

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 or 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: July 18, 1997

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

Virginia (State or Other Jurisdiction of Incorporation)	1-9819 (Commission File Number)	52-1549373 (IRS Employer Identification No.)
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10900 Nuckols Road, Glen Allen, Virginia (Address of Principal Executive Offices)	23060 (Zip Code)
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Registrant's telephone number, including area code: (804) 217-5800

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

Item 5. Other Events.
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This filing is made to effect the incorporation by reference of the accompanying exhibits in the Registration Statement of Dynex Capital, Inc. (the "Company") on Form S-3 (No. 333-10783) previously filed with the Securities and Exchange Commission ("SEC") and declared effective on March 24, 1997, and to supply information omitted from Item 14 of the above described Registration Statement (attached as Annex A). The exhibits and Item 14 information filed herewith relate specifically to the Company's proposed offering of Notes described in the Company's Prospectus dated July 14, 1997 and Prospectus Supplement dated July 14, 1997 which were filed with the SEC on July 16, 1997.

Item 7. Exhibits.
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(c). Exhibits.

- 1.1 Underwriting Agreement by and between the Company and PaineWebber Incorporated and Smith Barney, Inc. dated July 14, 1997.
- 4.1 Executed Indenture by and between Dynex Capital, Inc. and Texas Commerce Bank National Association, as trustee, dated as of July 14, 1997.
- 4.2 Officers' Certificate relating to the resolution of the Board of Directors of the Company establishing the series of Securities consisting of the Notes.
- 4.3 Specimen of the Global Note representing the Senior Notes.
- 5.1 Legal Opinion of Venable, Baetjer and Howard, LLP.
- 8.1 Tax Opinion of Venable, Baetjer and Howard, LLP.
- 23.1 Consent of KPMG Peat Marwick, LLP.
- 23.2 Consent of Venable, Baetjer and Howard, LLP (contained in Exhibits 5.1 and 8.1 filed herewith).
- 99.1 Press release dated July 16, 1997.

SIGNATURES

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

Date: July 18, 1997

RESOURCE MORTGAGE CAPITAL, INC.

By: /s/ Thomas H. Potts

Thomas H. Potts
President

ANNEX A

Item 14. Other Expenses of Issuance and Distribution

The estimated expenses, other than underwriting discounts and commissions, in connection with the offering of the Notes are:

Registration Fee	\$37,879
Legal Fees and Expenses	100,000
Accounting Fees and Expenses	8,000
Blue Sky Qualification and Expenses including Counsel Fees	7,500
NASD Fee	0
Printing Expenses	13,500
Transfer and Registrar Fees	5,000
Miscellaneous	5,000
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TOTAL	\$176,879

EXHIBIT INDEX

Exhibit
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\$100,000,000

DYNEX CAPITAL, INC.

7.875% Senior Notes due July 15, 2002

UNDERWRITING AGREEMENT

July 14, 1997

PAINWEBBER INCORPORATED
SMITH BARNEY INC.
c/o PaineWebber Incorporated
1285 Avenue of the Americas
New York, New York 10019

Ladies and Gentlemen:

Dynex Capital, Inc., a Virginia corporation (the "Company"), proposes to issue and sell \$100,000,000 principal amount of its 7.875% Senior Notes due July 15, 2002 (the "Securities").

2

The Securities are to be issued pursuant to an Indenture by and between the Company and Texas Commerce Bank National Association, as trustee, dated as of July 14, 1997 (the "Indenture"). This is to confirm the agreement concerning the purchase of the Securities from the Company by the Underwriters named in Schedule 1 hereto (the "Underwriters").

1. Representations, Warranties and Agreements of the Company. The Company represents, warrants and agrees that:

(a) A registration statement on Form S-3 and any amendments thereto with respect to the Securities have (i) been prepared by the Company in conformity in all material respects with the requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the rules and regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") thereunder, (ii) been filed with the Commission under the Securities Act; (iii) become effective under the Securities Act; and the Indenture shall have been qualified under the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"). Copies of such registration statement and any amendments thereto have been delivered by the Company to PaineWebber Incorporated ("PaineWebber") on behalf of the Underwriters. As used in this Agreement, "Effective Time" means the date and the time as of which such registration statement, or the most recent post-effective amendment thereto, if any, was declared effective by the Commission; "Effective Date" means the date of the Effective Time; "Preliminary Prospectus" means each prospectus included in such registration statement, or amendments thereof, before it became effective under the Securities Act which omits certain information pursuant to Rule 430A under the Rules and Regulations and any prospectus filed with the Commission by the Company with the consent of the Underwriters pursuant to Rule 424(a) of the Rules and Regulations; "Registration Statement" means such registration statement, as amended at the Effective Time, including all documents incorporated by reference therein at such time and all information contained in the final prospectus filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations in accordance with Section 5(a) hereof and deemed to be a part of the registration statement as of the Effective Time pursuant to paragraph (b) of Rule 430A of the Rules and Regulations; and "Prospectus" means such final prospectus and any amendment or supplement thereto, as first filed with the Commission pursuant to paragraph (2) of Rule 424(b) of the Rules and Regulations. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus. Reference made herein to any Preliminary Prospectus or to the Prospectus shall be deemed to refer to and include any documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Securities Act, as of the date of such Preliminary Prospectus or the Prospectus, as the case may be, and any reference to any amendment or supplement to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include any document filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), after the date of such Preliminary Prospectus or the Prospectus, as the case may be, and incorporated by reference in such Preliminary Prospectus or the

Prospectus, as the case may be; and any reference to any amendment to the Registration Statement shall be deemed to include any annual report of the Company filed with the Commission pursuant to Section 13(a) or 15(d) of the Exchange Act after the Effective Time that is incorporated by reference in the Registration Statement. The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus.

(b) The Registration Statement conforms, and the Prospectus and any further amendments or supplements thereto will, when they become effective or are filed with the Commission, as the case may be, conform in all material respects to the requirements of the Securities Act, and the Rules and Regulations, and do not

3

and will not, as of the applicable effective date (as to the Registration Statement and any amendment thereto) and as of the applicable filing date (as to the Prospectus and any amendment or supplement thereto) contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided that no representation or warranty is made as to information contained in or omitted from the Registration Statement or the Prospectus, including any amendments or supplements thereto, in reliance upon and in conformity with written information furnished to the Company through PaineWebber by or on behalf of any Underwriter specifically for inclusion therein; and the Indenture will conform in all material respects with the requirements of the Trust Indenture Act, and the applicable rules and regulations thereunder.

(c) The documents incorporated by reference in the Prospectus, including any amendments or supplements thereto, when they became effective or were filed, as the case may be, with the Commission conformed in all material respects to the requirements of the Securities Act or Exchange Act, as applicable, and the rules and regulations of the Commission thereunder, and none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and any further documents so filed and incorporated by reference in the Prospectus, including any amendments or supplements thereto, when such documents became effective or are filed, as the case may be, with the Commission will conform in all material respects to the requirements of the Securities Act of Exchange Act, as applicable, and the rules and regulations of the Commission thereunder and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

(d) The Company and each of its subsidiaries and affiliates (as those terms are defined in Section 15 hereof) have been duly incorporated and are validly existing as corporations in good standing under the laws of their respective jurisdictions of incorporation, are duly qualified to do business and are in good standing as foreign corporations in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses requires such qualification except where the failure to so qualify would not have a material adverse effect on the consolidated financial position, shareholders' equity, results of operations, business or prospects of the Company and its subsidiaries and affiliates, taken as a whole (hereinafter "Material Adverse Effect"), and have all power and authority necessary to own or hold their respective properties and to conduct the businesses in which they are engaged.

(e) The Company has an authorized capitalization as set forth in the Prospectus, including any amendments or supplements thereto, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description thereof contained in the Prospectus, including any amendments or supplements thereto; and all of the issued shares of capital stock of each subsidiary and affiliate of the Company have been duly and validly authorized and issued and are fully paid and non-assessable and (except for directors' qualifying shares) are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims.

(f) The execution, delivery and performance of this Agreement and the Indenture by the Company, the consummation of the transactions contemplated hereby and thereby, the compliance by the Company with the provisions of the

Indenture and the Securities and the issuance and delivery of the Securities by the Company will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries or affiliates is a party or by which the Company or any of its subsidiaries or affiliates is bound or to which any of the property or assets of the Company or any of its subsidiaries or affiliates is subject, nor will such actions result in any violation of the provisions of the charter or by-laws of the Company or any of its subsidiaries or affiliates or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or affiliates or any of their properties or assets, except, as to each case, where such breach, violation or default would not have a Material Adverse Effect; and except for the registration of the Securities under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Trust Indenture Act or the Exchange Act, and applicable state or foreign securities laws in connection with the purchase and distribution of the Securities by the Underwriters, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement and the Indenture by the Company and the consummation of the transactions contemplated hereby and thereby.

(g) There are no contracts, agreements or understandings between the Company and any person granting such person the right to require the Company to file a registration statement under the Securities Act with respect to any securities of the Company owned or to be owned by such person or to require the Company to include such securities registered pursuant to the Registration Statement or in any securities registered pursuant to any other registration statement filed by the Company under the Securities Act.

(h) The Indenture has been duly authorized and, when executed by the proper officers of the Company (assuming the due execution and delivery thereof by the trustee under the Indenture (the "Trustee")) and delivered by the Company, will have been duly executed and delivered by the Company and the Trustee and will constitute the valid and legally binding obligation of the Company, enforceable in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing; the Securities have been duly authorized, and, upon payment therefor as provided herein, will be validly issued and outstanding, and will constitute the valid and legally binding obligations of the Company, enforceable in accordance with their terms and entitled to the benefits of the Indenture; and the Securities, the Indenture and the capital stock of the Company will conform in all material respects to the descriptions thereof contained in the Registration Statement and the Prospectus, including any amendments or supplements thereto.

(i) Neither the Company nor any of its subsidiaries or affiliates has sustained, since the date of the latest audited financial statements included or incorporated by reference in the Prospectus, including any amendments or supplements thereto, any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, which would have a Material Adverse Effect, otherwise than as set forth or contemplated in the Prospectus, including any amendments or supplements thereto; and, since such date, there has not been any change in the capital stock or long-term debt of the

Company or any of its subsidiaries or affiliates (otherwise than as set forth or contemplated in the Prospectus, including any amendments or supplements thereto) or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries or affiliates, which would have a Material Adverse Effect, otherwise than as set forth or contemplated in the Prospectus, including any amendments or supplements thereto.

(j) The financial statements (including the related notes and

supporting schedules) filed as part of the Registration Statement or included or incorporated by reference in the Prospectus, including any amendments or supplements thereto, present fairly the financial condition, results of operations and cash flows of the entities purported to be shown thereby, at the dates and for the periods indicated, and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved, except as otherwise stated in the Registration Statement.

(k) KPMG Peat Marwick LLP ("KPMG Peat Marwick"), who have certified certain financial statements of the Company and whose report appears in the Prospectus or is incorporated by reference therein, and who delivered the initial letter referred to in Section 7(e) hereof, were independent public accountants as required by the Securities Act and the Rules and Regulations during the periods covered by the financial statements on which they reported contained or incorporated in the Prospectus.

(l) Except as described in the Prospectus, including any amendments or supplements thereto, there are no legal or governmental proceedings pending, or to the knowledge of the Company threatened, to which the Company or any of its subsidiaries or affiliates is a party or of which any property or assets of the Company or any of its subsidiaries or affiliates is the subject which, if determined adversely to the Company or any of its subsidiaries or affiliates, would have a Material Adverse Effect.

(m) The conditions for use of Form S-3, as set forth in the General Instructions thereto, have been satisfied.

(i) is in violation of its charter or by-laws, (ii) is in default, and no event has occurred which, with notice or lapse of time or both, would constitute such a default, in the due performance or observance of any term, covenant or condition contained in any material indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which it is a party or by which it is bound or to which any of its properties or assets is subject or (iii) is in violation of any law, ordinance, governmental rule, regulation or court decree to which it or its property or assets may be subject or has failed to obtain any material license, permit, certificate, franchise or other governmental authorization or permit necessary to the ownership of its property or to the conduct of its business, except, as to each case, where such violation or default would not have a Material Adverse Effect.

(o) Neither the Company nor any subsidiary or affiliate is an "investment company" within the meaning of such term under the Investment Company Act of 1940, as amended (the "1940 Act"), and the rules and regulations of the Commission thereunder.

(p) The Company has elected to be treated as a real estate investment trust ("REIT") for federal income tax purposes. The Company has complied, and intends

6

to comply in the future, with the requirements for qualification as a REIT under the Internal Revenue Code of 1986, as amended (the "Code").

