriver & Jacobson

First Commercial Corporation, a private real estate investment company based in San Diego, California, is focused on the acquisition of whole loans and whole loan portfolios secured by commercial real estate. Founded in 1993 by Michael and Richard Kelly, First Commercial Corporation specializes in the commercial real estate secondary market. California Investment Fund, LLC is a separate Kelly controlled entity.

# # #

EXHIBIT C

Investment Banking Division

PaineWebber Incorporated
1285 Avenue of the Americas
New York, NY 10019
212 713-2000

[PaineWebber Letterhead]

April 6, 2000

Confidential
- ------------

California Investment Fund, LLC
550 West C Street, Suite 1000
San Diego, CA 92101

Attention: Michael R. Kelly
Managing Member

Ladies and Gentlemen:

In order to consider a possible acquisition of some or all of the equity securities or assets of our client, Dynex Capital, Inc. (the "Seller"), we are providing certain information to you. For the purpose of this letter, "you" shall mean your company, its subsidiaries and affiliates, together with your employees, directors, agents, advisors and lenders; the "Seller" shall mean Dynex Capital, Inc., its subsidiaries and affiliates, together with their employees, directors, agents, advisors and lenders; and "Information" shall mean any and all information and data which you receive from the Seller concerning its business, financial condition, operations, strategies and prospects.

In consideration of granting you access to the Information, you agree that the Information will be held by you in strictest confidence, and shall not be disclosed by you without the prior written consent of the Seller. You further agree that:

(1) The Information will be used by you solely in connection with the consideration of a possible acquisition of some or all of the equity securities or assets of the Seller;

(2) You will restrict dissemination of the Information to those of your employees, directors, agents, advisors and lenders which have a need to know such Information, you will notify them of the terms of this letter, and you will be responsible for their actions;

(3) You will promptly return the Information (including any copies, summaries or references) upon request to us; You will not issue or release any public announcement or acknowledgment of discussions between you and the Seller or the existence of this Agreement or any other agreement contemplated between the parties to this Agreement, except when and as required by law, and then only after first disclosing to the Seller the content of such announcement or acknowledgment, so as to give the Seller an opportunity to seek an appropriate protective order; and

(4) For a period of 24 months following termination of discussions between you and the Seller, you agree not to purchase any of the securities of the Company without the prior written consent of the Seller's Board of Directors, and for 6 months after termination you will not initiate employment discussions with any employee of the Company.

Paragraphs 1 and 2 above shall not apply to Information in your possession which: (i) is publicly available (except by virtue of a breach of this agreement) or (ii) you have obtained independently of the Seller without obligation either on your part or on the part of the source supplying such Information to treat such Information as confidential or limiting the purposes for which it could be used.

Neither the Seller nor PaineWebber shall be deemed to make any representation or warranty as to the accuracy or completeness of the Information furnished to you.

Very truly yours,
PAINEWEBBER INCORPORATED

By: /s/ James P. Murray

James P. Murray
First Vice President

Accepted and Agreed to as of
the date first written above:

California Investment Fund, LLC

By: /s/ Michael R. Kelly

Michael R. Kelly
Managing Member

EXHIBIT D

[CALIFORNIA INVESTMENT FUND, INC. LETTERHEAD]

Dynex Capital, Inc.
Attn: Thomas H. Potts
10900 Nuckols Road, 3rd Floor
Glen Allen, Virginia 23060
804-217-5861

Dynex Capital, Inc.
C/O Investment Banking Division
Paine Webber Incorporated
Attn: Mr. Jonathan P. Dever
1285 Avenue of the Americas
New York, NY 10019
212-713-2000

VIA FACSIMILE

April 21, 2000

Dear Mr. Potts and Mr. Dever:

This letter of intent is intended to summarize the principal terms relating to the proposed acquisition by California Investment Fund, L.L.C. ("Buyer") of Dynex Capital, Inc. and its subsidiaries ("Seller"). The preliminary understandings expressed in this letter are intended to be the subject of further negotiation and are not intended to be binding, except as set forth herein. There is no obligation on the part of any party (other than as set forth in the next sentence) until a definitive merger agreement is entered into by the parties, which will contain additional terms and conditions which have yet to be agreed upon. Notwithstanding the foregoing, upon acceptance of this letter of intent by the Seller, the provisions of Paragraphs 2, 6 and 7 will be binding upon Seller and Buyer.

1. Proposed value for Dynex Capital, Inc. common stock.

Buyer, or a subsidiary of Buyer ("Acquisition Sub"), intends to acquire all 11,444,188 issued and outstanding shares of common stock of Seller, for a price of $2.72 per share in cash. This would result in an aggregate purchase price of $31,119,036 for the common stock of Seller. All unvested and vested options (none of which are in-the-money) will be cancelled.

2. Option to Purchase.

In consideration of Buyer's incurrence of expenses, including the significant cost of conducting its due diligence investigation, and in lieu of any other break-up fee, Seller agrees to grant Buyer the option to purchase Seller loan No.s 800-631, 800-632 and 800-633 for a total aggregate purchase price of $19,890,000 payable in cash. This option shall terminate upon the expiration of the Due Diligence Period (as defined in Paragraph 6). Buyer shall send written notice to Seller of its exercise of this Option. The option transaction shall close within ten (10) business days following such notice. This option shall not be affected by any earlier termination of this letter of intent.

3. Proposed transaction structure (merger of equals, stock acquisition, asset purchase or other).

Buyer anticipates that the transaction will be accomplished through the merger of Acquisition Sub and Seller. Certain assets of Seller that may not be transferred to Acquisition Sub (which is not a REIT or a qualified REIT subsidiary) or that Buyer wishes to transfer to a REIT or a qualified REIT subsidiary will be sold by Seller in transactions pre-arranged by Buyer after deposit of the Purchase Price (as defined below) in escrow and the satisfaction of all other conditions to the proposed transaction, but prior to the completion of the proposed merger.

4. Anticipated financing source for completing the transaction (available cash, new debt, existing unused debt lines or other).

Buyer anticipates that the aggregate amount necessary to purchase the common stock of Seller and the preferred stock of Seller (the "Purchase Price") will be comprised of working capital of Buyer and financing from its lender.

5. Proposed treatment of outstanding preferred stock and senior

notes (retire for cash, leave outstanding or exchange for similar securities).

Buyer intends to acquire all 5,061,495 issued and outstanding shares of preferred stock of Seller. In accordance with the certificate of designation for each series of preferred stock Buyer believes that the preferred stock has been adjusted based on stock splits of the common stock of Seller and is currently convertible into one-half share of common stock. (In May 1997 the common stock split two-for-one and in August 1999 there was a reverse stock split of one-for-four.) The certificate of designation for each series of preferred stock explicitly states that a merger transaction is not a liquidating event, that the preferred stock is convertible in a merger into the consideration received with respect to the number of shares of common stock into which it is convertible and that the holders of the preferred stock do not have a class vote on the merger. As such, Buyer intends to purchase the preferred stock for $1.36 per share in cash, which is one-half that offered, with respect to each share of common stock. This would result in an aggregate purchase price of $6,881,609 for the preferred stock of Seller. However, if Seller believes that the preferred stockholders are entitled to additional rights please convey these concerns to Buyer.

Buyer will continue to evaluate the possibility of assuming the senior notes of Seller. In the event that Buyer is unable to assume the senior notes of Seller under the terms of their indentures, Buyer will seek the approval of the holders of the senior notes of Seller to obtain amendments to the indentures to permit the senior notes of Seller to remain outstanding.

6. Due Diligence

Seller shall cooperate fully with Buyer in its due diligence investigation and will make available to Buyer and its financial and legal advisors all books, records and business and financial information reasonably requested by Buyer with respect to the subject matter of this letter of intent during the Due Diligence Period. The Due Diligence Period will expire upon the earlier of (a) twenty-eight (28) calendar days from the date of this letter of intent, (b) written notification by Buyer that it is terminating the Due Diligence Period or (c) written notification by Buyer that it is prepared to engage in exclusive negotiations in accordance with Paragraph 7 and that it will waive its due diligence condition ("Notice). In addition, Seller agrees that Buyer is allowed to contact the financial advisors, note holders and stockholders of Seller in order to satisfy the conditions of Paragraph 8.

7. Definitive Merger Agreement; Exclusive Period.

Subject to the conditions of Paragraph 8, upon the receipt of Notice, Buyer will be granted a fourteen (14) calendar day period in which Seller will negotiate in good faith and exclusively with Buyer in an attempt to execute a definitive merger agreement. During this period, Seller will not discuss or negotiate with, or provide any information to, any individual, group, joint venture, partnership, corporation, association, trust, estate or other entity of any nature (other than Buyer and its affiliates) relating to any transaction involving the sale of the business or assets of Seller or of any capital stock of Seller, or any merger, consolidation or similar transaction involving Seller. The parties will cooperate with each other and use their reasonable best efforts to negotiate, prepare and execute a definitive merger agreement during this period.

