UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20459

SCHEDULE TO - I
TENDER OFFER STATEMENT
UNDER
SECTION 14(d)(1) OR 13(e)(1) OF THE
SECURITIES EXCHANGE ACT OF 1934

DYNEX CAPITAL, INC.

(NAME OF SUBJECT COMPANY (ISSUER))

DYNEX CAPITAL, INC. (OFFEROR)

(NAME OF FILING PERSON (IDENTIFYING STATUS AS OFFEROR, ISSUER OR OTHER PERSON))

SERIES A PREFERRED STOCK, PAR VALUE $0.01 PER SHARE
SERIES B PREFERRED STOCK, PAR VALUE $0.01 PER SHARE
SERIES C PREFERRED STOCK, PAR VALUE $0.01 PER SHARE

(TITLE OF CLASS OF SECURITIES)

(26817Q 20 9)

(CUSIP NUMBER OF SERIES A PREFERRED STOCK)

(26817Q 30 8)

(CUSIP NUMBER OF SERIES B PREFERRED STOCK)

(26817Q 40 7)

(CUSIP NUMBER OF SERIES C PREFERRED STOCK)

STEPHEN J. BENEDETTI, CHIEF FINANCIAL OFFICER
DYNEX CAPITAL, INC.
4551 COX ROAD, SUITE 300
GLEN ALLEN, VIRGINIA 23060
(804) 217-5800

(NAME, ADDRESS AND TELEPHONE NUMBER OF PERSON AUTHORIZED TO RECEIVE NOTICES AND COMMUNICATIONS ON BEHALF OF FILING PERSON FILING THE STATEMENT)

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CALCULATION OF FILING FEE

TRANSACTION VALUATION*:	AMOUNT OF FILING FEE:
$55,706,832	$4,507

*CALCULATED SOLELY FOR THE PURPOSE OF DETERMINING THE AMOUNT OF THE FILING FEE. AS OF DECEMBER 31, 2003, DYNEX CAPITAL HAD OUTSTANDING 493,595 SHARES OF SERIES A PREFERRED STOCK, 688,189 SHARES OF SERIES B PREFERRED STOCK AND 684,893 SHARES OF SERIES C PREFERRED STOCK. THE CALCULATION IS BASED ON THE ASSUMPTION THAT ALL OUTSTANDING SHARES OF SERIES A PREFERRED STOCK, SERIES B PREFERRED STOCK AND SERIES C PREFERRED STOCK WILL BE ACQUIRED BY DYNEX CAPITAL IN EITHER THE NOTES OFFER OR THE SERIES D CONVERSION, AND IS BASED ON THE AVERAGE OF THE HIGH AND LOW SALES PRICES OF EACH OF THE SERIES OF PREFERRED STOCK ON JANUARY 5, 2003, BEING $28.50 FOR SERIES A PREFERRED STOCK, $26.37 FOR SERIES B PREFERRED STOCK AND $34.30 FOR SERIES C PREFERRED STOCK, AS REPORTED ON THE NASDAQ NATIONAL MARKET. BASED ON THESE AVERAGES, THE TOTAL TRANSACTION VALUE IS EQUAL TO $55,706,832. BECAUSE THIS IS A TRANSACTION UNDER SECTION 13(E) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, THE FEE IS CALCULATED ON THE BASIS OF $80.90 PER MILLION.

¨ Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number or the form or schedule and the date of its filing.

Amount Previously Paid: Not applicable — Form or Registration No.: Not applicable
Filing Party: Not applicable — Filed: Not applicable

x Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

¨ third-party tender offer subject to Rule14d-1.

x issuer tender offer subject to Rule 13e-4.

x going-private transaction subject to Rule13e-3.