2. Purchase of the Securities by the Underwriters. On the basis of the representations and warranties contained in, and subject to the terms and conditions of, this Agreement, the Company agrees to sell to each of the Underwriters, severally and not jointly, and each of the Underwriters, severally and not jointly, agrees to purchase the principal amount of Securities set opposite that Underwriter's name in Schedule 1 hereto at a purchase price equal to 98.775% of the principal amount thereof, plus accrued interest from July 15, 1997 to the Delivery Date (as defined in Section 4).

The Company shall not be obligated to deliver any Securities, except upon payment for all the Securities to be purchased hereunder, as provided herein.

3. Offering of Securities by the Underwriters. Upon authorization by the Underwriters of the release of the Securities, the several Underwriters propose to offer the Securities for sale upon the terms and conditions set forth in the Prospectus or the amendment or supplement thereto.

4. Delivery of and Payment for the Securities. Delivery of and payment for the Securities shall be made at the office of PaineWebber Incorporated, 1285 Avenue of the Americas, New York, New York 10019 at 10:00 A.M., New York City time, on the fifth full business day following the date of this Agreement or at such other date or place as shall be determined by agreement between the Underwriters and the Company. This date and time are sometimes referred to as the "Delivery Date." On the Delivery Date, the Company shall deliver the

Securities, through the facilities of The Depository Trust Company ("DTC") to PaineWebber for the account of each Underwriter against payment to or upon the order of the Company of the purchase price by wire transfer in federal funds (immediately available funds). Time shall be of the essence, and delivery at the time and place specified pursuant to this Agreement is a further condition of the obligation of each Underwriter hereunder. Upon delivery, the Securities shall be in the form of a global certificate and registered in the name of Cede & Co. or any other nominee of DTC, and beneficial interests therein shall be in such names and in such denominations as PaineWebber shall request in writing not less than two full business days prior to the Delivery Date. For the purpose of expediting the checking of the global certificates, the Company shall make the global certificates available for inspection by PaineWebber in New York, New York, not later than 2:00 P.M., New York City time, on the business day prior to the Delivery Date.

7

5. Further Agreements of the Company. The Company agrees:

(a) To prepare the Prospectus, including any amendment or supplement thereto, in a form approved by the Underwriters and to file such Prospectus pursuant to Rule 424(b) under the Securities Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the Securities Act; to make no further amendment or any supplement to the Registration Statement or to the Prospectus prior to the Delivery Date except as permitted herein; to advise the Underwriters, promptly after it receives notice thereof, of the time when the Registration Statement or any amendment thereto, has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish the Underwriters prior to the Delivery Date with copies thereof; to file promptly all reports and any definitive proxy or information statements required to be filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the Prospectus, including any amendments or supplements thereto, and for so long as the delivery of a prospectus is required in connection with the offering or sale of the Securities; to advise the Underwriters, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus, including any amendment or supplement thereto, of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or the Prospectus or suspending any such qualification, to use promptly its best efforts to obtain its withdrawal;

(b) To furnish promptly to each of the Underwriters and to counsel for the Underwriters a signed copy of the Registration Statement as originally filed with the Commission, and each amendment thereto filed with the Commission, including all consents and exhibits filed therewith;

(c) To deliver promptly to the Underwriters such number of the following documents as the Underwriters shall reasonably request: (i) conformed copies of the Registration Statement as originally filed with the Commission and each amendment thereto (in each case excluding exhibits other than this Agreement and the Indenture), (ii) each Preliminary Prospectus, the Prospectus and any amended or supplemented Prospectus and (iii) any document incorporated by reference in the Prospectus (excluding exhibits thereto); and, (A) if the delivery of a prospectus is required at any time prior to the expiration of twelve months after the Effective Time in connection with the offering or sale of the Securities and if at such time any events shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary during such same period to amend or supplement the Prospectus or to file under the Exchange Act any document incorporated by reference in the Prospectus in order to comply with the Securities Act or the Exchange Act, to notify the Underwriters and, upon their request, to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many

copies as the Underwriters may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance; and (B) in case any Underwriter is required to deliver a prospectus in connection with sales of any of the Securities at any time twelve months or more after the Effective Time, upon the request of the Underwriter but at

8

the expense of such Underwriter, to prepare and deliver to such Underwriter as many copies as such Underwriter may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Securities Act;

(d) To file promptly with the Commission any amendment to the Registration Statement or the Prospectus or any supplement to the Prospectus that may, in the judgment of the Company or the Underwriters, be required by the Securities Act or requested by the Commission;

(e) Prior to filing with the Commission prior to the Delivery Date any (i) Preliminary Prospectus, (ii) amendment to the Registration Statement or supplement to the Prospectus, any document incorporated by reference in the Prospectus or (iii) any Prospectus pursuant to Rule 424 of the Rules and Regulations, to furnish a copy thereof to the Underwriters and their counsel and not to file any such document to which the Underwriters shall reasonably object after having been given reasonable notice of the proposed filing thereof;

(f) As soon as practicable after the Effective Date, to make generally available to the Company's security holders and to deliver to the Underwriters an earning statement of the Company and its subsidiaries and affiliates (which need not be audited) complying with Section 11(a) of the Securities Act and the Rules and Regulations (including, at the option of the Company, Rule 158);

(g) For a period of five years following the Effective Date, to furnish to the Underwriters, copies of all materials furnished by the Company to its shareholders and all public reports and all reports and financial statements furnished by the Company to the principal national securities exchange upon which the shares of the common stock, par value \$0.01 per share (the "Common Stock") of the Company may be listed pursuant to requirements of or agreements with such exchange or to the Commission pursuant to the Exchange Act or any rule or regulation of the Commission thereunder;

(h) Promptly from time to time to take such action as the Underwriters may reasonably request to qualify the Securities for offering and sale under the securities laws of such jurisdictions as the Underwriters may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Securities; provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction;

(i) From the date hereof until the Delivery Date, not to offer or sell, or cause to be offered and sold, in the United States of America, without the prior consent of the Representatives, any debt securities which are substantially similar to the Securities;

(j) To apply the net proceeds from the sale of the Securities being sold by the Company as set forth in the Prospectus; and

(k) To take such steps as shall be necessary to ensure that neither the Company nor any subsidiary or affiliate shall become an "investment company" within the meaning of such term under the 1940 Act and rules and regulations of the Commission thereunder.

6. Expenses. The Company agrees to pay (a) the costs incident to the authorization, issuance, sale and delivery of the Securities and any taxes payable in that connection; (b) the costs incident to the preparation, printing and filing under the Securities Act of the Registration Statement and any amendments and exhibits thereto; (c) the costs of distributing the Registration Statement as originally filed and each amendment thereto and any pre-effective or post-effective amendments thereto (including, in each case, exhibits), any Preliminary Prospectus, the Prospectus and any amendment or supplement to the Prospectus, or any document incorporated by reference

therein, all as provided in this Agreement; (d) the costs of reproducing and distributing this Agreement; (e) the costs of distributing the terms of the agreement relating to the organization of the underwriting syndicate and selling group to the members thereof by mail, telex or other means of communication; (f) the fees and expenses of the Trustee and its counsel; (g) any applicable listing or other fees; (h) the fees and expenses of filings, if any, with foreign securities administrators and of qualifying the Securities under the securities laws of the several jurisdictions as provided in Section 5(h) and of preparing, printing and distributing a Blue Sky Memorandum (including related fees and expenses of counsel to the Underwriters); (i) the fees paid to rating agencies in connection with the rating of the Securities; and (j) all other costs and expenses incident to the performance of the obligations of the Company under this Agreement; provided that except as provided in this Section 6 and in Section 11, the Underwriters shall pay their own costs and expenses, including the costs and expenses of their counsel, any transfer taxes on the Securities which they may sell and the expenses of advertising any offering of the Securities made by the Underwriters.

7 . Conditions of Underwriters' Obligations. The respective obligations of the Underwriters hereunder are subject to the accuracy, when made and on the Delivery Date, of the representations and warranties of the Company contained herein, to the performance by the Company of its obligations hereunder, and to each of the following additional terms and conditions:

(a) The Registration Statement shall have become effective and the Indenture shall have been qualified under the Trust Indenture Act and the Underwriters shall have received notice thereof, not later than the first full business day following the date of this Agreement or such later date as shall be consented to in writing by the Underwriters; the Prospectus, including any amendment or supplement thereto, shall have been timely filed with the Commission in accordance with Section 5(a) hereof; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and any request of the Commission for inclusion of additional information in the Registration Statement or the Prospectus, including any amendment or supplement thereto, or otherwise shall have been complied with.

(b) No Underwriter shall have discovered and disclosed to the Company on or prior to the Delivery Date that the Registration Statement or the Prospectus, including any amendment or supplement thereto, contains an untrue statement of a fact which, in the opinion of Simpson Thacher & Bartlett, counsel for the Underwriters, is material or omits to state a fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein not misleading.

(c) All corporate proceedings and other legal matters incident to the authorization, form and validity of this Agreement, the Indenture, the Securities, the Registration Statement, the Prospectus, including any amendments or supplements thereto, and all other legal matters relating to this Agreement and the transactions contemplated hereby shall be satisfactory in all material respects to counsel for the Underwriters, and the Company shall have furnished to such counsel all documents and information that they may reasonably request to enable them to pass upon such matters.

(d) Venable, Baetjer and Howard, LLP, as counsel to the Company, shall have furnished to the Underwriters the following:

(i) their written opinion addressed to the Underwriters, and dated the Delivery Date, in form and substance reasonably satisfactory to the Underwriters to the effect that:

(A) The Company and each of Multi-Family Finance Corporation, Issuer Holding Corporation and Merit Securities Corporation (individually, a "Subsidiary" and, collectively, the "Subsidiaries"), and each of MSC I, L.P.,

limited partnership, as applicable, in good standing under the laws of its respective jurisdiction of organization and is in good standing as a foreign corporation or limited partnership, as applicable, in each jurisdiction in which its respective ownership or lease of property or the conduct of its respective business requires such qualification (other than those jurisdictions in which the failure to so qualify would not have a Material Adverse Effect), and has all corporate or partnership, as applicable, power and authority necessary to own or hold its respective properties and conduct the business in which it is engaged, as described in the Prospectus, or any amendment or supplement thereto;

(B) The Company has an authorized capitalization as set forth in the Prospectus, including any amendment or supplement thereto, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description thereof contained in the Prospectus; and, to such counsel's knowledge, all of the issued shares of capital stock or partnership interests, as applicable, of each Subsidiary and each Affiliate of the Company have been duly and validly authorized and issued and are fully paid and non-assessable. To such counsel's knowledge, all of the issued shares of capital stock of each Subsidiary are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims;

(C) There are no preemptive or other rights to subscribe for or purchase, nor any restriction upon the voting or transfer of, any shares of the Common Stock, pursuant to the Company's charter or by-laws or any agreement or other instrument known to such counsel, except as set forth in the Prospectus, or any amendment or supplement thereto;

(D) The Registration Statement was declared effective under the Securities Act, the Prospectus, including any amendment or supplement thereto, was filed with the Commission pursuant to the subparagraph of Rule 424(b) of the Rules and Regulations specified in such opinion on the date specified therein and no stop order suspending the effectiveness of the Registration Statement has been issued and, to the knowledge of such counsel, no proceeding for that purpose is pending or threatened by the Commission;

(E) The Registration Statement and the Prospectus and any further amendments or supplements thereto made by the Company prior to the Delivery Date (other than the financial statements, schedules and other financial data therein, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Securities Act and the applicable rules and regulations under said Act; and the documents incorporated by reference in the Prospectus and any further amendment or supplement to any such incorporated documents made by the Company prior to such Delivery Date (other than the financial statements, schedules and other financial data therein, as to which such counsel need express no opinion), when they became effective or were filed, as the case may be, with the Commission complied as to form in all material respects with the requirements of the Securities Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder; and the Indenture conforms in all material respects to the requirements under the Trust Indenture Act and the applicable rules and regulations thereunder;

(F) The Securities, the Indenture and the capital stock of the Company conform in all material respects to the statements concerning them in the

Registration Statement and the Prospectus, or any amendment or supplement thereto; and the provisions of the contracts, agreements and instruments (as the same may be in effect on the Delivery Date) summarized under the caption "Description of the Notes" conform in all material respects to the descriptions thereof in the Prospectus, or any amendment or supplement thereto;

(G) To such counsel's knowledge and other than as described in the Prospectus or any amendment or supplement thereto, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries or affiliates is a party or of which any property of the Company or any of its subsidiaries or affiliates is the subject which, if determined adversely to the Company or any of its subsidiaries or affiliates, would or could reasonably be expected to have a Material Adverse Effect; and, to such counsel's knowledge, no such proceedings are threatened by governmental authorities or by others;