8. Any conditions to completing the proposed transaction.

The closing of the proposed transaction is subject, among other things, to, (i) completion of due diligence investigation satisfactory to Buyer and its financing sources; (ii) execution of a definitive merger agreement; (iii) the approval of the respective boards of directors of Buyer and Seller; (iv) the approval of the stockholders of Seller, (v) the approval of the holders of senior notes of Seller; (vi) the receipt of all required governmental approvals; (vii) the receipt of all material consents from third parties, including waivers and/or restructuring of Buyer credit lines; (viii) Seller not increasing its debt level above the amount reflected in its December 31, 1999 financials; (ix) the entry of a judgment in the AutoBond litigation or a settlement of the litigation not in excess of $27 million; and (x) Seller not changing its executive compensation by an amount greater than 10% of 1999 levels.

9. Right of First Refusal.

In the event that Seller receives an offer which Seller believes to be superior to Buyer's offer during the Due Diligence Period, it shall provide written notice to Buyer of the details of the offer. Buyer shall have a five (5) business day period to revise its offer or to terminate this letter of intent.

10. Publicity.

Except as required by law, the parties agree that there will be no public announcements or other publicity with respect to the proposed transaction, this letter of intent, the definitive merger agreement or any other matters related thereto without the express written consent of Buyer and Seller.

11. Conduct of Business.

Pending the execution of a definitive merger agreement, Seller will conduct its business in a manner consistent with past practices. Any transaction involving the sale of assets or a group of assets entered into after the date of this letter of intent that, in the aggregate, is on Seller's books or has a loan balance in excess of $10 million shall require the pre-approval of Buyer.

[Signature Page Follows]

This letter of intent wi11 remain outstanding until 5:00 p.m. eastern time on April 24, 2000, at which time it will expire unless Seller has executed this letter of intent. Once executed, this letter of intent shall continue in effect until the earlier of (i) execution and delivery of a definitive merger agreement; (ii) mutual agreement of Buyer and Seller; and (iii) the sixtieth day after the execution hereof, provided, however, that Paragraphs 2, 6 and 7 shall survive the termination of this agreement.

California Investment Fund, L.L.C.

By: _____
Name: Michael R. Kelly
Title: Managing Member

Accepted and agreed to this
day of April, 2000
- ----

- ----------

By: _____
Name: _____
Title: _____

EXHIBIT E

[CALIFORNIA INVESTMENT FUND, INC. LETTERHEAD]

April 26, 2000

VIA FACSIMILE

Dynex Capital, Inc.
Attn: Thomas H. Potts
10900 Nuckols Road, 3rd Floor
Glen Allen, Virginia 23060
804-217-5861

Dynex Capital, Inc.
C/O Investment Banking Division
Paine Webber Incorporated
Attn: Mr. Jonathan P. Dever
1285 Avenue of the Americas
New York, NY 10019
212-713-2000

Dear Mr. Potts and Mr. Dever:

This revised letter of intent is intended to summarize the principal terms relating to the proposed acquisition by California Investment Fund, L.L.C. ("Buyer") of Dynex Capital, Inc. and its subsidiaries ("Seller"). The preliminary understandings expressed in this letter are intended to be the subject of further negotiation and are not intended to be binding, except as set forth herein. There is no obligation on the part of any party (other than as set forth in the next sentence) until a definitive merger agreement is entered into by the parties, which will contain additional terms and conditions which have yet to be agreed upon. Notwithstanding the foregoing, upon acceptance of this letter of intent by the Seller, the provisions of Paragraphs 2, 6 and 7 will be binding upon Seller and Buyer.

1. Proposed value for Dynex Capital, Inc. common stock.

Buyer, or a subsidiary of Buyer ("Acquisition Sub"), intends to acquire all 11,444,188 issued and outstanding shares of common stock of Seller, for a price of $2.370 per share in cash, which represents the current market price of $1.313 and a 8O.758% premium. This would result in an aggregate purchase price of $27,150,750 for the common stock of Seller. All unvested and vested options (none of which are in-the-money) will be cancelled.

2. Option to Purchase.

In consideration of Buyer's incurrence of expenses, including the significant cost of conducting its due diligence investigation, and in lieu of any other break-up fee, Seller agrees to grant Buyer the option to purchase Seller loan No.s 800-631, 800-632 and 800-633 for a total aggregate purchase price of $19,890,000 payable in cash. This option shall terminate upon the expiration of the Due Diligence Period (as defined in Paragraph 6). Buyer shall send written notice to Seller of its exercise of this option. The option transaction shall close within ten (10) business days following such notice. This option shall not be affected by any earlier termination of this letter of intent.

with the terms of this agreement. In the event that no such protective order or other remedy is obtained, or that the Client waives compliance with the terms of this agreement, you will furnish only that portion of the Evaluation Material which you are advised by counsel is legally required and you will exercise all reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the Evaluation Material.

4. Termination. Upon the request of the Client, you will return to the Client the original and all copies of the Evaluation Material in your possession or in the possession of your Representatives, and you will destroy all copies of any analyses, compilations, studies or other documents prepared by you or for your internal use which reflect the Evaluation Material.

5. No Publicity. You agree, unless otherwise required by law, not to disclose to any other person the fact that the Evaluation Material has been made available to you, that discussions or negotiations are taking place concerning the Possible Transaction or any of the terms, conditions or other facts with respect thereto (including the status thereof).

6. No Representation or Warranty. You understands and acknowledge that although the Evaluation Material contains information which the Client believes to be accurate and relevant for the purpose of your evaluation of the Possible Transaction, the Client and its Representatives do not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the Evaluation Material. You agree that neither the Client nor its Representatives shall have any responsibility to you or any of your Representatives relating to or arising from the use of the Evaluation Material, except as may be specifically provided in any agreement that the parties hereto may subsequently execute.

7. Standstill. In addition to the agreements specified herein, you further agree that, for a period of 12 months after the termination of discussions between you and the Client on the Possible Transaction, unless specifically invited in writing by the Board of Directors of the Client, you nor any of your affiliates (as such term is defined under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), will in any manner, directly or indirectly, (a) effect or seek, offer or propose (whether publicly or otherwise) to effect, or cause or participate in, or in any way assist or encourage any other person to effect or seek, offer or propose (whether publicly or otherwise) to effect or participate in, (i) the acquisition of securities (or beneficial ownership thereof) or assets of the Target, (ii) any tender or exchange offer, merger or other business combination involving the Target, (iii) any recapitalization, restructuring, liquidation, dissolution or other extraordinary transaction with respect to the Target or (iv) any "solicitation" of "proxies" (as such terms are used in the proxy rules of the Securities and Exchange Commission) or consent to vote any voting securities of the Target; (b) form, join or in any way participate in a "group" (as defined under the Exchange Act) or otherwise act, alone or in concert with others, to seek to control or influence the management, Board of Directors or policies of the Target; or (c) enter into any discussion or arrangements with any third party with respect to any of the foregoing (collectively, the "Standstill Restrictions"). In addition, you agree that for a period of six months following the termination of discussions between you and the Client on the Possible Transaction, you will not initiate employment discussions with any employee of the Target.

8. No Obligation to Consummate Possible Transaction. Each of the parties hereto agree that unless and until a definitive agreement between the parties with respect to the Possible Transaction has been executed and delivered, neither party will be under any legal obligation of any kind with respect to such a transaction by virtue of this agreement or any written or oral expression with respect to such a transaction by any of its Representatives, except, in the case of this agreement, for the matters specifically agreed to herein.

9. Specific Performance. Any breach of the parties' mutual understandings with respect to publicity or any breach of your confidentiality undertaking by anyone making any disclosure or misappropriation of the Evaluation Material could cause irreparable harm to the Client, the amount of which would be extremely difficult to estimate. Accordingly, it is understood and agreed that monetary damages would not be a sufficient remedy for any material breach of this agreement and that specific performance and injunctive relief shall be appropriate remedies for any such breach or any threat of such breach. Such remedies shall not be deemed to be the exclusive remedies for any such breach of this agreement but shall be in addition to all other remedies available at law or in equity.

10. Affiliates. Each of the parties hereto agree that their respective affiliates shall be subject to the terms of this agreement.

11. Amendments and Waivers. This agreement may be amended or modified, and any of the terms or covenants hereof may be waived, only by a written instrument duly executed by each of the parties hereto, or in the case of a waiver, by the party waiving compliance.

12. Applicable Law. This agreement shall be governed by, and construed in accordance with, the internal laws of the State of California applicable to agreements made and to be performed therein.

13. Severability. If any provisions of this agreement, or the application thereof to any person, place or circumstance, shall be held by a court of competent jurisdiction to be invalid, unenforceable or void, the remainder of this agreement and such provision, as applied to other persons, places or circumstances shall remain in full force and effect.

This agreement is being delivered to you in duplicate. Please confirm your agreement with the foregoing by signing and returning the duplicate copy to the undersigned.

Very truly yours,

California Investment Fund, LLC

By:

Michael R. Kelly
Managing Member

Accepted and Agreed to as of
The date first written above

By:

Name:
Its:

EXHIBIT F

Investment Banking Division
PaineWebber Incorporated, 19th Floor
1285 Avenue of the Americas
New York, NY 10019
212 713-2000

PAINEWEBBER

CONFIDENTIAL
- ------------

May 22, 2000

California Investment Fund, LLC
550 West C Street, Suite 1000
San Diego, CA 92101
Attention: Nick Spriggs

Ladies and Gentlemen:

This letter is a formal request that all interested parties submit their merger or acquisition proposals in connection with Dynex Capital, Inc. by Thursday, May 25, 2000.