¨ amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer: ¨

INTRODUCTION

This combined Issuer Tender Offer Statement on Schedule TO and Rule 13E-3 Transaction Statement (collectively the "Schedule TO") relates to:

(a) The offer (the "Note Offer") by Dynex Capital, Inc., a Virginia corporation ("Dynex Capital") to exchange up to an aggregate of 345,579 shares of its Series A Preferred Stock, 481,819 shares of its Series B Preferred Stock, and 479,512 shares of its Series C Preferred Stock (or, in each case, such lesser number of shares as are properly tendered and not properly withdrawn), for 9.50% Senior Notes due 2007 (the "Senior Notes"), each subject to the terms and conditions of the Offering Circular (as amended from time to time, the "Offering Circular") attached hereto as Exhibit (a)(1)(A). Pursuant to Rule 13e-4(f)(1)(ii), the total number of shares purchased in the Note Offer may be increased to 355,450 shares of Series A Preferred Stock, 495,582 shares of Series B Preferred Stock and 493,209 shares of Series C Preferred Stock.

(b) A proposal to amend the Articles of Incorporation of Dynex Capital to convert all of the shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock after the Notes Offer into shares of a new series of Series D Preferred Stock and Common Stock (the "Series D conversion"), all as described in the Proxy Statement incorporated by reference herein as Exhibit (a)(2)(A) (as amended from time to time, the "Proxy Statement").

This Schedule TO is intended to satisfy the reporting requirements of Rule 13e-4(c)(2) of the Securities Exchange Act of 1934, as amended, and pursuant to Instruction J to Schedule TO, it is intended to constitute a combined Schedule TO and Schedule 13E-3. The filing of Schedule 13E-3 under the cover of this Schedule TO is appropriate because as a consequence of the Series D conversion, the outstanding shares of the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock will each cease to be quoted on the Nasdaq National Market. For the purposes of this Schedule TO, where disclosure is required by both Schedule TO and Schedule 13E-3, the response to the required disclosure is set forth under the applicable item of Schedule TO. Information that is required by Schedule 13E-3 but not by Schedule TO is set forth by reference to the applicable item of Schedule 13E-3 under item 13 of this Schedule TO.

The information in each of the Offering Circular and Proxy Statement, including all schedules and annexes thereto, is hereby expressly incorporated herein by reference in response to all the items of this Schedule TO, except as otherwise set forth below.

ITEM 1. SUMMARY TERM SHEET

The information set forth in the Offering Circular under "Summary Term Sheet" and in the Proxy Statement under "Summary Term Sheet" is incorporated herein by reference.

ITEM 2. SUBJECT COMPANY INFORMATION

(a) Name and address. The name of the issuer is Dynex Capital, Inc., a Virginia corporation, and the address and telephone number of its principal executive offices are, 4551 Cox Road, Suite 300, Glen Allen, Virginia 23060, (804) 217-5800.

(b) Securities. The information set forth in the Offering Circular under "Description of Capital Stock-Preferred Stock" and in the Proxy Statement under "Description of Capital Stock of Dynex-General" is incorporated herein by reference.

(c) Trading market and price. The information set forth in the Offering Circular under "Price Range of Preferred Stock" and in the Proxy Statement under "Selected Historical and Pro Forma Financial Data and Other Information — Price Range of Preferred Stock" is incorporated herein by reference.

ITEM 3. IDENTITY AND BACKGROUND OF FILING PERSON

(a) Name and address. Dynex Capital is both the filing person and the subject company. Dynex Capital's business address is 4551 Cox Road, Suite 300, Glen Allen, Virginia 23060, and its business telephone number is (804) 217-5800.

Pursuant to General Instruction C to Schedule TO, the following persons are the directors and/or executive officers of Dynex:

Name	Position
J. Sidney Davenport	Director
Thomas H. Potts	Director
Thomas B. Akin	Director
Donald B. Vaden	Director
Eric P. Von der Porten	Director
Leon A. Felman	Director
Barry Igdaloff	Director
Stephen J. Benedetti	Executive Officer

The address of each director and executive officer listed above is c/o Dynex Capital, Inc., 4551 Cox Road, Suite 300, Glen Allen, Virginia 23060. The telephone number for each director and executive officer listed above is (804) 217-5800.