(H) The statements contained in the Prospectus under the caption "Federal Income Tax Considerations," insofar as they describe federal statutes, rules and regulations, constitute a fair summary thereof and the opinion of such counsel filed as Exhibit 8.1 to the Registration Statement is confirmed and the Underwriters may rely upon such opinion as if it were addressed to them;

(I) To the best of such counsel's knowledge, there are no contracts or other documents which are required to be described in the Prospectus, including any amendment or supplement thereto, or filed as exhibits to the Registration Statement by the Securities Act or by the Rules and Regulations which have not been described or filed as exhibits to the Registration Statement or incorporated therein by reference as permitted by the Rules and Regulations;

(J) This Agreement has been duly authorized, executed and delivered by the Company;

(K) The Indenture has been duly authorized, executed and delivered by the Company and (assuming due execution and delivery by the Trustee) constitutes a valid and binding agreement of the Company enforceable against the Company in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) or an implied covenant of good faith and fair dealing;

(L) The Securities have been duly authorized by the Company, and, when duly executed, authenticated, issued and delivered as provided in the Indenture, will be duly and validly issued and outstanding, and will constitute valid and binding obligations of the Company entitled to the benefits of the Indenture and enforceable in accordance with their terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered

12

in a proceeding in equity or at law) or an implied covenant of good faith and fair dealing;

(M) The issue and sale of the Securities being delivered on such Delivery Date by the Company, the compliance by the Company with all of the provisions of this Agreement and the Indenture and the consummation of the transactions contemplated hereby and thereby will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any

indenture, mortgage, deed of trust, loan agreement or other agreement or instrument known to such counsel to which the Company or any of its subsidiaries or affiliates is a party or by which the Company or any of its Subsidiaries or Affiliates is bound or to which any of the property or assets of the Company or any of its Subsidiaries or Affiliates is subject, except, where such breach, violation or default may be disclosed in the Prospectus or, singly or in the aggregate, would not or could not be reasonably be expected to have a Material Adverse Effect or would not prohibit or adversely affect the consummation of the transactions contemplated by this Agreement and the Indenture; nor will such actions result in any violation of the provisions of the charter or by-laws of the Company or any of its Subsidiaries or Affiliates or any statute or any order, rule, regulation or judgment known to such counsel of any court or governmental agency or body having jurisdiction over the Company or any of its Subsidiaries or Affiliates or any of their properties or assets; and, except for the registration of the Securities under the Securities Act and such consents, approvals, authorizations, registrations or qualifications as may be required under the Exchange Act or the Trust Indenture Act and applicable state or foreign securities laws in connection with the purchase and distribution of the Securities by the Underwriters, no consent, approval, authorization or order of, or filing or registration with, any such court or governmental agency or body is required for the execution, delivery and performance of this Agreement and the Indenture by the Company and the consummation of the transactions contemplated hereby and thereby;

(N) Neither the Company nor any subsidiary or affiliate is an "investment company" within the meaning of such term under the 1940 Act and the rules and regulations of the Commission thereunder; and

(O) The issuance or sale of the Securities and the application by the Company of the net proceeds thereof as set forth in the Prospectus will not violate Regulation G, T, U or X of the Board of Governors of the Federal Reserve System.

(ii) a letter addressed to the Underwriters and dated such Delivery Date authorizing the Underwriters to rely on the opinions expressed in the opinion letter filed as Exhibit 5.1 to the Registration Statement, subject to all of the assumptions, qualifications, limitations and exceptions set forth therein.

In rendering such opinion, such counsel may (i) state that the opinion is limited to matters governed by the federal laws of the United States of America, the laws of the State of Maryland and the laws of the Commonwealth of Virginia. Such counsel shall also have furnished to the Underwriters a written statement, addressed to the Underwriters and dated such Delivery Date, in customary form and substance satisfactory to the Underwriters, to the effect that (x) such counsel has acted as counsel to the Company in connection with the preparation of the Registration Statement, and (y) based on the foregoing, but without independent verification and subject to the information contained in the Prospectus, no facts have come to the attention of such counsel which lead them to believe that (I) the

Registration Statement, as of the Effective Date, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or that the Prospectus, as of its date and as of the Delivery Date, contained or contains any untrue statement of a material fact or omitted or omits to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading or (II) any document incorporated by reference in the Prospectus or any further amendment or supplement to any such incorporated document made by the Company prior to such Delivery Date, when they became effective or were filed with the Commission, as the case may be, contained, in the case of a registration statement which became effective under the Securities Act, any untrue statement of a

material fact or omitted to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading, or in the case of other documents which were filed under the Exchange Act with the Commission, any untrue statement of any material fact or omitted to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The foregoing opinion and statement may be qualified by statements to the effect that no opinion is expressed as to financial statements, schedules or other financial data and that such counsel does not assume any responsibility for the accuracy, completeness or fairness of any statements, financial or otherwise, contained in the Registration Statement or the Prospectus except as expressly provided in Sections 7(d)(i)(H) and 7(d)(i)(F) herein.

(e) With respect to the letter of KPMG Peat Marwick delivered to the Underwriters concurrently with the execution of this Agreement (the "initial letter"), the Company shall have furnished to the Underwriters a letter (the "bring-down letter") of such accountants, addressed to the Underwriters and dated the Delivery Date, (i) confirming that they are independent public accountants within the meaning of the Securities Act and are in compliance with the applicable requirements relating to the qualification of accountants under Rule 2-01 of Regulation S-X of the Commission, (ii) stating, as of the date of the bring-down letter (or, with respect to matters involving changes or developments since the respective dates as of which specified financial information is given in the Prospectus, including any amendment or supplement thereto, as of a date not more than three days prior to the date of the bring-down letter), the conclusions and findings of such firm with respect to the financial information and other matters covered by the initial letter delivered and (iii) confirming in all material respects the conclusions and findings set forth in the initial letter.

(f) The Company shall have furnished to the Underwriters a certificate, dated the Delivery Date, of its Chairman of the Board, its President or a Vice President and chief financial officers stating that:

(i) The representations, warranties and agreements of the Company in Section 1 are true and correct as of such Delivery Date; the Company has complied with all its agreements contained herein; and the conditions set forth in Sections 7(a), 7(g) and 7(i) have been fulfilled;

(ii) No stop order suspending the effectiveness of the Registration Statement, as amended, and no proceedings for that purpose have been initiated or, to the knowledge of the undersigned, threatened by the Commission as of the date hereof; and

(iii) They have carefully examined the Registration Statement and the Prospectus, including any amendments or supplements thereto, and, in their opinion (A) as of the Effective Date, the Registration Statement and Prospectus, including any amendments or supplements thereto, and the documents incorporated by reference therein, did not include any untrue statement of a material fact and did not

14

omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (B) since the Effective Date, no event has occurred which should have been set forth in a supplement or amendment to the Registration Statement or Prospectus, and the documents incorporated by reference therein, which has not been set forth in the Prospectus, as amended or supplemented.

(g) (i) Neither the Company nor any of its subsidiaries or affiliates shall have sustained since the date of the latest audited financial statements included or incorporated by reference in the Prospectus, or any amendment or supplement thereto, any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise

than as set forth or contemplated in the Prospectus, or any amendment or supplement thereto, or (ii) since such date there shall not have been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or affiliates or any change, in or affecting the general affairs, management, financial position, stockholders' equity or results of operations of the Company and its subsidiaries and affiliates otherwise than as set forth or contemplated in the Prospectus, or any amendment or supplement thereto, the effect of which, in any such case described in clause (i) or (ii), is, in the judgment of the Underwriters, so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Securities being delivered on the Delivery Date on the terms and in the manner contemplated herein or in the Prospectus, or any amendment or supplement thereto.

(h) Subsequent to the execution and delivery of this Agreement there shall not have occurred any of the following: (i) trading in securities generally on the New York Stock Exchange, Inc. (the "NYSE"), the American Stock Exchange or the over-the-counter market shall have been suspended or minimum prices shall have been established on either of such exchanges or such market by the Commission, by such exchange or by any other regulatory body or governmental authority having jurisdiction, (ii) a banking moratorium shall have been declared by federal or state authorities, (iii) the United States shall have become engaged in hostilities, there shall have been an escalation in hostilities involving the United States or there shall have been a declaration of a national emergency or war by the United States or (iv) there shall have occurred such a material adverse change in general economic, political or financial conditions (or the effect of international conditions on the financial markets in the United States shall be such) as to make it, in the judgment of a majority in interest of the several Underwriters, impracticable or inadvisable to proceed with the public offering or delivery of the Securities being delivered on such Delivery Date on the terms and in the manner contemplated by the Prospectus or any amendment or supplement thereto.

(i) Subsequent to the execution and delivery of this Agreement, (i) no downgrading shall have occurred in the rating accorded the Company's debt securities by any nationally recognized statistical rating organization" as that term is defined by the Commission for purposes of Rule 436(g)(2) of the Rules and Regulations, and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities.

All opinions, letters, evidence and certificates mentioned above or elsewhere in this Agreement shall be deemed to be in compliance with the provisions hereof only if they are in form and substance reasonably satisfactory to Simpson Thacher & Bartlett, counsel for the Underwriters.

15

8. Indemnification and Contribution.

(a) The Company shall indemnify and hold harmless each Underwriter, each of its directors, officers and employees, and each person, if any, who controls any Underwriter within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof (including, but not limited to, any loss, claim, damage, liability or action relating to purchases and sales of Securities), to which that Underwriter, or any such director, officer, employee or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and shall reimburse each Underwriter and each such director, officer, employee or controlling person promptly upon demand for any legal or other expenses reasonably incurred by that Underwriter or such director, officer, employee or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of, or is based upon, any untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company through PaineWebber by or on behalf of any Underwriter specifically for inclusion therein; and provided further, that such indemnity shall not inure to the benefit of any Underwriter or any director, officer, employee or controlling person thereof on account of any loss, claim, damage, liability or action asserted by a purchaser of Securities

from such Underwriter if such Underwriter failed to provide a copy of the Prospectus, or any amendment or supplement, to such purchaser within the time required by the Securities Act, and the untrue statement or alleged untrue statement or any amendment or supplement thereto omission or alleged omission shall have been corrected in the Prospectus, or such amendment or supplement unless such failure resulted from non-compliance by the Company with Section 5(c) hereof. For purposes of the last proviso to the immediately preceding sentence, the term "Prospectus" shall not be deemed to include the documents incorporated therein by reference, and no Underwriter shall be obligated to send or give any supplement or amendment to any document incorporated by reference in any Preliminary Prospectus or the Prospectus to any person other than a person to whom such Underwriter had delivered such incorporated document or documents in response to a written request therefor. The foregoing indemnity agreement is in addition to any liability which the Company may otherwise have to any Underwriter or to any director, officer, employee or controlling person of that Underwriter.

(b) Each Underwriter, severally and not jointly, shall indemnify and hold harmless the Company, each of its directors, each of its officers who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of the Securities Act, from and against any loss, claim, damage or liability, joint or several, or any action in respect thereof, to which the Company or any such director, officer or controlling person may become subject, under the Securities Act or otherwise, insofar as such loss, claim, damage, liability or action arises out of, or is based upon, (i) any untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus or in any amendment or supplement thereto or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, but in each case only to the extent that the untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company through PaineWebber by or on behalf of that Underwriter specifically for inclusion therein, and shall reimburse the Company and any such director, officer or controlling person for any legal or other expenses reasonably incurred by the Company or any such director, officer or controlling person in connection with investigating or defending or preparing to defend against any such loss, claim, damage, liability or action as such expenses are incurred. The foregoing

16

indemnity agreement is in addition to any liability which any Underwriter may otherwise have to the Company or any such director, officer or controlling person.

(c) Promptly after receipt by an indemnified party under this Section 8 of notice of any claim or the commencement of any action, the indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the claim or the commencement of that action; provided, however, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have under this Section 8 except to the extent it has been materially prejudiced by such failure and, provided further, that the failure to notify the indemnifying party shall not relieve it from any liability which it may have to an indemnified party otherwise than under this Section 8. If any such claim or action shall be brought against an indemnified party, and it shall notify the indemnifying party thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it wishes, jointly with any other similarly notified indemnifying party, to assume the defense thereof with counsel satisfactory to the indemnified party. After notice from the indemnifying party to the indemnified party of its election to assume the defense of such claim or action, the indemnifying party shall not be liable to the indemnified party under this Section 8 for any legal or other expenses subsequently incurred by the indemnified party in connection with the defense thereof other than reasonable costs of investigation; provided, however, that the Underwriters shall have the right to employ, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, a separate single firm of counsel to represent jointly the Underwriters and their respective controlling persons who may be subject to liability arising out of any claim in respect of which indemnity may be sought by the Underwriters against the Company under this Section 8 if the Underwriters shall have reasonably concluded that there may be defenses available to them which are different from or additional to those available to the Company (in which case the Company shall not have the right to direct the defense of such action on behalf of the Underwriters), and in that event the fees and expenses of such separate counsel shall be paid by the Company. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment.

Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(d) If the indemnification provided for in this Section 8 shall for any reason be unavailable to or insufficient to hold harmless an indemnified party under Section 8(a) or 8(b) in respect of any loss, claim, damage or liability, or any action in respect thereof, referred to therein, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability, or action in respect thereof, (i) in such proportion as shall be appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the

17

Underwriters on the other with respect to the statements or omissions which resulted in such loss, claim, damage or liability, or action in respect thereof, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other with respect to such offering shall be deemed to be in the same proportion as the total net proceeds from the offering of the Securities purchased under this Agreement (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters with respect to the Securities purchased under this Agreement, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this Section 8(d) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, damage or liability, or action in respect thereof, referred to above in this Section 8(d) shall be deemed to include, for purposes of this Section 8(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8(d), no Underwriter shall be required to contribute any amount in excess of the amount of the underwriting discounts and commissions received by such Underwriter; it being understood that this Section 8(d) shall not apply to the extent that a court of competent jurisdiction finds that such Underwriter has wilfully violated the provisions of the Securities Act, the Exchange Act or the rules and regulations promulgated thereunder in connection with the sale of the Securities as contemplated by this Agreement and the Indenture. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute as provided in this Section 8(d) are several in proportion to their respective underwriting obligations and not joint.

(e) The Underwriters severally confirm that the statements with respect to the public offering of the Securities set forth in the Prospectus in the first sentence of the last paragraph of text on the cover page, in the first paragraph on page S-2, concerning stabilization by the Underwriters, and in the third and last paragraphs of text under the caption "Underwriting" are correct and constitute the only information furnished in writing to the Company by or on behalf of the Underwriters specifically for inclusion in the Prospectus.

9. Defaulting Underwriters. If, on the Delivery Date, any Underwriter defaults in the performance of its obligations under this Agreement, the remaining non-defaulting Underwriters shall have the right, but shall not be obligated to purchase the Securities which the defaulting Underwriter agreed but failed to purchase on such Delivery Date. If the remaining Underwriters do not

elect to purchase the principal amount which the defaulting Underwriter or Underwriters agreed but failed to purchase, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter or the Company, except that the Company will continue to be liable for the payment of expenses to the extent set forth in Sections 6 and 11.

Nothing contained herein shall relieve a defaulting Underwriter of any liability it may have to the Company for damages caused by its default. If other Underwriters are obligated or agree to purchase the Securities of a defaulting or withdrawing Underwriter, either the other Underwriters or the Company may postpone the Delivery Date for up to seven full business days in order to effect any changes that in the opinion of counsel for the Company or counsel for the Underwriters may be necessary in the Registration Statement, the Prospectus or in any other document or arrangement.

10. Termination. The obligations of the Underwriters hereunder may be terminated by the Underwriters by notice given to and received by the Company prior to delivery of and payment for the Securities if, prior to that time, the events described in any of Section 7(g), 7(h) or

18

7(i) shall have occurred or if the Underwriters shall decline to purchase the Securities for any reason permitted under this Agreement.

11. Reimbursement of Underwriters' Expenses. If (a) the Company shall fail to tender the Securities for delivery to the Underwriters for any reason permitted under this Agreement or (b) the Underwriters shall decline to purchase the Securities for any reason permitted under this Agreement (including the termination of this Agreement pursuant to Section 10), the Company shall reimburse the Underwriters for the fees and expenses of their counsel and for such other out-of-pocket expenses as shall have been incurred by them in connection with this Agreement and the proposed purchase of the Securities, and upon demand the Company shall pay the full amount thereof to the Underwriters. If this Agreement is terminated pursuant to Section 9 or otherwise by reason of the default of one or more Underwriters, the Company shall not be obligated to reimburse any defaulting Underwriter on account of those expenses.

12. Notices, etc. All statements, requests, notices and agreements hereunder shall be in writing, and:

(a) if to the Underwriters, shall be delivered or sent by mail, telex or facsimile transmission to PaineWebber Incorporated, 1285 Avenue of the Americas, New York, New York 10019, Attention: Corporate Finance Department (facsimile number: 212-713-1054); and

(b) if to the Company, shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Registration Statement, Attention: Lynn K. Geurin (facsimile number: 804-217-5861);

provided, however, that any notice to an Underwriter pursuant to Section 8(c) shall be delivered or sent by mail, telex or facsimile transmission to PaineWebber at its address listed in this Section 12. Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof. The Company shall be entitled to act and rely upon any request, consent, notice or agreement given or made on behalf of the Underwriters by PaineWebber.

13. Persons Entitled to Benefit of Agreement. This Agreement shall inure to the benefit of and be binding upon the Underwriters and the Company and their respective successors. This Agreement and the terms and provisions hereof are for the sole benefit of only those persons, except that (A) the representations, warranties, indemnities and agreements of the Company contained in this Agreement shall also be deemed to be for the benefit of the person or persons, if any, who control any Underwriter within the meaning of Section 15 of the Securities Act and (B) the indemnity agreement of the Underwriters contained in Section 8(b) of this Agreement shall be deemed to be for the benefit of directors of the Company, officers of the Company who have signed the Registration Statement and any person controlling the Company within the meaning of Section 15 of the Securities Act. Nothing in this Agreement is intended or shall be construed to give any person, other than the persons referred to in this Section 13, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision contained herein.

14. Survival. The respective indemnities, representations, warranties and agreements of the Company and the Underwriters contained in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall survive the delivery of and payment for the Securities and shall remain in full force and effect, regardless of any investigation made by or on behalf of any of them or any person controlling any of them.

15. Definition of the Terms "Business Day" and "Subsidiary". For

purposes of this Agreement, (a) "business day" means any day on which the NYSE is open for trading and (b) "subsidiary" and "affiliate" have the respective meanings set forth in Rule 405 of the Rules and Regulations.

16. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of New York.

17. Counterparts. This Agreement may be executed in one or more counterparts and, if executed in more than one counterpart, the executed counterparts shall each be deemed to be an original but all such counterparts shall together constitute one and the same instrument.

18. Headings. The headings herein are inserted for convenience of reference only and are not intended to be part of, or to affect the meaning or interpretation of, this Agreement.

If the foregoing correctly sets forth the agreement between the Company and the Underwriters, please indicate your acceptance in the space provided for that purpose below.

Very truly yours,

DYNEX CAPITAL, INC.

By: _____
Name: _____
Title: _____

Accepted:

PAINWEBBER INCORPORATED
SMITH BARNEY INC.

By: PAINWEBBER INCORPORATED

By: _____
Authorized Representative

SCHEDULE 1

Underwriters -----	Principal Amount -----
PaineWebber Incorporated.....	\$60,000,000
Smith Barney Inc.....	40,000,000
Total.....	\$100,000,000 -----

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF CEDE & CO., AS A NOMINEE OF THE DEPOSITORY TRUST COMPANY ("DTC"). THIS GLOBAL SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN DTC OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES HEREINAFTER DESCRIBED AND MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY DTC TO A NOMINEE OF DTC, BY A NOMINEE OF DTC TO DTC OR ANOTHER NOMINEE OF DTC OR BY DTC OR ANY SUCH NOMINEE TO A SUCCESSOR TO DTC OR A NOMINEE OF SUCH SUCCESSOR TO DTC.

NEITHER THE HOLDER NOR THE BENEFICIAL OWNERS OF THIS GLOBAL SECURITY SHALL BE ENTITLED TO RECEIVE PAYMENT OF INTEREST HEREON EXCEPT PURSUANT TO THE PROVISIONS HEREOF.

Unless this Security is presented by an authorized representative of The Depository Trust Company, a New York corporation, to Dynex Capital, Inc. or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

DYNEX CAPITAL, INC.

7.875% SENIOR NOTE DUE JULY 15, 2002

No. 1

CUSIP No. 26817Q AA 8

Dynex Capital, Inc., a corporation duly organized and existing under the laws of the Commonwealth of Virginia (herein called the "Company," which term includes any successor corporation to the Indenture hereinafter referred to), for value received, hereby promises to pay to CEDE & CO., as a nominee of The Depository Trust Company ("DTC"), or its registered assigns, the principal sum of ONE HUNDRED MILLION DOLLARS (\$100,000,000) on July 15, 2002 and to pay interest thereon semi-annually in arrears on January 15 and July 15 in each year, commencing January 15, 1998, and at Maturity (each, an "Interest Payment Date") at the rate of 7.875% per annum until the principal hereof is paid or made available for payment. This Global Security shall bear interest from the most recent Interest Payment Date to which interest in respect hereof has been

2

paid, unless no interest has been paid on this Global Security, in which case from July 15, 1997. Any payment of principal or interest that is due and payable shall accrue interest, to the extent lawful, at the rate borne by this Global Security from the day after the date on which such payment becomes due and payable to the date payment has been made, compounded on a semi-annual basis.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, subject to certain exceptions provided in the Indenture referred to on the reverse hereof, be paid to the Person in whose name this Global Security is registered on the Security Register for the Securities at the close of business on the Regular Record Date immediately preceding such Interest Payment Date. The Regular Record Date with respect to any Interest Payment Date will be January 1 or July 1, as the case may be, immediately preceding such Interest Payment Date. Interest on this Global Security will be computed on the basis of a 360-day year consisting of twelve 30-day months.

If any Interest Payment Date or the Maturity Date falls on a day that is not a Business Day, the required payment shall be made on the next Business Day as if it were made on the date such payment was due and no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date or the Maturity Date, as the case may be and as provided in the Indenture.

Payment of the principal, interest and Make-Whole Amounts, if any, on this Global Security will be made at the corporate trust office of the Trustee, which as of July 21, 1997, is located at 600 Travis Street, 8th Floor, Houston, Texas 77002, or, at the option of the Holder, at the office of the Trustee in The City of New York, which as of July 21, 1997, is Texas Commerce Trust Company, 55 Water Street, North Building, Room 234, Window 20, New York, New York 10041, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

The indebtedness represented by this Global Security is, to the extent

provided in the Indenture, senior, unsecured indebtedness of the Company and ranks prior to all subordinated indebtedness of the Company and pari passu with all other unsecured indebtedness of the Company outstanding on July 21, 1997.

Reference is hereby made to the further provisions of this Global Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Global

3

Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, Company has caused this instrument to be duly executed under its corporate seal.

Dated: July 21, 1997

DYNEX CAPITAL, INC.

By: _____
Name:
Title:

Attest:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated herein and referred to in the within-mentioned Indenture.

TEXAS COMMERCE BANK NATIONAL
BANK ASSOCIATION, as Trustee

By: _____
Authorized Signatory

Date: July 21, 1997

[REVERSE OF SECURITY]

DYNEX CAPITAL, INC.

1. Indenture. This Global Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of July 14, 1997 (the "Indenture"), by and between the Company and Texas Commerce Bank National Association, as trustee (herein called the "Trustee" which term includes any successor trustee under the Indenture). The terms of the Senior Securities include those stated in the Indenture and those made a part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S. Code ss.ss. 77aaa-77bbb) as in effect on the date of the Indenture. Reference is hereby made to the Indenture and all indentures supplemental thereto and to the Trust Indenture Act for a statement of the respective rights, limitations of rights, obligations, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. All terms used in this Global Security and not otherwise defined herein which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

This Global Security is one of the series designated on the face hereof limited (except as provided in the Indenture) in aggregate principal amount to \$100,000,000 (herein called the "Senior Securities").

No reference herein to the Indenture and no provision of this Global Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest, if any, on this Global Security at the times, place and rate, if any, and in the coin or currency, herein prescribed.

2. Redemption. The Senior Securities may be redeemed at any time at the option of the Company, in whole or from time to time in part, at a redemption price payable in U.S. dollars equal to the sum of: (i) the principal amount of the Senior Securities being redeemed plus accrued interest thereon to the redemption date; and (ii) the Make-Whole Amount (as defined in the Indenture), if any, with respect to such Senior Securities (the "Redemption Price").