Major items that should be outlined in your proposal include the following:

1. Proposed transaction structure

   - Merger of equals
   - Stock acquisition
   - Asset purchase
   - Other

2. Anticipated financing sources needed to complete transaction

   - Newly issued stock
   - Available cash
   - New debt
   - Existing unused debt lines
   - Other

3. Anticipated time necessary to complete due diligence and sign a definitive agreement

4. Any material conditions needed to complete the proposed transaction, including antcipated conditions to closing, which would be included in a definitive agreement

5. Proposed transaction value

   - Proposed value for Dynex's common stock
     - Form of consideration (cash, common stock, preferred stock, notes or other)
     - If stock consideration, exchange ratio

   - Proposed value for Dynex's preferred stock
     - Form of consideration (cash, common stock, preferred stock, notes or other)
     - If stock consideration, exchange ratio

   - Proposed treatment of Senior Unsecured Notes
     - Keep outstanding or exchange for notes with identical terms
     - Exchange for new notes with different terms
     - Redeem at par
     - Tender for notes at a discount to par
     - Negotiate directly with note holders on restructure/workout

   - If you would like to submit a proposal based on a total value calculation without specifying different security value allocations, we are prepared to evaluate accordingly.

Proposals are to be submitted in the form of a letter of intent with an accompanying term sheet outlining specific terms anticipated in a definitive agreement. Please fax both documents to us at (212) 713-4205 no later than 5:00 pm ET on Thursday, May 25, 2000 or call me at (212) 713-2834 to inform us that you do not intend to continue participating in the process.

Thank you for your continued interest.

Sincerely,

/s/ Jonathan P. Dever
- ----------------------
Jonathan P. Dever
Vice President

cc:
Thomas H. Potts
Stephen J. Benedetti

DRAFT TRANSACTION TERM SHEET

SELLER:	Dynex Capital, Inc. (the "Seller") is a corporation incorporated in the Commonwealth of Virginia in 1987, which operates as a real estate investment trust (REIT) for tax purposes
PURCHASER:	[insert buyer and buyer info] (the "Purchaser").
TRANSACTION:	The acquisition of the Seller by the Purchaser for total consideration of $_____ million.
CONSIDERATION:	
For Seller Common Shares:	$___ million of consideration in the form of [cash, stock, notes or other]
For Seller Preferred Shares:	(1) Series A 9.75% Cumulative Convertible Preferred Stock: $___ million of consideration in the form of [cash, stock, notes or other] (2) Series B 9.55% Cumulative Convertible Preferred Stock: $___ million of consideration in the form of [cash, stock, notes or other] (3) Series C 9.73% Cumulative Convertible Preferred Stock : $___ million of consideration in the form of [cash, stock, notes or other]
For Seller Senior Unsecured Notes:	$__ million of consideration [redeemed for cash, exchanged for newly issued notes with identical terms, exchanged for newly issued notes with different terms or other]
MANAGEMENT PERSONNEL:	The Purchaser will [not] offer continued employment to selected members of the Seller's current employees.
BOARD OF DIRECTORS:	The Purchaser will [not] offer continued board representation to the Seller's current Board of Directors.
CONDITIONS FOR CLOSING A TRANSACTION:	Closing of a transaction will be subject to the following conditions: (1a) obtaining all required consents and approvals by relevant legal and regulatory authorities, if any; and (2a) obtaining shareholder approval by both the Purchaser and the Seller's respective stockholders. Closing of a transaction will not be subject to the following conditions: (1a) completion of business, legal and accounting due diligence (which will require _____ days to complete); (2a) negotiation and execution of purchase documents containing warranties, covenants, indemnities, and other terms and conditions; and (3a) approval by the Purchaser's and the Seller's respective Boards of Directors. It being understood that conditions (1b)(2b) and (3b) will be met prior to signing a definitive agreement between the Purchaser and the Seller.

EXHIBIT G

California Investment Fund, L.L.C.

June 1, 2000

VIA FACSIMILE

Dynex Capital, Inc.
Attn: Thomas H. Potts
4551 Cox Road, Suite 300
Glen Allen, Virginia 23060
804-217-5861

Dynex Capital, Inc.
C/O Investment Banking Division
Paine Webber Incorporated
Attn: Mr. Jonathan P. Dever
1285 Avenue of the Americas
New York, NY 10019
212-713-4205

Dear Mr. Potts and Mr. Dever:

This revised letter of intent is intented to summarize the principal terms relating to the proposed acquisition by California Investment Fund, L.L.C. ("Buyer") of Dynex Capital, Inc. and its subsidiaries ("Seller"). The preliminary understandings expressed in this letter are intended to be the subject of further negotiation and are not intended to be binding, except as set forth herein. There is no obligation on the part of any party (other than as set forth in the next sentence) until a definitive merger agreement is entered into by the parties, which will contain additional terms and conditions which have yet to be agreed upon Notwithstanding the foregoing, upon acceptance of this letter of intent by the Seller, the provisions of Paragraphs 2 and 7 will be binding upon Seller and Buyer.

1. Proposed value for Dynex Capital, Inc. outstanding stock and proposed treatment of senior notes.

Buyer, or a subsidiary of Buyer ("Acquisition Sub"), would enter into a merger transaction pursuant to which Seller would be merged into Acquisition Sub (the "Merger"). The aggregate purchase price paid in the Merger (including the dividend arrearages on the preferred stock) would be $75 million (the "Purchase Price"). In the Merger, Buyer would acquire all 11,444,188 issued and outstanding shares of common stock of Seller and all 5,051,495 issued and outstanding shares of preferred stock of Seller. The Purchaser Price may be allocated to the different classes of stock of Seller as the Board of Directors of Seller deems appropriate.

Buyer will seek the approval of the holders of the senior notes of Seller to obtain amendments to the indentures to permit the senior notes of Seller to remain outstanding.

550 West C Street, 10th Floor
San Diego, California 92101
(619) 687-5000 (619) 687-5010 fax

2. Extension of Option to Purchase.

Seller hereby extends Buyer's option to purchase the Morgan Stanley Mortgage Capital, Inc. Permanent Multifamily Loans and the Bridge Commercial Loans under the option agreement dated May 16, 2000 between Buyer and Seller (the "Option Agreement") for a period of thirty (30) calendar days from the date of acceptance of this letter of intent. This option extension shall not be affected by any earlier termination of this letter of intent.

3. Proposed transaction structure (merger of equals, stock acquisition, asset purchase or other)

Buyer anticipates that the transaction will be accomplished through the merger of Seller into Acquisition Sub. Certain assets of Seller (including the stock of the qualified REIT subsidiaries) that may not be transferredto Acquisition Sub (which is not a REIT or a qualified REIT subsidiary) or that Buyer wishes to transfer to a REIT or a qualified REIT subsidiary will be sold by Seller in transactions pre-arranged by Buyer

immediately prior to the closing of the proposed transaction but after the satisfaction of all of the other conditions of closing.

4. Anticipated financing source for completing the transaction (available cash, new debt, existing unused debt lines or other).

Buyer anticipates that the Purchase Price will be comprised of working capital of Buyer and financing from its lender.

5. Observation Rights.

Upon the execution of the definitive merger agreement, Buyer shall be granted a right to designate one person to act as an observer (the "Observer") at the headerquarters of Seller. The Observer shall also be entitled to notice of and to attend all meetings of the Board of Directors of Seller, and to receive any material distributed to the directors in their capacity as directors of Seller, but will have no voting rights or rights to participate in any discussions of the Board of Directors of Seller.

6. Due Diligence.

Seller shall cooperate fully with Buyer in its due diligence investigation and will make available to Buyer and its financial and legal advisors all books, records and business and financial information reasonably requested by Buyer with respect to the subject matter of this letter of intent until the execution of the definitive merger agreement. In addition, Seller agrees that Buyer is allowed to contact the financial advisors, noteholders and stockholders of Seller in order to satisfy the conditions of Paragraph 8.

7. Definitive Merger Agreement: Exclusive Period.

Seller hereby grants Buyer a forty-five (45) calendar day period in which Seller will negotiate in good faith and exclusively with Buyer in an attempt to execute a definitive merger agreement. During this period, Seller will not discuss or negotiate with, or provide any information to, any individual, group, joint venture, partnership, corporation, association, trust, estate or other entity of any nature (other than Buyer and its affiliates) relating to any transaction involving the sale of the business or assets of Seller or of any capital stock of Seller, or any merger, consolidation or similar transaction involving Seller. The parties will cooperate with each other and use their reasonable best efforts to negotiate, prepare and execute a definitive merger agreement during this period. Prior to the execution of the definitive merger agreement, Seller agrees to promptly notify and provide a copy to Buyer of any notice from any creditor relating either to an event of default or a request for acceleration.