If notice of redemption has been given as provided in the Indenture and funds for the redemption of any Senior Securities called for redemption shall have been made available on the redemption date referred to in such notice, such Senior Securities will cease to bear interest on the date fixed for such redemption specified in such notice and the only right of the Holders of such Senior Securities from and after the redemption date will be to receive payment

2

of the Redemption Price upon surrender of such Senior Securities in accordance with such notice. Notice of any optional redemption of any Senior Securities will be given to Holders at their addresses, as shown in the Security Register for the Senior Securities, not more than 60 nor less than 30 days prior to the date fixed for redemption as defined in the Indenture. The notice of redemption will specify, among other items, the Redemption Price and principal amount of the Senior Securities held by such Holder to be redeemed. If less than all the Senior Securities are to be redeemed at the option of the Company, the Company will notify the Trustee at least 60 days prior to giving notice of redemption (or such shorter period as may be satisfactory to the Trustee) of the aggregate principal amount of Senior Securities to be redeemed and their redemption date. The Trustee shall select, in such manner as it shall deem fair and appropriate, the Senior Securities to be redeemed in whole or in part.

In the event of redemption of any Senior Securities in part only, a new Senior Security or Securities shall be issued in the name of the Holder thereof in principal amount equivalent to the unredeemed portion of the partially redeemed Senior Security, and the Senior Security to be redeemed in part shall be cancelled.

3. Repurchase at Option of Holders Upon a Change of Control Triggering Event. In accordance with the procedures set forth in the Indenture, upon the occurrence of a Change of Control Triggering Event (as defined in the Indenture), each Holder of Senior Securities will have the right, at such Holder's option, to require the Company to repurchase all of such Holder's Senior Securities, or any portion thereof that is an integral multiple of \$1,000, for cash at a repurchase price equal to 101% of the principal amount of the Senior Securities to be repurchased, together with accrued interest to the repurchase date.

4. Satisfaction and Discharge. The Indenture contains provisions for the satisfaction and discharge of the entire indebtedness of the Senior Securities upon compliance by the Company with certain conditions set forth in the Indenture.

5. Defeasance. The Indenture contains provisions for defeasance at any time of (a) the entire indebtedness of the Company under the Senior Securities and (b) certain restrictive covenants and related defaults and Events of Default, in each case upon compliance by the Company with certain conditions set forth in the Indenture.

3

6. Defaults and Remedies. If an Event of Default with respect to the Senior Securities shall occur and be continuing, then the Trustee or the Holders of not less than 25% in the aggregate principal amount of the outstanding Senior Securities may declare the principal of the Senior Securities and the accrued interest thereon, if any, to be due and payable in the manner and with the effect provided in the Indenture.

7. Amendments and Waivers. The Indenture permits, with certain exceptions as therein provided, the amendment or supplementing thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Senior Securities at any time by the Company and the Trustee with

the consent of the Holders of not less than a majority in principal amount of all outstanding Securities affected by such amendment, supplement or modification. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Senior Securities outstanding, on behalf of the Holders of all the Senior Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and the consequences of any such defaults. Any such consent or waiver shall be conclusive and binding upon the Holders and upon all future Holders of this Global Security and of any Senior Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Global Security.

8. Denominations, Transfer and Exchange. The Senior Securities are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof (except for Senior Securities issued in global form, which may be of any denomination).

This Global Security shall be exchangeable only as provided in this paragraph and as provided in the Indenture. This Global Security may be transferred, in whole but not in part, only to a nominee of DTC, or by a nominee of DTC to DTC, or to a successor to DTC for this Global Security selected or approved by the Company or to a nominee of such successor to DTC. This Global Security shall be exchangeable for Senior Securities registered in the names of Persons other than DTC or its nominee if (x) DTC notifies the Company that it is unwilling or unable to continue as depositary for the Senior Securities or at any time ceases to be a clearing agency registered as such under the Securities Exchange Act of 1934, as amended, and the successor depositary for such series is not appointed by the Company within 90 days after the Company receives notice or becomes aware of such unwillingness, inability or ineligibility, (y) there shall have occurred and be continuing an Event of Default and the beneficial owners representing a majority in principal amount of the Senior

4

Securities represented by this Global Security advise DTC to cease acting as depositary for such Senior Securities, or (z) the Company, in its sole discretion, notifies DTC in writing at any time that all Senior Securities (but not less than all) shall no longer be represented by this Global Security. Senior Securities so issued in exchange for this Global Security shall be of the same series, having the same terms as this Global Security, and in the aggregate have the same principal amount as this Global Security and shall be registered in such names as DTC shall direct.

As provided in the Indenture and subject to certain limitations set forth therein, every Senior Security presented or surrendered for registration of transfer or for exchange or redemption shall (if so required by the Company or the Security Registrar) be duly endorsed, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing, and thereupon one or more new Senior Securities, of any authorized denominations and of a like aggregate principal amount, and containing identical terms and provisions as such Senior Security, will be issued to the designated transferee or transferees.

No service charge shall be made for any such registration of transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith, as provided in and subject to the limitations set forth in the Indenture.

9. Persons Deemed Owners. Prior to due presentment of any Senior Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Senior Security is registered as the owner thereof for all purposes, whether or not such Senior Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

10. No Recourse Against Others. No recourse shall be had, directly or indirectly, for the payment of the principal or interest, if any, on the Senior Securities, or for any claim based thereon, or otherwise in respect of any Senior Security, or based on or in respect of the Indenture or any indenture supplemental thereto, against any incorporator, or against any past, present or future stockholder, director or officer, as such, of the Company or the Trustee, or of any successor of the Company or the Trustee, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being expressly waived and released.

11. GOVERNING LAW. THIS GLOBAL SECURITY SHALL BE GOVERNED BY AND
CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF CEDE & CO., AS A NOMINEE OF THE DEPOSITORY TRUST COMPANY ("DTC"). THIS GLOBAL SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN DTC OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES HEREINAFTER DESCRIBED AND MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY DTC TO A NOMINEE OF DTC, BY A NOMINEE OF DTC TO DTC OR ANOTHER NOMINEE OF DTC OR BY DTC OR ANY SUCH NOMINEE TO A SUCCESSOR TO DTC OR A NOMINEE OF SUCH SUCCESSOR TO DTC.

NEITHER THE HOLDER NOR THE BENEFICIAL OWNERS OF THIS GLOBAL SECURITY SHALL BE ENTITLED TO RECEIVE PAYMENT OF INTEREST HEREON EXCEPT PURSUANT TO THE PROVISIONS HEREOF.

Unless this Security is presented by an authorized representative of The Depository Trust Company, a New York corporation, to Dynex Capital, Inc. or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

DYNEX CAPITAL, INC.

7.875% SENIOR NOTE DUE JULY 15, 2002

No. 1

CUSIP No. 26817Q AA 8

Dynex Capital, Inc., a corporation duly organized and existing under the laws of the Commonwealth of Virginia (herein called the "Company," which term includes any successor corporation to the Indenture hereinafter referred to), for value received, hereby promises to pay to CEDE & CO., as a nominee of The Depository Trust Company ("DTC"), or its registered assigns, the principal sum of ONE HUNDRED MILLION DOLLARS (\$100,000,000) on July 15, 2002 and to pay interest thereon semi-annually in arrears on January 15 and July 15 in each year, commencing January 15, 1998, and at Maturity (each, an "Interest Payment Date") at the rate of 7.875% per annum until the principal hereof is paid or made available for payment. This Global Security shall bear interest from the most recent Interest Payment Date to which interest in respect hereof has been

2

paid, unless no interest has been paid on this Global Security, in which case from July 15, 1997. Any payment of principal or interest that is due and payable shall accrue interest, to the extent lawful, at the rate borne by this Global Security from the day after the date on which such payment becomes due and payable to the date payment has been made, compounded on a semi-annual basis.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, subject to certain exceptions provided in the Indenture referred to on the reverse hereof, be paid to the Person in whose name this Global Security is registered on the Security Register for the Securities at the close of business on the Regular Record Date immediately preceding such Interest Payment Date. The Regular Record Date with respect to any Interest Payment Date will be January 1 or July 1, as the case may be, immediately preceding such Interest Payment Date. Interest on this Global Security will be computed on the basis of a 360-day year consisting of twelve 30-day months.

If any Interest Payment Date or the Maturity Date falls on a day that is not a Business Day, the required payment shall be made on the next Business Day as if it were made on the date such payment was due and no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date or the Maturity Date, as the case may be and as provided in the Indenture.

Payment of the principal, interest and Make-Whole Amounts, if any, on this Global Security will be made at the corporate trust office of the Trustee, which as of July 21, 1997, is located at 600 Travis Street, 8th Floor, Houston, Texas 77002, or, at the option of the Holder, at the office of the Trustee in The City of New York, which as of July 21, 1997, is Texas Commerce Trust Company, 55 Water Street, North Building, Room 234, Window 20, New York, New York 10041, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

The indebtedness represented by this Global Security is, to the extent

provided in the Indenture, senior, unsecured indebtedness of the Company and ranks prior to all subordinated indebtedness of the Company and pari passu with all other unsecured indebtedness of the Company outstanding on July 21, 1997.

Reference is hereby made to the further provisions of this Global Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Global

3

Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, Company has caused this instrument to be duly executed under its corporate seal.

Dated: July 21, 1997

DYNEX CAPITAL, INC.

By: _____
Name:
Title:

Attest:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated herein and referred to in the within-mentioned Indenture.

TEXAS COMMERCE BANK NATIONAL
BANK ASSOCIATION, as Trustee

By: _____
Authorized Signatory

Date: July 21, 1997

[REVERSE OF SECURITY]

DYNEX CAPITAL, INC.

1. Indenture. This Global Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of July 14, 1997 (the "Indenture"), by and between the Company and Texas Commerce Bank National Association, as trustee (herein called the "Trustee" which term includes any successor trustee under the Indenture). The terms of the Senior Securities include those stated in the Indenture and those made a part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S. Code ss.ss. 77aaa-77bbb) as in effect on the date of the Indenture. Reference is hereby made to the Indenture and all indentures supplemental thereto and to the Trust Indenture Act for a statement of the respective rights, limitations of rights, obligations, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. All terms used in this Global Security and not otherwise defined herein which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

This Global Security is one of the series designated on the face hereof limited (except as provided in the Indenture) in aggregate principal amount to \$100,000,000 (herein called the "Senior Securities").

No reference herein to the Indenture and no provision of this Global Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest, if any, on this Global Security at the times, place and rate, if any, and in the coin or currency, herein prescribed.

2. Redemption. The Senior Securities may be redeemed at any time at the option of the Company, in whole or from time to time in part, at a redemption price payable in U.S. dollars equal to the sum of: (i) the principal amount of the Senior Securities being redeemed plus accrued interest thereon to the redemption date; and (ii) the Make-Whole Amount (as defined in the Indenture), if any, with respect to such Senior Securities (the "Redemption Price").

If notice of redemption has been given as provided in the Indenture and funds for the redemption of any Senior Securities called for redemption shall have been made available on the redemption date referred to in such notice, such Senior Securities will cease to bear interest on the date fixed for such redemption specified in such notice and the only right of the Holders of such Senior Securities from and after the redemption date will be to receive payment

2

of the Redemption Price upon surrender of such Senior Securities in accordance with such notice. Notice of any optional redemption of any Senior Securities will be given to Holders at their addresses, as shown in the Security Register for the Senior Securities, not more than 60 nor less than 30 days prior to the date fixed for redemption as defined in the Indenture. The notice of redemption will specify, among other items, the Redemption Price and principal amount of the Senior Securities held by such Holder to be redeemed. If less than all the Senior Securities are to be redeemed at the option of the Company, the Company will notify the Trustee at least 60 days prior to giving notice of redemption (or such shorter period as may be satisfactory to the Trustee) of the aggregate principal amount of Senior Securities to be redeemed and their redemption date. The Trustee shall select, in such manner as it shall deem fair and appropriate, the Senior Securities to be redeemed in whole or in part.

In the event of redemption of any Senior Securities in part only, a new Senior Security or Securities shall be issued in the name of the Holder thereof in principal amount equivalent to the unredeemed portion of the partially redeemed Senior Security, and the Senior Security to be redeemed in part shall be cancelled.

3. Repurchase at Option of Holders Upon a Change of Control Triggering Event. In accordance with the procedures set forth in the Indenture, upon the occurrence of a Change of Control Triggering Event (as defined in the Indenture), each Holder of Senior Securities will have the right, at such Holder's option, to require the Company to repurchase all of such Holder's Senior Securities, or any portion thereof that is an integral multiple of \$1,000, for cash at a repurchase price equal to 101% of the principal amount of the Senior Securities to be repurchased, together with accrued interest to the repurchase date.

4. Satisfaction and Discharge. The Indenture contains provisions for the satisfaction and discharge of the entire indebtedness of the Senior Securities upon compliance by the Company with certain conditions set forth in the Indenture.