8. Any conditions to completing the proposed transaction.

The closing of the proposed transaction is subject, among other things, to, (i) Seller's performance of its repurchase obligation with respect to $15.5 million previously provided by Buyer to Seller pursuant to the Option Agreement, on or before September 30, 2000; (ii) execution of a definitive merger agreement; (iii) the approval of the respective Boards of Directors of Buyer and Seller; (iv) the approval of the majority of the common stockholders of Seller; (v) the approval of at least 66-2/3% of each series of preferred stockholders of Seller; (vi) the approval of the holders of senior notes of Seller; (vii) the receipt of all required governmental approvals; (viii) the receipt of all material consents from third parties, including waivers and/or restructuring of Seller credit lines; (ix) Seller not increasing its debt level above the amount reflected in its April 30, 2000 Assets Liability Matching Schedule; (x) court approval of the $23.3 million settlement of the AutoBond litigation and the payment by Seller of this amount; and (xi) Seller not changing its executive compensation by an amount greater than 10% of 1999 levels. Buyer will consider the employment of certain key employees of Seller, but that such employment is not a condition to the closing of the proposed transaction.

9. Publicity.

Except as required by law, the parties agree that there will be no public announcements or other publicity with respect to the proposed transaction, this letter of intent, the definitve merger agreement or any other matters related thereto without the express written consent of Buyer and Seller.

10. Conduct of Business.

Pending the execution of a definitive merger agreement, Seller will conduct its business only in the ordinary course of business, in a manner consistent with past practices, without making any material

change in its business, operations or policies or paying any dividends or repurchasing any stock. Any transaction involving the sale of assets or a group of assets entered into after the date of this letter of intent that, in the aggretate, is on Seller's books with a book value in excess of $5 million shall require the pre-approval of Buyer.

11. Deposit.

Upon the execution of the definitive merger agreement, Buyer will deposit into an escrow 572,178 shares of common stock of Seller owned by Buyer (the "Deposit Shares"). In the event that Buyer breaches in any material respect its obligations under the definitve merger agreement, Seller shall be entitled to the Deposit Shares. This remedy is intended to be a liquidated damages payment and is the sole remedy of Seller in the event of any breach by Buyer of its obligations under the definitve merger agreement.

12. Break-up Fee.

In consideration of Buyer's incurrence of expenses, including the significant cost of conducting its due diligence investigation. Buyer shall be entitled to a break-up fee after the execution of the definitive merger agreement if one of the following occurs: (i) the Board of Directors of Seller withdraws its recommendation to the stockholders of Seller in favor of Buyer's purchase of Seller, or (ii) Seller is unable to obtain approval of the stockholders or the senior noteholders of Seller. The break-up fee shall be equal to $2.5 million. This remedy is intended to be a liquidated damages payment and is the sole remedy of Buyer in the event of any breach by Seller of its obligations under the definitive merger agreement.

[Signature Page Follows]

This letter of intent will remain outstanding until 5:00 p.m. Eastern Daylight Time on June 5, 2000, at which time it will expire unless Seller has executed this letter of intent. Once executed, this letter of intent shall continue in effect until the earlier of (i) execution and delivery of a definitive merger agreement; (ii) mutual agreement of Buyer and Seller; and (iii) the sixtieth day after the execution hereof, provided, however, that Paragraphs 2 and 7 shall survive the termination of this agreement.

California Investment Fund, L.L.C.

By: /s/ Michael R. Kelly

Name: Michael R. Kelly

Title: Managing Member

Accepted and agreed to this
_____ day of June, 2000

- ----------

By:

Name:

Title:

EXHIBIT H

DYNEX CAPITAL, INC.
10900 NUCKOLS ROAD - THIRD FLOOR
GLEN ALLEN, VIRGINIA 23060
804-217-5800
FAX 804-217-5861

[DYNEX LETTERHEAD]

July 6, 2000

Mr. Michael R. Kelly
Managing Member
California Investment Fund, L.L.C.
550 West C Street
10th Floor
San Diego, CA 92101

Dear Michael:

Based on your conversation with Jim Murray earlier today, I am sending this letter which summarizes the principal terms of the attached letter of intent.

Purchase Price. The letter of intent contemplates that CIF would pay an aggregate purchase price for the common and preferred stock equal to the sum of (i) $100 million plus (ii) any accumulated and unpaid dividends on the Preferred Stock related to the period beginning July 1, 2000 and ending on the closing date of the merger. This price would include any accumulated and unpaid dividends on Dynex's preferred stock through June 30, 2000, which totaled $12,912,000. The total purchase price could be allocated among the various classes of stock as Dynex's board deemed appropriate.

In analyzing this proposal, you may not that the $100 million portion of the proposed price is equal to (i) CIF's most recently proposed price of $75 million plus $12.9 million of accumulated and unpaid preferred dividends plus (ii) approximately $12 million, which is, effectively, the first portion of any gain which could be realized through CIF's acquisition or restructuring of Dynex's senior notes. Based on recent discussions which Dynex has held with certain holders of senior notes, Dynex management believes that over 50% of the notes would be available for purchase at a price of 80% of par, equating to an estimated gain in economic value of at least $10 million. To the extent that all of Dynex's outstanding senior notes could be acquired at 80% of par, the total gain would be almost $20 million. In your recent conversations with Jon Dever, there was a conceptual agreement that any gain from the repurchase of the senior notes could be shared between CIF and Dynex's stockholders according to some formula. This pricing proposal gives the first $12 million to Dynex's shareholders and allows CIF to capture any remainder.

Concerning the portion of the purchase price equal to the preferred stock dividends from July 1, 2000 through the closing, Dynex expects to have earnings that are at a run rate that is approximately equal to the preferred dividends between now and a closing, so this provision would allocate that value to Dynex's shareholders. The Preferred Stock accumulates dividends at a rate of $35.867 per day.

You will also note a reference to the purchase of the common stock of Dynex's affiliate, Dynex Holding, at book value. This entity is reported publicly by Dynex under the equity method.

Due Diligence and Exclusivity. The letter of intent provides for a two-stage period for due diligence and negotiations, totaling up to 28 days. During the initial period of up to 14 days, CIF would be able to conduct due diligence on Dynex, and Dynex would conduct due diligence on CIF (which would consist primarily of discussions with CIF's lenders concerning CIF's ability to finance the $100 million acquisition price). At any point during this due diligence period, CIF and Dynex could, by mutual agreement, move to the second stage, which would consist of a fourteen-day period in which the parties would negotiate exclusively with the object of signing a difinitive agreement. During the fourteen-day period, CIF would also have the ability to meet and negotiate with Dynex's senior note holders concerning potential opportunities for restructuring or redeeming the notes, or securing their consent if deemed necessary.

This two-stage structure is in lieu of the 45-day due diligence and negotiating period contained in your most recent letter of intent and more closely resembles the two-stage period contained in your original letter of

intent dated April 26, 2000. Dynex believes that 28 days would be sufficient to accommodate both parties' needs, without restricting Dynex for an unnecessarily long period.

Other Provisions. The other provisions of Dynex's letter of intent are largely identical to those contained in your most recent letter of intent, with certain minor modifications. From our point of view, there are only two material changes from your most recent proposal. The first would be the elimination of Dynex's performance on its repurchase obligation to CIF as a condition of closing. Since the repurchase agreement and the merger are two separate transactions, the performance on one should not affect the obligations of the two parties in the other. The second change would be the elimination of the provision that the 572,178 Dynex shares to be deposited by CIF would be Dynex's sole remedy in the event of a breach of a definitive agreement by CIF. There are numerous scenarios in which such a surrender of shares would not be sufficient compensation for the damages caused by a breach, so Dynex would have to maintain the ability to seek other forms of relief.

I am sure you or your associates will have questions. Please do not hesitate to give me a call. Separately, it was good to reach closure on the sale/purchase of the eight loans earlier today.

Sincerely,

/s/ Thomas H. Potts

Thomas H. Potts
President

EXHIBIT I

DYNEX CAPITAL, INC.
10900 NUCKOLS ROAD - THIRD FLOOR
GLEN ALLEN, VIRGINIA 23060
804-217-5800
FAX 804-217-5861

[DYNEX LETTERHEAD]

July 6, 2000

VIA FACSIMILE

California Investment Fund, L.L.C.
550 West C Street
10th Floor
San Diego, CA 92101
Attn: Michael R. Kelly
Managing Member

Dear Mr. Kelly:

We are in receipt of your letter dated June 1, 2000 (the "Revised Letter of Intent") which summarizes the principal terms which California Investment Fund, L.L.C. ("CIF") has proposed concerning a potential acquisition of Dynex Capital, Inc. and its subsidiaries ("Dynex") by CIF. Subsequent to the receipt of the Revised Letter of Intent, certain representatives of our financial advisor, PaineWebber Incorporated, have had discussions with certain representatives of CIF concerning the terms contained therein and potential modifications to such terms. The Board of Directors of Dynex Capital, Inc. has been informed of the contents of the Revised Letter of Intent and such subsequent discussions and has authorized the proposed terms contained herein as a counteroffer to the terms proposed by CIF in the Revised Letter of Intent. The preliminary proposed terms expressed in this letter are intended to be the subject of further negotiation and are not intended to be binding, except as set forth herein. There is no obligation on the part of any party (other than as set for in the next sentence) until a definitive merger agreement is entered into by the parties, which will contain additional terms and conditions which have yet to be agreed upon. Notwithstanding the foregoing, upon acceptance of this letter of intent by CIF, the provisions of Paragraphs 5 and 6 will be binding upon Dynex and CIF, and the parties agree that if any obligation under Paragraph 5 and 6 is not complied with, the non-defaulting party will be entitled to injunctive or other appropriate equitable relief.