5. Defeasance. The Indenture contains provisions for defeasance at any time of (a) the entire indebtedness of the Company under the Senior Securities and (b) certain restrictive covenants and related defaults and Events of Default, in each case upon compliance by the Company with certain conditions set forth in the Indenture.

3

6. Defaults and Remedies. If an Event of Default with respect to the Senior Securities shall occur and be continuing, then the Trustee or the Holders of not less than 25% in the aggregate principal amount of the outstanding Senior Securities may declare the principal of the Senior Securities and the accrued interest thereon, if any, to be due and payable in the manner and with the effect provided in the Indenture.

7. Amendments and Waivers. The Indenture permits, with certain exceptions as therein provided, the amendment or supplementing thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Senior Securities at any time by the Company and the Trustee with

the consent of the Holders of not less than a majority in principal amount of all outstanding Securities affected by such amendment, supplement or modification. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Senior Securities outstanding, on behalf of the Holders of all the Senior Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and the consequences of any such defaults. Any such consent or waiver shall be conclusive and binding upon the Holders and upon all future Holders of this Global Security and of any Senior Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Global Security.

8. Denominations, Transfer and Exchange. The Senior Securities are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof (except for Senior Securities issued in global form, which may be of any denomination).

This Global Security shall be exchangeable only as provided in this paragraph and as provided in the Indenture. This Global Security may be transferred, in whole but not in part, only to a nominee of DTC, or by a nominee of DTC to DTC, or to a successor to DTC for this Global Security selected or approved by the Company or to a nominee of such successor to DTC. This Global Security shall be exchangeable for Senior Securities registered in the names of Persons other than DTC or its nominee if (x) DTC notifies the Company that it is unwilling or unable to continue as depositary for the Senior Securities or at any time ceases to be a clearing agency registered as such under the Securities Exchange Act of 1934, as amended, and the successor depositary for such series is not appointed by the Company within 90 days after the Company receives notice or becomes aware of such unwillingness, inability or ineligibility, (y) there shall have occurred and be continuing an Event of Default and the beneficial owners representing a majority in principal amount of the Senior

4

Securities represented by this Global Security advise DTC to cease acting as depositary for such Senior Securities, or (z) the Company, in its sole discretion, notifies DTC in writing at any time that all Senior Securities (but not less than all) shall no longer be represented by this Global Security. Senior Securities so issued in exchange for this Global Security shall be of the same series, having the same terms as this Global Security, and in the aggregate have the same principal amount as this Global Security and shall be registered in such names as DTC shall direct.

As provided in the Indenture and subject to certain limitations set forth therein, every Senior Security presented or surrendered for registration of transfer or for exchange or redemption shall (if so required by the Company or the Security Registrar) be duly endorsed, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing, and thereupon one or more new Senior Securities, of any authorized denominations and of a like aggregate principal amount, and containing identical terms and provisions as such Senior Security, will be issued to the designated transferee or transferees.

No service charge shall be made for any such registration of transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith, as provided in and subject to the limitations set forth in the Indenture.

9. Persons Deemed Owners. Prior to due presentment of any Senior Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Senior Security is registered as the owner thereof for all purposes, whether or not such Senior Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

10. No Recourse Against Others. No recourse shall be had, directly or indirectly, for the payment of the principal or interest, if any, on the Senior Securities, or for any claim based thereon, or otherwise in respect of any Senior Security, or based on or in respect of the Indenture or any indenture supplemental thereto, against any incorporator, or against any past, present or future stockholder, director or officer, as such, of the Company or the Trustee, or of any successor of the Company or the Trustee, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being expressly waived and released.

11. GOVERNING LAW. THIS GLOBAL SECURITY SHALL BE GOVERNED BY AND
CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF CEDE & CO., AS A NOMINEE OF THE DEPOSITORY TRUST COMPANY ("DTC"). THIS GLOBAL SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN DTC OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES HEREINAFTER DESCRIBED AND MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY DTC TO A NOMINEE OF DTC, BY A NOMINEE OF DTC TO DTC OR ANOTHER NOMINEE OF DTC OR BY DTC OR ANY SUCH NOMINEE TO A SUCCESSOR TO DTC OR A NOMINEE OF SUCH SUCCESSOR TO DTC.

NEITHER THE HOLDER NOR THE BENEFICIAL OWNERS OF THIS GLOBAL SECURITY SHALL BE ENTITLED TO RECEIVE PAYMENT OF INTEREST HEREON EXCEPT PURSUANT TO THE PROVISIONS HEREOF.

Unless this Security is presented by an authorized representative of The Depository Trust Company, a New York corporation, to Dynex Capital, Inc. or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.

DYNEX CAPITAL, INC.

7.875% SENIOR NOTE DUE JULY 15, 2002

No. 1

CUSIP No. 26817Q AA 8

Dynex Capital, Inc., a corporation duly organized and existing under the laws of the Commonwealth of Virginia (herein called the "Company," which term includes any successor corporation to the Indenture hereinafter referred to), for value received, hereby promises to pay to CEDE & CO., as a nominee of The Depository Trust Company ("DTC"), or its registered assigns, the principal sum of ONE HUNDRED MILLION DOLLARS (\$100,000,000) on July 15, 2002 and to pay interest thereon semi-annually in arrears on January 15 and July 15 in each year, commencing January 15, 1998, and at Maturity (each, an "Interest Payment Date") at the rate of 7.875% per annum until the principal hereof is paid or made available for payment. This Global Security shall bear interest from the most recent Interest Payment Date to which interest in respect hereof has been

2

paid, unless no interest has been paid on this Global Security, in which case from July 15, 1997. Any payment of principal or interest that is due and payable shall accrue interest, to the extent lawful, at the rate borne by this Global Security from the day after the date on which such payment becomes due and payable to the date payment has been made, compounded on a semi-annual basis.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, subject to certain exceptions provided in the Indenture referred to on the reverse hereof, be paid to the Person in whose name this Global Security is registered on the Security Register for the Securities at the close of business on the Regular Record Date immediately preceding such Interest Payment Date. The Regular Record Date with respect to any Interest Payment Date will be January 1 or July 1, as the case may be, immediately preceding such Interest Payment Date. Interest on this Global Security will be computed on the basis of a 360-day year consisting of twelve 30-day months.

If any Interest Payment Date or the Maturity Date falls on a day that is not a Business Day, the required payment shall be made on the next Business Day as if it were made on the date such payment was due and no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date or the Maturity Date, as the case may be and as provided in the Indenture.

Payment of the principal, interest and Make-Whole Amounts, if any, on this Global Security will be made at the corporate trust office of the Trustee, which as of July 21, 1997, is located at 600 Travis Street, 8th Floor, Houston, Texas 77002, or, at the option of the Holder, at the office of the Trustee in The City of New York, which as of July 21, 1997, is Texas Commerce Trust Company, 55 Water Street, North Building, Room 234, Window 20, New York, New York 10041, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

The indebtedness represented by this Global Security is, to the extent

provided in the Indenture, senior, unsecured indebtedness of the Company and ranks prior to all subordinated indebtedness of the Company and pari passu with all other unsecured indebtedness of the Company outstanding on July 21, 1997.

Reference is hereby made to the further provisions of this Global Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Global

3

Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, Company has caused this instrument to be duly executed under its corporate seal.

Dated: July 21, 1997

DYNEX CAPITAL, INC.

By: _____
Name:
Title:

Attest:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated herein and referred to in the within-mentioned Indenture.

TEXAS COMMERCE BANK NATIONAL
BANK ASSOCIATION, as Trustee

By: _____
Authorized Signatory

Date: July 21, 1997

[REVERSE OF SECURITY]

DYNEX CAPITAL, INC.

1. Indenture. This Global Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of July 14, 1997 (the "Indenture"), by and between the Company and Texas Commerce Bank National Association, as trustee (herein called the "Trustee" which term includes any successor trustee under the Indenture). The terms of the Senior Securities include those stated in the Indenture and those made a part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S. Code ss.ss. 77aaa-77bbb) as in effect on the date of the Indenture. Reference is hereby made to the Indenture and all indentures supplemental thereto and to the Trust Indenture Act for a statement of the respective rights, limitations of rights, obligations, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. All terms used in this Global Security and not otherwise defined herein which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

This Global Security is one of the series designated on the face hereof limited (except as provided in the Indenture) in aggregate principal amount to \$100,000,000 (herein called the "Senior Securities").

No reference herein to the Indenture and no provision of this Global Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest, if any, on this Global Security at the times, place and rate, if any, and in the coin or currency, herein prescribed.

2. Redemption. The Senior Securities may be redeemed at any time at the option of the Company, in whole or from time to time in part, at a redemption price payable in U.S. dollars equal to the sum of: (i) the principal amount of the Senior Securities being redeemed plus accrued interest thereon to the redemption date; and (ii) the Make-Whole Amount (as defined in the Indenture), if any, with respect to such Senior Securities (the "Redemption Price").

If notice of redemption has been given as provided in the Indenture and funds for the redemption of any Senior Securities called for redemption shall have been made available on the redemption date referred to in such notice, such Senior Securities will cease to bear interest on the date fixed for such redemption specified in such notice and the only right of the Holders of such Senior Securities from and after the redemption date will be to receive payment

2

of the Redemption Price upon surrender of such Senior Securities in accordance with such notice. Notice of any optional redemption of any Senior Securities will be given to Holders at their addresses, as shown in the Security Register for the Senior Securities, not more than 60 nor less than 30 days prior to the date fixed for redemption as defined in the Indenture. The notice of redemption will specify, among other items, the Redemption Price and principal amount of the Senior Securities held by such Holder to be redeemed. If less than all the Senior Securities are to be redeemed at the option of the Company, the Company will notify the Trustee at least 60 days prior to giving notice of redemption (or such shorter period as may be satisfactory to the Trustee) of the aggregate principal amount of Senior Securities to be redeemed and their redemption date. The Trustee shall select, in such manner as it shall deem fair and appropriate, the Senior Securities to be redeemed in whole or in part.

In the event of redemption of any Senior Securities in part only, a new Senior Security or Securities shall be issued in the name of the Holder thereof in principal amount equivalent to the unredeemed portion of the partially redeemed Senior Security, and the Senior Security to be redeemed in part shall be cancelled.

3. Repurchase at Option of Holders Upon a Change of Control Triggering Event. In accordance with the procedures set forth in the Indenture, upon the occurrence of a Change of Control Triggering Event (as defined in the Indenture), each Holder of Senior Securities will have the right, at such Holder's option, to require the Company to repurchase all of such Holder's Senior Securities, or any portion thereof that is an integral multiple of \$1,000, for cash at a repurchase price equal to 101% of the principal amount of the Senior Securities to be repurchased, together with accrued interest to the repurchase date.

4. Satisfaction and Discharge. The Indenture contains provisions for the satisfaction and discharge of the entire indebtedness of the Senior Securities upon compliance by the Company with certain conditions set forth in the Indenture.

5. Defeasance. The Indenture contains provisions for defeasance at any time of (a) the entire indebtedness of the Company under the Senior Securities and (b) certain restrictive covenants and related defaults and Events of Default, in each case upon compliance by the Company with certain conditions set forth in the Indenture.

3

6. Defaults and Remedies. If an Event of Default with respect to the Senior Securities shall occur and be continuing, then the Trustee or the Holders of not less than 25% in the aggregate principal amount of the outstanding Senior Securities may declare the principal of the Senior Securities and the accrued interest thereon, if any, to be due and payable in the manner and with the effect provided in the Indenture.

7. Amendments and Waivers. The Indenture permits, with certain exceptions as therein provided, the amendment or supplementing thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Senior Securities at any time by the Company and the Trustee with

the consent of the Holders of not less than a majority in principal amount of all outstanding Securities affected by such amendment, supplement or modification. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Senior Securities outstanding, on behalf of the Holders of all the Senior Securities, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and the consequences of any such defaults. Any such consent or waiver shall be conclusive and binding upon the Holders and upon all future Holders of this Global Security and of any Senior Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Global Security.

8. Denominations, Transfer and Exchange. The Senior Securities are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof (except for Senior Securities issued in global form, which may be of any denomination).