1. Proposed value for Dynex Capital, Inc. outstanding stock and proposed treatment of senior notes:

CIF, or a subsidiary of CIF ("Acquisition Sub"), would enter into a merger transaction pursuant to which Dynex would be merged into Acquisition Sub (the "Merger"). The aggregate purchase price paid in the Merger - including any accumulated and unpaid dividends on Dynex's Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock (referred to collectively herein as the "Preferred Stock") through June 30, 2000 - would be the sum of (i) $100 million plus (ii) any accumulated and unpaid dividends on the Preferred Stock related to the period beginning July 1, 2000 and ending on the closing date of the Merger. At June 30, 2000, the aggregate accumulated and unpaid dividends on the Preferred Stock was $12,912,000. The Preferred Stock accumulates dividends at a rate of $35,867 per day, based on the number of shares of each of the series of Preferred Stock outstanding at July 1, 2000 and a 30-day month, and Dynex would not anticipate paying any dividends to the holders of the Preferred Stock prior to the closing of the Merger.

In the Merger, CIF would acquire all 11,444,188 issued and outstanding shares of common stock of Dynex and all 5,051,495 issued and outstanding shares of Preferred Stock of Dynex. The Purchase Price may be allocated to the different classes of Dynex's stock as Dynex's Board of Directors deems appropriate. Separately, CIF or an affiliate would acquire all the issued and outstanding shares of common stock of Dynex's affiliate, Dynex Holding, Inc. at its book value which approximates $200,000.

2. Proposed transaction structure (merger of equals, stock acquisition, asset purchase or other).

We understand that CIF anticipates that the Merger will be accomplished through the merger of Dynex into Acquisition Sub. Certain of

Dynex's assets (including the stock of the qualified REIT subsidiaries) that may not be transferred to Acquisition Sub (which we understand is not expected to be a REIT or a qualified REIT subsidiary) or that CIF wishes to transfer to a REIT or a qualified REIT subsidiary will be sold by Dynex in transactions pre-arranged by CIF immediately prior to the closing of the Merger but after the satisfaction of all of the other conditions of closing.

3. Anticipated financing source for completing the transaction (available cash, new debt, existing debt lines or other).

Dynex understands that CIF anticipates that the Purchase Price will be comprised of working capital of CIF and financing from one or more lenders to CIF.

4. Observation rights.

Upon the execution of the definitive merger agreement, CIF shall be granted a right to designate one person to act as an observer (the "Observer") at Dynex's headquarters. The Observer shall also be entitled to notice of and to attend all meeting of Dynex's Board of Directors, and to receive any material distributed to the members of Dynex's Board of Directors in such capacity, but will have no voting rights or rights to participate in any discussions of Dynex's Board of Directors. Notwithstanding the prior sentence, such Observer will not be permitted to receive any materials or attend the portions of any meetings of the Board that relate to any deliberation of the contemplated transactions with CIF.

5. Due diligence.

Dynex shall cooperate fully with CIF in its due diligence investigation and will make available to CIF and its financial and legal advisors, during normal business hours, all books, records and business and financial information reasonably requested by CIF with respect in the subject matter of this letter of intent during the Due Diligence Period. During the Due Diligence Period, CIF shall cooperate fully with Dynex in its due diligence investigation, during normal business hours, and shall facilitate such conversations between Dynex and CIF's lenders as Dynex shall request. The Due Diligence Period will expire upon the earlier of (a) fourteen (14) calendar days from the date of execution by CIF of this letter of intent, (b) written notification by CIF that it is terminating the Due Diligence Period or (c) written notification by each of CIF and Dynex that it is prepared to engage in exclusive negotiations in accordance with Paragraph 6 (each, a "Notice"). During the Due Diligence Period, Dynex agrees that CIF is allowed to contact Dynex's financial advisor. In addition, during but not prior to the Exclusive Period (as defined below), Dynex agrees that CIF is allowed to contact holders of Dynex's senior note (the "Senior Notes") and stockholders in order to satisfy the conditions of Paragraph 7.

During the Exclusive Period, CIF may negotiate with the holders of Dynex's Senior Notes to obtain amendments to the indenture to permit the Senior Notes to remain outstanding or to redeem the Senior Notes under such terms as CIF may negotiate with such holders.

6. Definitive merger agreement; Exclusive period.

Subject to the conditions of Paragraph 7, upon receipt of the Notices, CIF will be granted a fourteen (14) calendar day period (the "Exclusive Period") in which Dynex will negotiate in good faith and exclusively with CIF in an attempt to execute a definitive merger agreement. During the Exclusive Period, Dynex will not discuss or negotiate with, or provide any information to, any individual, group, joint venture, partnership, corporation, association, trust, estate or other entity of any nature (other than CIF and its affiliates) relating to any transaction involving the sale of Dynex's business or Dynex's assets (other than those assets pledged to Chase Bank of Texas ("Chase") or act as security for letters of credit issued by Chase on Dynex's behalf) or of any of Dynex's capital stock, or any merger, consolidation or similar transaction involving Dynex. The parties will cooperate with each other and use their reasonable best efforts to negotiate, prepare and execute a definitive merger agreement during such period. During the Exclusive Period, Dynex agrees to notify promptly and to provide a copy to CIF of any notice from any creditor relating either to an event of default or a request of acceleration.

7. Any conditions to completing the proposed transaction.

The closing of the proposed transaction is subject to, among other things: (i) execution of a definitive merger agreement; (ii) the approval of the respective Boards of Directors of CIF and Dynex; (iii) the approval of the holders of Dynex's common stock and Preferred Stock as required by Dynex's charter and applicable law; (iv) the consent of the holders of the Senior Notices, as necessary; (v) the receipt of all required governmental approvals; (vi) the receipt of all material consents from third parties, including waivers and/or restructurings of Dynex's credit lines; (vii)

Dynex not increasing its debt level above the amount reflected in its April 30, 2000 Assets Liabilities Matching Schedule; and (viii) Dynex not changing its executive compensation by an amount greater than 10% from the date hereof. CIF will consider the employment of certain of Dynex's key employees, but such employment is not a condition to the closing of the proposed transaction.

8. Right of first refusal.

In the event that Dynex receives an offer which Dynex believes to be superior to CIF's offer during the Due Diligence Period or the Exclusive Period, Dynex shall provide written notice to CIF of the details of the offer. CIF shall have a five (5) business day period to revise its offer or to terminate this letter of intent.

9. Publicity.

Except as required by law, the parties agree that there will be no public announcements or other publicity with respect to the proposed transaction, this letter of intent, the definitive merger agreement or any other matters related thereto without the express written consent of CIF and Dynex. However, it is understood that, to the extent that Dynex and CIF enter into a definitive merger agreement, Dynex may make a public announcement concerning such event.

10. Conduct of business.

Pending the execution of a definitive agreement, Dynex will conduct its business only in the ordinary course of business, in a manner consistent with past practices, without making any material change in its business, operations or policies or paying any dividends or repurchasing any stock. Any transaction involving the sale of assets or a group of assets entered into after the date of this letter of intent that, in the aggregate, is on Dynex's books with a book value in excess of $5 million shall require the pre-approval of CIF, other than those assets that act as security or collateral for Chase.

11. Deposit.

Upon the execution of the definitive merger agreement, CIF will deposit into an escrow 572,178 shares of Dynex common stock owned by CIF (the "Deposit Shares"). In the event that CIF breaches in any material respect its obligation under the definitive merger agreement, Dynex shall be entitled to the Deposit Shares. This remedy is not intended to be Dynex's solo remedy in the event of any breach by CIF of its obligations under the definitive merger agreement. First Commercial, an affiliate of CIF, will guaranty CIF's obligations under the definitive agreement.

12. Break-up fee.

In consideration of CIF's incurrence of expenses, including the cost of conducting its due diligence investigations, CIF shall be entitled to a break-up fee after the execution of the definitive merger agreement if Dynex's Board of Directors withdraws its recommendation to Dynex's stockholders. The break-up fee shall be equal to $2.5 million. This remedy is intended to be a liquidated damages payment and is CIF's sole remedy in the event of any breach by Dynex of its obligations under the definitive merger agreement.

This letter of intent will remain outstanding until 5:00 p.m. Eastern Daylight time on July 11, 2000, at which time it will expire unless CIF has executed this letter of intent and returned a signed copy to Dynex. Once executed, this letter of intent shall continue in effect until the earlier of (i) execution and delivery of a definitive merger agreement; (ii) mutual agreement of CIF and Dynex; and (iii) the twenty-eighth day after the execution hereof.

Dynex Capital, Inc.

By: /s/ Thomas H. Potts

Name: Thomas H. Potts
Title: President

Accepted and agreed to this
day of July, 2000
- ----

California Investment Fund, I.T.C.

By:

Name:

Title:
_____

EXHIBIT J

[CALIFORNIA INVESTMENT FUND, LLC LETTERHEAD]

Dynex Capital, Inc.
Attn: Thomas H. Potts
10900 Nuckols Road, 3rd Floor
Glen Allen, Virginia 23060
804-217-5861

Dynex Capital, Inc.
C/O Investment Banking Division
Paine Webber Incorporated
Attn: Mr. Jim Murray
1285 Avenue of the Americas
New York, NY 10019
212-712-4205

VIA FACSIMILE

July 12, 2000

Dear Mr. Potts and Mr. Murray:

California Investment Fund, LLC (CIF) is in receipt of your letter dated July 6, 2000. Please find the attached response to your counter-offer to our Revised Letter of Intent. In summary, the following points have been changed from the terms you presented.

1. The purchase price has been decreased from our original offer, to $60 million. Our offer includes all accured, unpaid dividends within the $60 million, with no further accruals to be paid. The specific allocation per equity class is based on a pro rata distribution of the purchase price based on the closing prices and their relative percentages of total market capitalization on July 10, 2000.

   The price has been adjusted to reflect the $132 million dollar decrease in shareholder equity from April 30, 2000 at $310 million (see exhibit 1) to June 30, 2000, at $178 million (see exhibit 2). Our updated offer is an increase from 27.39% of balance sheet equity to 33.75% of balance sheet equity. The Board's counter offer of roughly $115 million was 37.06% of the April 30, 2000 balance sheet equity. This same $115 million is 64.68% of the current equity of $178 million. The $60 million price is an 11.36% premium to the current market capitalization. It is our opinion that the release of the second quarter 2000 financial statements will result in a significant decline in both the common and preferred share prices, which will result in our offer being at a 75% or greater premium to the market capitalization following the release of the financials.

   The loss of over one third of the share holder equity within a 60 day period has caused us great concern, given that the majority of this impact was accounting driven, and not related to specific transactions. This radical change in 60 days begs the questions, how long has management known of the impending write down, is this write down legitimate, and has the write down been understated or over stated. A change of this magnitude in just two months raises serious concerns that management has manipulated the financial statements for the purpose of propping up the share prices, or to prevent the proposed sale through accounting gimmickry.

   Also keep in mind that the residuals currently valued at $124 million, or roughly 50% of the face amount, are illiquid, and would trade at a severe discount if sold. A swing from 50% to 20% would wipe out an additional $70 million in share holder equity.

2. The stock of Dynex Holdings, Inc., will be under option to purchase at $200,000, pending due diligence review of its assets.

3. An acceptable discount of the Senior Notes must be verified by CIF prior to entering the definitive agreement. Verification by direct contact with note holders will be required. Any discount negotiated by CIF will inure to the benefit of the successor entity.

4. The deposit shall serve as liquidated damages, with no further remedies in order to be reciprocal to the Break-up Fee as liquidated damages with no further remedies.

5. Paragraph 11 has been changed to have the deposit placed in escrow

upon execution of the Letter of Intent.

6. Paragraph 13 has been added to reflect CIF's interest in pursuing the assumption of the liability for the Chase Bank of Texas letter of credit, maturing July 31, 2000.

If these changes meet with your approval, please sign the attached Letter of Intent and return. We are prepare to move forward with final due diligence immediately upon your acceptance

California Investment Fund, L.L.C.

By: /s/ Michael R. Kelly

Name: Michael R. Kelly

Title: Managing Member

EXHIBIT K

[CALIFORNIA INVESTMENT FUND, LLC LETTERHEAD]

Dynex Capital, Inc.
Attn: Thomas H. Potts
10900 Nuckols Road, 3rd Floor
Glen Allen, Virginia 23060
804-217-5861

Dynex Capital, Inc.
C/O Investment Banking Division
Paine Webber Incorporated
Attn: Mr. Jim Murray
1285 Avenue of the Americas
New York, NY 10019
212-713-2000

VIA FACSIMILE

July 12, 2000

Dear Mr. Potts and Mr. Murray:

California Investment Fund, L.L.C. is in receipt of your letter dated July 6, 2000, and after careful review, proposes the following revisions to the July 6 letter.

This letter of intent is intended to summarize the principal terms relating to the proposed acquisition by California Investment Fund, L.L.C. ("Buyer") of Dynex Capital, Inc. and its subsidiaries ("Seller"). The preliminary understandings expressed in this letter are intended to be the subject of further negotiation and are not intended to be binding, except as set forth herein. There is no obligation on the part of any party (other than as set forth in the next sentence) until a definitive merger agreement is entered into by the parties, which will contain additional terms and conditions which have yet to be agreed upon. Notwithstanding the foregoing, upon acceptance of this letter of intent by the Seller, the provisions of Paragraphs 5, 6 and 13 will be binding upon Seller and Buyer.

1. Proposed value for Dynex Capital, Inc. common stock.

Buyer, or a subsidiary of Buyer (Acquisition Sub"), intends to acquire all 11,444,188 issued and outstanding shares of common stock of Seller, for a price of $1.8095 per share in cash, totaling $20,708,753.61. The preferred shares will be acquired at the following prices: Class A Preferred, 1,309,061 shares at $7.0990 per share, totaling $9,292,994.62; the Class B Preferred 1,912,434 shares at $7.5166 per share, totaling $14,374,933.39; and the Class C Preferred 1,840,000 shares at $8.4909 per share, totaling $15,623,318.37. This would result in an aggregate purchase price of $60,000,000 for the common and preferred stock of Seller. All accrued, unpaid dividends, which is estimated to be $12,912,000 as of June 30, 2000, are included in the share prices, and no further accrual will be paid. Dynex agrees not to pay any of these accrued dividends prior to the closing of the proposed transaction. All unvested and vested options (none of which are in-the-money) will be cancelled.

Separately, CIF or an affiliate will have the option to acquire all the issued and outstanding shares of common stock of Dynex's affiliate, Dynex Holding, Inc. at its book value of approximately $200,000.00.

2. Proposed transaction structure (merger of equals, stock acquisition, asset purchase or other).

Buyer anticipates that the transaction will be accomplished through the merger of Acquisition Sub and Seller. Certain assets of Seller that may not be transferred to Acquisition Sub (which is not a REIT or a qualified REIT subsidiary) or that Buyer wishes to transfer to a REIT or a qualified REIT subsidiary will be sold by Seller in transactions pre-arranged by Buyer after deposit of the Purchase Price (as defined below) in escrow and the satisfaction of all other conditions to the proposed transaction, but prior to the completion of the proposed merger.

3. Anticipated financing source for completing the transaction (available cash, new debt, existing unused debt lines or other).

Buyer anticipates that the aggregate amount necessary to purchase the common stock of Seller and the preferred stock of Seller (the "Purchase Price") will be comprised of working capital of Buyer and financing from its lender.

4. Observation Rights

Upon the execution of the definitive merger agreement, Buyer shall be granted a right to designate one person to act as an observer (the "Observer") at the headquarters of Seller. The Observer shall also be entitled to notice of and to attend all meetings of the Board of Directors of Seller, and to receive any material distributed to the directors in the capacity as directors of Seller, but will have no voting rights or rights to participate in any discussions of the Board of Directors of Seller. Notwithstanding the prior sentence, such Observer will not be permitted to receive any materials or attend the portions of any meetings of the Board that relate to any deliberation of the proposed merger.

5. Due Diligence.

Seller shall cooperate fully with Buyer in its due diligence investigation and will make available to Buyer and its financial and legal advisors all books, records and business and financial information reasonably requested by Buyer with respect to the subject matter of this letter of intent during the Due Diligence Period. The Due Diligence Period will expire upon the earlier of (a) fourteen (14) calendar days from the date of this letter of intent, (b) written notification by Buyer that it is terminating the Due Diligence Period or (c) written notification by Buyer that it is prepared to engage in exclusive negotiations in accordance with Paragraph 6 and that it will waive its due diligence condition ("Notice"). In addition, Seller agrees that Buyer is allowed to contact the financial advisors, note holders and stockholders of Seller in order to satisfy the conditions of Paragraph 6. During the Due Diligence period, Seller agrees that CIF is allowed to contact Seller's financial advisor. In addition, during the Due Diligence period, Seller agrees that CIF is allowed to contact holders of Seller's senior note (the "senior Notes") and stockholders in order to satisfy the conditions of Paragraph 7.

6. Definitive Merger Agreement; Exclusive Period.

Subject to the conditions of Paragraph 8, upon the receipt of Notice, Buyer will be granted a fourteen (14) calendar day period (the "Exclusive Period") in which Seller will negotiate in good faith and exclusively with Buyer in an attempt to execute a definitive merger agreement. During this period, Seller will not discuss or negotiate with, or provide any information to, any individual, group, joint venture, partnership, corporation, association, trust, estate or other entity of any nature (other than Buyer and its affiliates) relating to any transaction involving the sale of the business or assets of Seller or of any capital stock of Seller, or any merger, consolidation or similar transaction involving Seller. The parties will cooperate with each other and use their reasonable best efforts to negotiate, prepare and execute a definitive merger agreement during this period. During the Exclusive Period, Seller agrees to notify promptly and to provide a copy to Buyer of any notice from any creditor relating to either an event of default or a request of acceleration.