This Global Security shall be exchangeable only as provided in this paragraph and as provided in the Indenture. This Global Security may be transferred, in whole but not in part, only to a nominee of DTC, or by a nominee of DTC to DTC, or to a successor to DTC for this Global Security selected or approved by the Company or to a nominee of such successor to DTC. This Global Security shall be exchangeable for Senior Securities registered in the names of Persons other than DTC or its nominee if (x) DTC notifies the Company that it is unwilling or unable to continue as depositary for the Senior Securities or at any time ceases to be a clearing agency registered as such under the Securities Exchange Act of 1934, as amended, and the successor depositary for such series is not appointed by the Company within 90 days after the Company receives notice or becomes aware of such unwillingness, inability or ineligibility, (y) there shall have occurred and be continuing an Event of Default and the beneficial owners representing a majority in principal amount of the Senior

4

Securities represented by this Global Security advise DTC to cease acting as depositary for such Senior Securities, or (z) the Company, in its sole discretion, notifies DTC in writing at any time that all Senior Securities (but not less than all) shall no longer be represented by this Global Security. Senior Securities so issued in exchange for this Global Security shall be of the same series, having the same terms as this Global Security, and in the aggregate have the same principal amount as this Global Security and shall be registered in such names as DTC shall direct.

As provided in the Indenture and subject to certain limitations set forth therein, every Senior Security presented or surrendered for registration of transfer or for exchange or redemption shall (if so required by the Company or the Security Registrar) be duly endorsed, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing, and thereupon one or more new Senior Securities, of any authorized denominations and of a like aggregate principal amount, and containing identical terms and provisions as such Senior Security, will be issued to the designated transferee or transferees.

No service charge shall be made for any such registration of transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith, as provided in and subject to the limitations set forth in the Indenture.

9. Persons Deemed Owners. Prior to due presentment of any Senior Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Senior Security is registered as the owner thereof for all purposes, whether or not such Senior Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

10. No Recourse Against Others. No recourse shall be had, directly or indirectly, for the payment of the principal or interest, if any, on the Senior Securities, or for any claim based thereon, or otherwise in respect of any Senior Security, or based on or in respect of the Indenture or any indenture supplemental thereto, against any incorporator, or against any past, present or future stockholder, director or officer, as such, of the Company or the Trustee, or of any successor of the Company or the Trustee, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being expressly waived and released.

11. GOVERNING LAW. THIS GLOBAL SECURITY SHALL BE GOVERNED BY AND
CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

July 14, 1997

Dynex Capital, Inc.
10900 Nuckols Road
Glen Allen, VA 23060

Re: Registration Statement on Form S-3
(Reg. No. 333-10783)

Ladies and Gentlemen:

We have acted as counsel to Dynex Capital, Inc., a Virginia corporation (the "Company"), in connection with its proposed public offering of \$100,000,000 aggregate principal amount of Notes pursuant to a Registration Statement filed on Form S-3 (Registration No. 333-10783) ("Registration Statement"). On July 14, 1997 the Company filed a Prospectus and a Prospectus Supplement thereto (the "Prospectus") with the Securities and Exchange Commission with respect to the offer and sale of the Notes.

In that connection, we have examined originals or copies of such documents, corporate records and other instruments as we have deemed necessary or appropriate for purposes of this opinion including the Articles of Incorporation, as amended, Bylaws of the Company, the Indenture governing the Notes and the proposed Board of Directors resolutions which establish the terms of the Notes. We have assumed without independent verification the genuineness of signatures, the authenticity of documents, and the conformity with originals of copies.

Based on the foregoing, we are of the opinion that the Notes being sold by the Company, when issued and sold in accordance with the terms of the Underwriting Agreement in substantially the same form filed as Exhibit 1.1 to the Form 8-K filed by the Company with Securities and Exchange Commission in connection with the offer and sale of the Notes (the "Form 8-K"), will be binding obligations of the Company.

Dynex Capital, Inc.

July 14, 1997
Page 2

We are members of the Bars of the State of Maryland and the Commonwealth of Virginia and the opinions expressed herein are limited to the corporate laws of such States pertaining to such matters as the issuance of securities and the incurrence of indebtedness, but not including the "securities" or "Blue Sky" laws of such States.

You may rely on this opinion in connection with the sale of the Notes pursuant to the Registration Statement and Prospectus. No other person may rely on this opinion without our prior written consent.

We hereby consent to the use of this opinion as an exhibit to the Form 8-K and incorporation by reference thereof into the Registration Statement and to the reference to our firm under "Legal Opinions" in the Prospectus and "Legal Matters" in the Preliminary Prospectus Supplement comprising a part of the Registration Statement.

By giving the foregoing consent, we do not admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933.

Very truly yours,

VENABLE, BAETJER AND HOWARD, LLP

July 16, 1997

Dynex Capital, Inc.
10900 Nuckols Road
Glen Allen, Virginia 23060

Re: Tax Opinion

Ladies and Gentlemen:

We have acted as counsel to Dynex Capital, Inc. ("Dynex"), in connection with the preparation of a registration statement (the "Registration Statement") to be filed with the Securities and Exchange Commission with respect to an offering of Senior Notes (the "Notes") by Dynex. You have requested our opinion regarding Dynex's qualification as a real estate investment trust ("REIT") pursuant to sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), for its 1996 taxable year. Unless otherwise stated, all section references herein are to the Code. In addition, you have requested our opinion with respect to whether Dynex's organization and contemplated method of operations are such as to enable it to continue to qualify as a REIT for its 1997 taxable year and subsequent taxable years.

Dynex has a number of wholly-owned subsidiaries ("qualified REIT subsidiaries"), the income, liabilities, and assets of which are consolidated with those of Dynex for federal income tax purposes. This letter refers to Dynex, together with such subsidiaries, as "Consolidated Dynex." In connection with the opinions rendered below, we have examined the following:

1. The Articles of Incorporation of Dynex, as amended;
2. The bylaws of Dynex as restated on June 22, 1992;
3. Consolidated Dynex's federal income tax returns for its taxable years 1994 and 1995; and
4. The prospectus included in the registration statement to which this letter will be filed as an exhibit.

Dynex Capital, Inc.
July 16, 1997
Page 2

In connection with the opinions rendered below, we have assumed that:

1. Each of the documents referred to above has been duly authorized, executed, and delivered, is authentic, if an original, or accurate, if a copy, and has not been amended;
2. During Consolidated Dynex's 1997 taxable year and subsequent taxable years, it will continue to conduct its affairs in a manner that will make the representations set forth below true for such years;
3. Neither Dynex nor any subsidiary of Dynex will make any amendments to its organizational documents after the date of this opinion that would affect Consolidated Dynex's qualification as a REIT for any taxable year; and
4. No actions will be taken by Consolidated Dynex or any subsidiary of Dynex after the date hereof that would have the effect of altering the facts upon which the opinions set forth below are based.

Furthermore, we have relied upon the correctness of the following representations of Consolidated Dynex and its authorized representatives that, at all times relevant hereto:

From the date Dynex and Consolidated Dynex were organized through the date hereof:

1. Neither Dynex nor any subsidiary thereof has ever been subject by law to the supervision or examination by state, or federal authorities having supervision over banking institutions.
2. Neither Dynex nor any subsidiary thereof has ever been a savings institution chartered or supervised as a savings and loan or similar association under federal or state law.

3. Neither Dynex nor any subsidiary thereof has ever been a small business investment company operating under the Small Business Investment Act of 1958.

Dynex Capital, Inc.
July 16, 1997
Page 3

4. Neither Dynex nor any subsidiary thereof was created by or pursuant to an act of a state legislature for purposes of promoting, maintaining, and assisting the economy and industry within a state on a regional or state-wide basis by making loans to be used in trades or businesses which would generally not be made by banks within such region or state in the ordinary course of business.

5. Neither Dynex nor any subsidiary thereof was an insurance company to which Subchapter L of the Code applies.

6. Beneficial ownership of the shares of Dynex (the "Shares") was held by 100 or more persons.

7. Dynex is a self-managed entity and its Shares, subject to certain excess share limitations, are transferable.

8. At no time during the last half of any taxable year was more than 50% in value of the outstanding stock of Dynex owned, directly or indirectly, by or for five or fewer individuals. For this purpose, the Shares are treated as owned indirectly by or for an individual if such individual would be treated as owning such Shares under section 544 as modified by section 856(h).

9. Consolidated Dynex's election to be treated as a REIT was properly made, has not been revoked, and Dynex has not been notified that such election has been terminated.

10. At the close of each quarter of each taxable year seventy-five percent (75%) or more of the value of Consolidated Dynex's total assets consisted of cash and cash items (including receivables arising in the ordinary course of Consolidated Dynex's operations), government securities, and real estate assets (including interests in real property, interests in mortgages on real property, and interests in REMICs to the extent provided in section 856(c)(6)(E)), and shares or transferable certificates of beneficial interest in other qualified REITs) (the "75% test").

11. With respect to any consumer installment loans on manufactured housing, which are assets of Consolidated Dynex as described in paragraph 10 immediately

Dynex Capital, Inc.
July 16, 1997
Page 4

above, that the associated manufactured housing units are secured to a site and are inherently permanent structures.

12. Not more than five percent (5%) of the value of Consolidated Dynex's total assets consisted of securities of any one issuer, unless such securities are treated as real estate assets under the 75% test.

13. The only stock that has ever been held by Consolidated Dynex in Dynex Holding, Inc., SMFC Holding, Inc., and Saxon Holding, Inc. (the "non-REIT subsidiaries"), is nonvoting preferred stock and Consolidated Dynex does not have any agreement with the holders of the voting stock of the non-REIT subsidiaries or the directors of the non-REIT subsidiaries as to (i) who will be elected as a director of a non-REIT subsidiary; (ii) who can own the voting stock of a non-REIT subsidiary; or (iii) who can or will serve as an officer of a non-REIT subsidiary. In addition, Consolidated Dynex does not own, and has not owned, more than ten percent (10%) of the outstanding voting securities of any other corporation (or entity treated as a corporation for federal income tax purposes) at any point in time since the formation of Dynex, excluding for purposes of this representation such securities treated as real estate assets under the 75% test.

14. Consolidated Dynex did not receive or accrue any rents (other than an immaterial amount received from sublease tenants) from either real or personal property.

15. Consolidated Dynex did not receive or accrue as income, directly or indirectly, any interest or other amount determined in whole or in part with

reference to the income or profits derived by any person (excluding interest (A) based solely on a fixed percentage or percentages of receipts or sales or (B) to the extent described in section 856(f)(2)).

16. Consolidated Dynex did not own any mortgage whose terms entitled it to receive a specified portion of any gain realized on the sale or exchange of the real property securing the mortgage or any gain that would be realized if such property were sold on a specified date (i.e., shared appreciation mortgages).

Dynex Capital, Inc.
July 16, 1997
Page 5

17. At least seventy-five percent (75%) of Consolidated Dynex's gross income (excluding gross income from prohibited transactions) for any taxable year was derived from:

(a) interest on obligations secured by mortgages (including consumer installment loans on manufactured housing) on real property or on interests in real property,

(b) gain from the sale or other disposition of real property (including interests in real property and interests in mortgages on real property) which was not held as inventory or primarily for sale to customers in the ordinary course of its trade or business,

(c) dividends or other distributions on, and gain (other than gain from prohibited transactions) from the sale or other disposition of, transferable shares (or transferable certificates of beneficial interest) in other REITs,

(d) abatements and refunds of taxes on real property,

(e) income and gain derived from foreclosure property,

(f) amounts (other than amounts the determination of which depends in whole or in part on the income or profits of any person) received or accrued as consideration for entering into agreements (i) to make loans secured by mortgages on real property or on interests in real property, or (ii) to purchase or lease real property (including interests in real property and interests in mortgages on real property),

(g) gain from the sale or other disposition of real estate assets which is not a prohibited transaction solely by reason of section 857(b)(6), and

(h) income which was attributable to stock or debt instruments acquired through the temporary investment of new capital and received or accrued during the one year period beginning on the date on which Consolidated Dynex received such capital.

Dynex Capital, Inc.
July 16, 1997
Page 6

18. At least ninety-five percent (95%) of Consolidated Dynex's gross income (excluding gross income from prohibited transactions) for any taxable year was derived from:

(a) sources which satisfy the seventy-five percent (75%) income test described in paragraph 17 above,

(b) dividends,

(c) interest,

(d) payments with respect to bona fide interest rate swap, cap, or floor agreements entered into to hedge any variable interest rate indebtedness incurred or to be incurred to acquire or carry real estate assets ("interest rate agreements"), and

(e) gain from the sale or other disposition of stocks and securities (including interest rate agreements).

19. Less than thirty percent (30%) of Consolidated Dynex's gross income for any taxable year was derived from the sale or other disposition of:

(a) stock or securities (including interest rate agreements) held for less than one year,

(b) property in a transaction which is a prohibited transaction,
and

(c) real property (including interests in real property and interests in mortgages on real property) held for less than four years other than (i) property compulsorily or involuntarily converted within the meaning of section 1033, and (ii) property which is foreclosure property.