7. Any conditions to completing the proposed transaction.

The closing of the proposed transaction is subject, among other things, to, (i) completion of due diligence investigation satisfactory to Buyer and its financing sources; (ii) execution of a definitive merger agreement; (iii) the approval of the respective boards of directors of Buyer and Seller; (iv) the approval of the stockholders of Seller; (v) the approval of the holders of senior notes of Seller, and Buyer must negotiate a discount of the Senior Notes acceptable to the Buyer; (vi) the receipt of all required governmental approvals; (vii) the receipt of all materials consents from third parties, including waivers and/or restructuring of Buyer credit lines; (viii) Seller not increasing its debt level above the amount reflected in its December 31, 1999 financials; (x) Seller not changing its executive compensation by an amount greater than 10% of 1999 levels. Buyer will consider the employment of certain of Seller's key employees, but such employment is not a condition of the closing of the proposed transaction.

8. Right of First Refusal.

In the event that Seller receives an offer which Seller believes to be superior to Buyer's offer during the Due Diligence Period, it shall provide written notice to Buyer of the details of the offer. Buyer shall have a five (5) business day period to revise its offer or to terminate this letter of intent.

9. Publicity

Except as required by law, the parties agree that there will be no public announcements or other publicity with respect to the proposed transaction, this letter of intent, the definitive merger agreement or any other matters related thereto without the express written consent of Buyer and Seller.

10. Conduct of Business.

Pending the execution of a definitive merger agreement, Seller will conduct its business in a manner consistent with past practices without making any material change in its business, operations or policies, or paying any dividends, or repurchasing any stock. Any transaction involving the sale of assets or a group of assets entered into after the date of this letter of intent that, in the aggregate, is on Seller's books or has a loan balance in excess of $5 million shall require the pre-approval of Buyer.

11. Deposit.

Upon the execution of this agreement, Buyer will deposit into an escrow 572,178 shares of common stock of Seller by Buyer (the "Deposit Shares"). In the event that Buyer breaches in any material respect its obligations under the definitive merger agreement, Seller shall be entitled to the Deposit Shares. This remedy is intended to be a liquidated payment and is the sole remedy of Seller of the event of any breach by Buyer of its obligations under the definitive merger agreement.

12. Break-up Fee.

In consideration of Buyer's incurrence of expenses, including the significant cost of conducting its due diligence investigation, Buyer shall be entitled to a break-up fee after the execution of the definitive merger agreement if one of the following occurs: (i) the Board of Directors of Seller withdraws its recommendation to the stockholders of Seller in favor of Buyer's purchase of Seller, (ii) the Board of Directors of Seller accepts a "superior" proposal for the purchase of Seller, or (iii) Seller is unable to obtain approval of the stockholders or the senior note holders of Seller. The break-up fee shall be equal to the greater of $2.5 million or 25% of the difference between the Purchase Price and the "superior" proposal accepted by the Board of Directors of Seller.

13. Chase Bank of Texas Liability

Buyer will have the option to accept the liability for the Chase Bank of Texas Letter of Credit facility related to the $79 million off-balance sheet liability upon the execution of this letter agreement, and such other mutually satisfactory agreements that are necessary for the assumption of the liability. The liability will be assumed at its book amount of 87.5% of the face amount. In the event that this liability is transferred to another party, the offer price will be reduced in an amount corresponding to the discount granted to the third party transferee.

This letter of intent will remain outstanding until 5:00 p.m. Eastern Daylight Time on July 17, 2000, at which time it will expire unless Seller has executed this Letter of intent. Once executed, this letter of intent shall continue in effect until the earlier of (i) execution and delivery of a definitive merger agreement; (ii) mutual agreement of Buyer and Seller; and (iii) the sixtieth day after the execution hereof, provided, however, that Paragraphs 5, 5 and 13 shall survive the termination of this agreement.

California Investment Fund, L.L.C.

By: /s/ Michael R. Kelly

Name: Michael R. Kelly

Title: Managing Member

Accepted and agreed to this
day of July, 2000
- ----

By:

Name:

Title:

EXHIBIT L

[CALIFORNIA INVESTMENT FUND, LLC LETTERHEAD]

Dynex Capital, Inc.
Attn: Thomas H. Potts
10900 Nuckols Road, 3rd Floor
Glen Allen, Virginia 23060
804-217-5861

Dynex Capital, Inc.
C/O Investment Banking Division
Paine Webber Incorporated
Attn: Mr. Jim Murray
1285 Avenue of the Americas

New York, NY 10019
212-713-4205

VIA FACSIMILE

July 24, 2000

Dear Mr. Potts and Mr. Murray:

California Investment Fund, LLC (CIF) is in receipt of your letter dated July 6, 2000. Please find the attached response to your counter-offer to our Revised Letter of Intent. In summary, the following points have been changed from the terms you presented.

1. The purchase price has been increased from our original offer, to $90 million. Our offer includes all accrued, unpaid dividends within the $90 million, with no further accruals to be paid. The specific allocation per equity class is based on a pro rata distribution of the purchase price based on the closing prices and their relative percentages of total market capitalization on July 10, 2000. This price represents a premium of 91.93% of the closing price of each class of securities on July 29, 2000.

   After numerous calls with Jon Dever of Paine Webber, he was successful in convincing us that the asset values currently being reported by the company are conservative. Through our many conversations, Jon has consistently focused on the long-term value of the company. By working closely with Paine Webber, the Andrew Davidson Company, and our lenders, we have revised our pricing from the July 12, 2000 letter based on our recently received preliminary valuation reports. We have reviewed each asset thoroughly to attempt to reach your targeted sale price of $100 million, however by reviewing all of the data we currently have available we have been able to stretch our pricing to reach $90 million.

2. The stock of Dynex Holdings, Inc., will be under option to purchase at $200,000, pending due diligence review of its assets.

3. An acceptable discount of the Senior Notes must be verified by CIF prior to entering the definitive agreement. Verification by direct contact with note holders will be required. Any discount negotiated by CIF will inure to the benefit of the successor entity.

4. The deposit shall serve as liquidated damages, with no further remedies in order to be reciprocal to the Break-up Fee as liquidated damages with no further remedies.

5. Paragraph 11 has been changed to have the deposit placed in escrow upon execution of the Letter of Intent.

6. Paragraph 13 has been added to reflect CIF's interest in pursuing the assumption of the liability for the Chase Bank of Texas Letter of credit, maturing July 31, 2000.

If these changes meet with your approval, please sign the attached Letter of Intent and return. We are prepare to move forward with final due diligence immediately upon your acceptance

California Investment Fund, L.L.C.

By: /s/ Michael R. Kelly

Name: Michael R. Kelly

Title: Managing Member

EXHIBIT M

[CALIFORNIA INVESTMENT FUND, LLC LETTERHEAD]

Dynex Capital, Inc.
Attn: Thomas H. Potts
10900 Nuckols Road, 3rd Floor
Glen Allen, Virginia 23060
804-217-5861

Dynex Capital, Inc.
C/O Investment Banking Division
Paine Webber Incorporated
Attn: Mr. Jim Murray
1285 Avenue of the Americas

New York, NY 10019
212-713-24205

VIA FACSIMILE

July 24, 2000

Dear Mr. Potts and Mr. Murray:

California Investment Fund, L.L.C. is in receipt of your letter dated July 6, 2000, and after careful review, proposes the following revisions to the July 6 letter.

This letter of intent is intended to summarize the principal terms relating to the proposed acquisition by California Investment Fund, L.L.C. ("Buyer") of Dynex Capital, Inc. and its subsidiaries ("Seller"). The preliminary understandings expressed in this letter are intended to be the subject of further negotiation and are not intended to be binding, except as set forth herein. There is no obligation on the part of any party (other than as set forth in the next sentence) until a definitive merger agreement is entered into by the parties, which will contain additional terms and conditions which have yet to be agreed upon. Notwithstanding the foregoing, upon acceptance of this letter of intent by the Seller, the provisions of Paragraphs 5, 6 and 13 will be binding upon Seller and Buyer.

1. Proposed value for Dynex Capital, Inc. common stock.

Buyer, or a subsidiary of Buyer ("Acquisition Sub"), intends to acquire all 11,444,188 issued and outstanding shares of common stock of Seller, for a price of $2.5190 per share in cash, totaling $28,828,193.17. The preferred shares will be acquired at the following prices: Class A Preferred, 1,309,061 shares at $11.0357 per share, totaling $14,446,440.63; the Class B Preferred 1,912,434 shares at $11.2756 per share, totaling $21,563,907.24; and the Class C Preferred 1,840,000 shares at $13.6747 per share, totaling $25,161,458.95. This would result in an aggregate purchase price of $90,000,000 for the common and preferred stock of Seller. All accrued, unpaid dividends, that is estimated to be $12,912,000 as of June 30, 2000, are included in the share prices, and no further accrual will be paid. Dynex agrees not to pay any of these accrued dividends prior to the closing of the proposed transaction. All unvested and vested options (none of which are in-the-money) will be cancelled.

Separately, CIF or an affiliate will have the option to acquire all the issued and outstanding shares of common stock of Dynex's affiliate, Dynex Holding, Inc. at its book value of approximately $200,000.00.

2. Proposed transaction structure (merger of equals, stock acquisition, asset purchase or other).

Buyer anticipates that the transaction will be accomplished through the merger of Acquisition Sub and Seller. Certain assets of Seller that may not be transferred to Acquisition Sub (which is not a REIT or a qualified REIT subsidiary) or that Buyer wishes to transfer to a REIT or a qualified REIT subsidiary will be sold by Seller in transactions pre-arranged by Buyer after deposit of the Purchase Price (as defined below) in escrow and the satisfaction of all other conditions to the proposed transaction, but prior to the completion of the proposed merger.

3. Anticipated financing source for completing the transaction (available cash, new debt, existing unused debt lines or other).

Buyer anticipates that the aggregate amount necessary to purchase the common stock of Seller and the preferred stock of Seller (the "Purchase Price") will be comprised of working capital of Buyer and financing from its lender.

4. Observation Rights

Upon the execution of the definitive merger agreement, Buyer shall be granted a right to designate one person to act as an observer (the "Observer") at the headquarters of Seller. The Observer shall also be entitled to notice of and to attend all meetings of the Board of Directors of Seller, and to receive any material distributed to the directors in their capacity as directors of Seller, but will have no voting rights or rights to participate in any discussions of the Board of Directors of Seller. Notwithstanding the prior sentence, such Observer will not be permitted to receive any materials or attend the portions of any meetings of the Board that relate to any deliberation of the proposed merger.

5. Due Diligence.

Seller shall cooperate fully with Buyer in its due diligence investigation and will make available to Buyer and its financial and legal advisors all books, records and business and financial information reasonably requested by Buyer with respect to the subject matter of this letter of intent during the Due Diligence Period. The Due Diligence Period will expire upon the earlier of (a) fourteen (14) calendar days from the date of this letter of intent, (b) written notification by Buyer that it is terminating the Due Diligence Period or (c) written notification by Buyer that it is prepared to engage in exclusive negotiations in accordance with Paragraph 6 and that it will waive its due diligence condition ("Notice"). In addition, Seller agrees that Buyer is allowed to contact the financial advisors, note holders and stockholders of Seller in order to satisfy the conditions of Paragraph 6. During the Due Diligence period, Seller agrees that CIF is allowed to contact Seller's financial advisor. In addition, during the Due Diligence period, Seller agrees that CIF is allowed to contact holders of Seller's senior note (the "senior Notes") and stockholders in order to satisfy the condition of Paragraph 7.

6. Definitive Merger Agreement: Exclusive Period.

Subject to the conditions of Paragraph 8, upon the receipt of Notice, Buyer will be granted a fourteen (14) calendar day period (the "Exclusive Period") in which Seller will negotiate in good faith and exclusively with Buyer in an attempt to execute a definitive merger agreement. During this period, Seller will not discuss or negotiate with, or provide any information to, any individual, group, joint venture, partnership, corporation, association, trust, estate or other entity of any nature (other than Buyer and its affiliates) relating to any transaction involving the sale of the business or assets of Seller or of any capital stock of Seller, or any merger, consolidation or similar transaction involving Seller. The parties will cooperate with each other and use their reasonable best efforts to negotiate, prepare and execute a definitive merger agreement during this period. During the Exclusive Period, Seller agrees to notify promptly and to provide a copy to Buyer of any notice from any creditor relating to either an event of default or a request of acceleration.

7. Any conditions to completing the proposed transactions.

The closing of the proposed transaction is subject, among other things, to, (i) completion of due diligence investigation satisfactory to Buyer and its financing sources; (ii) execution of a definitive merger agreement; (iii) the approval of the respective boards of directors of Buyer and Seller; (iv) the approval of the stockholders of Seller; (v) the approval of the holders of senior notes of Seller, and Buyer must negotiate a discount of the Senior Notes acceptable to the Buyer; (vi) the receipt of all required governmental approvals; (vii) the receipt of all material consents from third parties, including waivers and/or restructuring of Buyer credit lines; (viii) Seller not increasing its debt level above the amount reflected in its December 31, 1999 financials; (x) Seller not changing its executive compensation by an amount greater than 10% of 1999 levels. Buyer will consider the employment of certain of Seller's key employees, but such employment is not a condition to the closing of the proposed transaction.

8. Right of First Refusal.

In the event that Seller receives an offer which Seller believes to be superior to Buyer's offer during the Due Diligence Period, it shall provide written notice to Buyer of the details of the offer. Buyer shall have a five (5) business day period to revise its offer or to terminate this letter of intent.

9. Publicity.

Except as required by law, the parties agree that there will be no public announcements or other publicity with respect to the proposed transaction, this letter of intent, the definitive merger agreement or any other matters related thereto without the express written consent of Buyer and Seller.

10. Conduct of Business.

Pending the execution of a definitive merger agreement, Seller will conduct its business in a manner consistent with past practices without making any material change in its business, operation or policies, or paying any dividend, or repurchasing any stock. Any transaction involving the sale of assets or a group of assets entered into after the date of this letter of intent that, in the aggregate, is on Seller`s books or has a loan balance in excess of $5 million shall require the pre-approval of Buyer.

11. Deposit.

Upon the execution of this agreement, Buyer will deposit into an escrow 572,178 shares of common stock of Seller owned by Buyer (the "Deposit Shares"). In the event that Buyer breaches in any material respect its obligations under the definitive merger agreement, Seller shall be entitled to the Deposit Shares. This remedy is intended to be a liquidated damages payment and is the sole remedy of Seller in the event of any breach by Buyer of its obligations under the definitive merger agreement.

12. Break-up Fee.

In consideration of Buyer's incurrence of expenses, including the significant cost of conducting its due diligence investigation, Buyer shall be entitled to a break-up fee after the execution of the definitive merger agreement if one of the following occurs: (i) the Board of Directors of Seller withdraws its recommendation to the stockholders of Seller in favor of Buyer's purchase of Seller, (ii) the Board of Directors of Seller accepts a "superior" proposal for the purchase of Seller, or (iii) Seller is unable to obtain approval of the stockholders or the senior note holders of Seller. The break-up fee shall be equal to the greater of $2.5 million or 25% of the difference between the Purchase Price and the "superior" proposal accepted by the Board of Directors of Seller.

13. Chase Bank of Texas Liability

Buyer will have the option to accept the liability for the Chase Bank of Texas Letter of Credit facility related to the $79 million off-balance sheet liability upon the execution of this letter agreement, and such other mutually satisfactory agreements that are necessary for the assumption of the liability. The liability will be assumed at its book amount of 87.5% of the face amount. In the event that this liability is transferred to another party, the offer price will be reduced in an amount corresponding to the discount granted to the third party transferee.

This letter of intent will remain outstanding until 5:00 p.m. Eastern Daylight Time on July 27, 2000, at which time it will expire unless Seller has executed this letter of intent. Once executed, this letter of intent shall continue in effect until the earlier of (i) execution and delivery of a definitive merger agreement; (ii) mutual agreement of Buyer and Seller; and (iii) the sixtieth day after the execution hereof, provided, however, that Paragraphs 5, 6 and 13 shall survive the termination of this agreement.

California Investment Fund, L.L.C.

By: /s/ Michael R. Kelly

Name: Michael R. Kelly

Title: Managing Member

Accepted and agreed to this
day of July, 2000
- ----

By:

Name:

Title:

EXHIBIT N

[CALIFORNIA INVESTMENT FUND, LLC LETTERHEAD]

Dynex Capital, Inc.
Attn: Thomas H. Potts
10900 Nuckols Road, 3rd Floor
Glen Allen, Virginia 23060
804-217-5861

Dynex Capital, Inc.
C/O Investment Banking Division VIA FACSIMILE
Paine Webber Incorporated
Attn: Mr. Jonathan P. Dever
1285 Avenue of the Americas

New York, NY 10019
212-712-4205

August 8, 2000

Dear Mr. Potts and Mr. Dever:

Please be advised that you recent rejection of our latest offer dated July 24, 2000, which was in the amount of $90 million, constitutes the termination of discussions regarding the possible acquisition of some or all of the equity securities or assets of Dynex Capital Inc. Based on this termination we are formally requesting the written consent of the Board of Directors of Dynex Capital Inc., to allow California Investment Fund, LLC, (CIF) to purchase any of the securities of Dynex Capital Inc. This request is pursuant to paragraph 4 of the Confidentiality Agreement dated April 6, 2000.

We consider this request to be reasonable in light of the most recent press release dated, August 3, 2000. CIF has not received any material non-public information with regard to Dynex Capital, Inc. in the past few weeks, and all other information is so dated as to not be relevant to our decision to buy or sell the securities of the company. Given that the window for deemed insiders is currently open, we request that you grant your written consent to allow us trade in the securities by signing and returning this letter.

California Investment Fund, LLC, would like to continue the underwriting of the assumption of the liability for the Sun America Tax Exempt Bond Portfolio Credit Enhancement, and the acquisition of the taxable tails associated with the tax-exempt bonds. CIF will also consider assisting in any other capital needs of the company as those needs might arise.

California Investment Fund, L.L.C.

By: /s/ Michael R. Kelly

Name: Michael R. Kelly

Title: Managing Member

Read and Approved:

- ---------- ----------
Thomas H. Potts Date
Chairman
Dynex Capital, Inc.