20. For each taxable year, the deduction for dividends paid during the taxable year (determined without regard to capital gains dividends) equaled or exceeded (i) the sum of ninety-five percent (95%) of Consolidated Dynex's real estate investment trust taxable income for the taxable year (determined without regard to the deduction for

Dynex Capital, Inc.
July 16, 1997
Page 7

dividends paid and excluding any net capital gains), and ninety-five percent (95%) of the excess of the net income from foreclosure property over the tax imposed on such income by section 857(b)(4)(A), minus (ii) any excess noncash income as determined under section 857(e).

21. All distributions paid by Consolidated Dynex with respect to its Shares were pro rata with no preference to any share of stock as compared to any other shares of the same class and with no preference (other than as required under the Amended Articles of Incorporation of Dynex between its common and preferred stock) to one class of stock as compared to another class.

22. As of the close of any taxable year, Consolidated Dynex had no earnings and profits accumulated in any non-REIT year.

23. During its taxable year 1996, Dynex has had at least 2000 shareholders of record of its shares on any dividend record date. In prior taxable years, Dynex had at least 201 shareholders of record of its shares as of any dividend record date.

24. Promptly after the end of each taxable year, Dynex demanded written statements from shareholders of record who on any dividend record date owned 5% (or 1%, as the case may be), or more of the Shares disclosing (i) the actual owners of the shares (those persons required to include Dynex's dividends in gross income), (ii) and the maximum number of Shares (including the number and face value of securities convertible into Shares) that were considered owned, directly or indirectly (within the meaning of section 544 as modified by section 856(h)) by each of the actual owners of the Shares.

25. Dynex maintained the information received with respect to such written demands in its filing district available for inspection by the Internal Revenue Service at any time.

26. Dynex maintained sufficient records to show that it complied with the 75% test described at paragraph 10 above for all taxable years in its filing district available for inspection by the Internal Revenue Service at any time.

Dynex Capital, Inc.
July 16, 1997
Page 8

27. Dynex and the plan administrator under Dynex's Dividend Reinvestment and Stock Purchase Plan (the "Plan") have administered the Plan in accordance with the terms of the prospectus describing the Plan.

28. Dynex has owned all the stock of each qualified REIT subsidiary at all times during the period of such corporation's existence.

29. During its 1997 taxable year and subsequent taxable years, Consolidated Dynex expects to continue to satisfy all of the representations described in paragraphs 1 through 27 above.

As used herein, the term "prohibited transaction" means the sale or other disposition of property held as inventory or primarily for sale to customers in the ordinary course of Consolidated Dynex's trade or business. The term "foreclosure property" means any real property (including interests in real property) and any personal property incident to such real property, acquired by Consolidated Dynex as the result of its having bid in such property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law after there was a default (or default

was imminent) on a lease of such property or on an indebtedness which such property secured. Such term does not include property acquired by Consolidated Dynex as a result of indebtedness arising from the sale or other disposition of property held as inventory or for sale in the ordinary course of Consolidated Dynex's trade or business which was not originally acquired as foreclosure property.

Based solely on the documents, assumptions, and representations set forth above, and without further investigation, we are of the opinion that Consolidated Dynex qualified as a REIT in its 1996 taxable year and that its organization and contemplated method of operation are such that it will continue to so qualify for its 1997 taxable year and subsequent taxable years. Except as described herein we have performed no further due diligence and have made no efforts to verify the accuracy or genuineness of the documents, assumptions, and representations set forth above.

The foregoing opinion is based on current provisions of the Code and Treasury Regulations, published administrative interpretations thereof, and published court

Dynex Capital, Inc.
July 16, 1997
Page 9

decisions. The Internal Revenue Service has not yet issued Regulations or administrative interpretations with respect to various provisions of the Code relating to REIT qualification. No assurance can be given that the law will not change in a way that will prevent Consolidated Dynex from qualifying as a REIT or that the Internal Revenue Service will not disagree with this opinion.

The foregoing opinion is limited to federal income tax matters addressed herein, and no other opinions are rendered with respect to other federal tax matters or any issues arising under the tax laws of any state or locality. We undertake no obligation to update this opinion after the date of this letter. This opinion letter is solely for the information and use of the addressee and may not be relied upon, quoted, or otherwise used for any purpose by any other person without our express written consent.

We consent to the references to this firm in the prospectus filed with the Registration Statement and to the filing of this opinion as an exhibit to the Registration Statement in which the prospectus is included. We do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Securities and Exchange Commission thereunder.

Very truly yours,

VENABLE, BAETJER AND HOWARD, LLP

Consent of Independent Auditors

Board of Directors
Dynex Capital, Inc.

We consent to the use of our report incorporated in the registration statement on Form S-3 (Registration No. 333-10783) and to the reference to our firm under the heading "Experts" in the prospectus.

KPMG PEAT MARWICK LLP

Richmond, Virginia
July 14, 1997

FOR IMMEDIATE RELEASE
July 15, 1997

CONTACT: Cass English
804-217-5800

DYNEX CAPITAL, INC. REPORTS
SECOND QUARTER 1997 EARNINGS

Dynex Capital, Inc. (NYSE: DX) today reported net income of \$18.4 million, or \$0.35 per common share for the second quarter of 1997, compared to \$18.3 million, or \$0.35 per common share for the first quarter of 1997, and \$25.9 million, or \$0.58 per common share for the second quarter of 1996. The second quarter of 1996 included a one-time \$18.9 million gain from the sale of the Company's single-family operations. Prior period per share information has been adjusted for the Company's 2-for-1 stock split, effective May 5, 1997. The Company previously declared a dividend of \$0.335 per common share for the second quarter.

In commenting on the Company's results, Thomas H. Potts, President, stated, "The second quarter of 1997 produced solid results for the Company. Net interest margin exceeded \$21 million, a record for one quarter, in spite of the tightening by the Federal Reserve in March. The Company issued \$984 million in collateralized bonds during the quarter, which reduced our short-term borrowings and provides the basis for future net interest margin growth over the balance of the year. The mark-to-market on the Company's investment portfolio increased to a record \$77 million primarily as a result of the issuance of the collateralized bonds. We continue to feel that the quality of our income remains strong."

During the second quarter, the Company's fundings totaled \$833 million, consisting of \$38 million in multi-family/commercial loans, \$69 million in manufactured housing loans, \$703 million in bulk purchases of single-family loans, and \$23 million through its specialty finance division which concentrates on loan products designed for home builders and single-family homeowners.

Mr. Potts noted, "Multi-family lending volumes increased during the second quarter but were below expectations due to delays in construction and lease-up of the corresponding apartment projects. The delays are temporary and we expect production volumes to be strong for the remainder of the year." The Company currently has \$533 million in commitments outstanding to originate multi-family loans over the next 18 months. The Company continues its expansion into other complementary markets, funding \$14 million in commercial real estate loans during the quarter. The Company expects to securitize approximately \$300 million of multi-family and commercial loans during the fourth quarter of this year.

Regarding the Company's manufactured housing production operations, production volume increased from \$29 million in the first quarter to \$69 million in the second quarter. The Company plans to introduce loan programs for "land/home" financing during the third quarter. Mr. Potts commented, "We are steadily building our infrastructure in manufactured housing lending. We have established ourselves in all our targeted markets, and will shortly offer a full selection of loan programs for our customers. We successfully securitized over \$100 million of manufactured housing loans during the second quarter, and delinquencies are at low levels. We expect continued growth in our manufactured housing lending volume."

Regarding the outlook for the balance of 1997, Mr. Potts remarked, "We are positive about our prospects for the balance of the year. We expect increasing production in our multi-family/commercial, manufactured housing lending and specialty finance areas. We should also see continued growth in our net interest margin as a result of the recent growth in our investment portfolio and our expectation of a stable interest rate environment."

Dynex Capital, Inc. is a mortgage and consumer finance company which uses its production operations to create investments for its portfolio. The Company's primary production operations include the origination of mortgage loans secured by multi-family and commercial real estate properties and the origination of loans secured by manufactured homes. The Company has elected to be treated as a real estate investment trust (REIT) for federal income tax purposes. The Company's strategy is to create investments from its production operations at a lower effective cost than if assets were purchased in the market, and as a result, steadily increase its net interest margin income and earnings per share over time.

Note: This document contains "forward-looking statements"(within the meaning of the Private Securities Litigation Act of 1995) that inherently involve risks and uncertainties. The Company's actual results could differ materially from those

anticipated in these forward looking statements as a result of unforeseen external factors. As discussed in the Company's filings with the SEC, these factors may include, but are not limited to, changes in general economic conditions, fluctuations in interest rates, increases in costs and other general competitive factors.

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DYNEX CAPITAL, INC.
Consolidated Balance Sheets
(Thousands except share data)

	June 30, 1997	December 31, 1996
	-----	-----
ASSETS		
Investments:		
Portfolio assets:		
Collateral for collateralized bonds	\$3,338,916	\$2,702,294
Mortgage securities	1,181,424	892,037
Other	135,748	96,236
Loans held for securitization	307,392	265,537
	-----	-----
	4,963,480	3,956,104
Cash	7,910	11,396
Accrued interest receivable	8,632	8,078
Other assets	58,778	11,879
	-----	-----
	\$5,038,800	\$3,987,457
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Collateralized bonds	\$3,110,678	\$2,519,708
Repurchase agreements	661,310	756,448
Notes payable	306,594	177,124
Payable for investments purchased	393,844	--
Accrued interest payable	2,501	2,717
Other liabilities	31,542	27,843
	-----	-----
	4,506,469	3,483,840
	-----	-----
SHAREHOLDERS' EQUITY:		
Preferred stock, par value \$.01 per share, 50,000,000 shares authorized:		
9.75% Cumulative Convertible Series A 1,481,160 and 1,552,500 issued and outstanding, respectively	33,831	35,460
9.55% Cumulative Convertible Series B 2,061,243 and 2,196,824 issued and outstanding, respectively	48,251	51,425
9.73% Cumulative Convertible Series C 1,839,000 and 1,840,000 issued and outstanding, respectively	52,711	52,740
Common stock, par value \$.01 per share, 50,000,000 shares authorized, 42,822,154 and 41,307,186 issued and outstanding, respectively	428	414
Additional paid-in capital	311,080	291,430
Net unrealized gain on investments available-for-sale	77,006	64,402
Retained earnings	9,024	7,746
	-----	-----
	532,331	503,617
	-----	-----
	\$5,038,800	\$3,987,457
	=====	=====

DYNEX CAPITAL, INC.
Consolidated Statements of Operations
(Thousands except share data)

<TABLE>
<CAPTION>

	Quarter ended June 30, 1997	Quarter ended June 30, 1996	Six months ended June 30, 1997	Six months ended June 30, 1996
	-----	-----	-----	-----
<S> <C>				
Interest income:				
Collateral for collateralized bonds	\$ 45,433	\$ 32,134	\$ 93,895	\$ 55,643

Mortgage securities	21,598	35,419	41,279	71,956
Other portfolio assets	2,887	999	5,249	1,667
Loans held for securitization	11,113	9,774	17,669	21,225
	-----	-----	-----	-----
	81,031	78,326	158,092	150,491
	-----	-----	-----	-----
Interest and related expense:				
Collateralized bonds	38,266	26,306	77,618	44,079
Repurchase agreements	15,363	29,856	27,691	62,960
Notes payable	4,191	2,337	7,391	4,845
Other	413	1,135	969	1,696
Provision for losses	1,420	400	2,415	800
	-----	-----	-----	-----
	59,653	60,034	116,084	114,380
	-----	-----	-----	-----
Net interest margin	21,378	18,292	42,008	36,111
Gain on sale of single-family operations	-	18,899	-	18,899
Gain on sale of assets, net of associated costs	2,201	(6,397)	4,688	(6,196)
Other income	574	407	986	1,023
General and administrative expenses	(5,769)	(5,304)	(10,988)	(11,255)
	-----	-----	-----	-----
Net income	\$ 18,384	\$ 25,897	\$ 36,694	\$ 38,582
	=====	=====	=====	=====
Net income	18,384	25,897	36,694	38,582
Dividends on preferred stock	(3,716)	(2,193)	(7,403)	(4,386)
	-----	-----	-----	-----
Net income available to common shareholders	\$ 14,668	\$ 23,704	\$ 29,291	\$ 34,196
	=====	=====	=====	=====
Per common share (1):				
Primary	\$ 0.35	\$ 0.58	\$ 0.70	\$ 0.84
Fully diluted	\$ 0.34	\$ 0.54	\$ 0.69	\$ 0.80
Weighted average number of common shares outstanding (1)				
Primary	42,430,631	40,758,848	42,050,785	40,644,624
Fully diluted	53,445,725	48,257,496	53,185,945	48,143,272

</TABLE>

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