(b) Business and background of entities. Not applicable.

(c) Business and background of natural persons. The information set forth in the Offering Circular under "Management" and in the Proxy Statement under "Management" is incorporated herein by reference. Each of the directors and the sole executive officer listed above is a citizen of the United States.

None of Dynex Capital's directors or its executive officer listed above has been convicted of any criminal act during the last five years. Further, none of Dynex Capital's directors or executive officers has been a party to any judicial or administrative proceeding during the last five years that has resulted in a judgment, decree, or final order enjoining such person from any future violations of, or prohibiting activity subject to, any federal or state securities laws, or a finding of any violation of any federal or state securities laws.

ITEM 4. TERMS OF THE TRANSACTION

(a) Material terms. The information set forth in the Offering Circular under "Summary Term Sheet," "Special Factors," "Risk Factors," "The Note Offer," "Purposes and Effects of the Offer," "Material United States Federal Income Tax Consequences" and "Description of Senior Notes," and in the Proxy Statement under "Summary Term Sheet," "Effect of the Series D Conversion," "Special Factors," "Proposal: Amendment of Dynex Capital's Articles of Incorporation to Accomplish Series D Conversion" and "Material United States Federal Income Tax Consequences" is incorporated herein by reference.

(b) Mergers or similar transactions. Certain of the directors of Dynex Capital have indicated their intention to tender at least a portion of their shares of Preferred Stock in the Note Offer. See "Summary Term Sheet – Will Dynex Capital's Officers and Directors Be Participating in the Note Offer?" and "The Offer – Executive Officer and Director Participation" in the Offering Circular, which is incorporated herein by reference. All holders of Preferred Stock who continue to hold shares of Series A Preferred Stock, Series B Preferred Stock and/or Series C Preferred Stock after the completion of the Note Offer will have their shares of preferred stock automatically converted into shares of Series D Preferred Stock and Common Stock in the Series D conversion; accordingly, each director who is a holder of Preferred Stock will participate in the Series D conversion. Dynex Capital's sole executive officer does not beneficially own any shares of Preferred Stock. The information set forth in the Offering Circular under "Security Ownership of Certain Beneficial Owners and Management" and in the Proxy Statement under "Security Ownership of Certain Beneficial Owners and Management" is also incorporated herein by reference.

ITEM 5. PAST CONTACTS, TRANSACTIONS, NEGOTIATIONS AND AGREEMENTS

(e) Agreements involving the subject company's securities. None.

ITEM 6. PURPOSES OF THE TRANSACTION AND PLANS OR PROPOSALS

(a) Purposes. The information set forth in the Offering Circular in "Summary Term Sheet – What Are the Reasons for the Recapitalization?," "Special Factors – Background of the Recapitalization," "– Did the Board of Directors and the Committee Consider Alternatives to the Note Offer and the Series Conversion?," "– Reasons for the Note Offer," "Risk Factors – We May Invest in a New Business Strategy," and "Purposes and Effects of the Offer" and in the Proxy Statement in "Summary Term Sheet– What are the Reasons for the Recapitalization?," "Special Factors – Background of the Recapitalization," " – Reasons for Series D Conversion," "– Did the Board of Directors and the Committee Consider Alternatives to the Offer and the Series D Conversion?" and "Effect of the Series D Conversion" is incorporated herein by reference.

(c) Plans. Other than as described in the Offering Circular and the Proxy Statement, Dynex Capital does not have any plans, proposals or negotiations that relate to or would result in any of the transactions, changes or actions described in this item. As a consequence of the Series D conversion, the Series A Preferred Stock, the Series B Preferred Stock and Series C Preferred Stock

will cease to be quoted on the Nasdaq National Market and will become eligible for termination of registration under Section 12(g) of the Securities Exchange Act of 1934. The information set forth in the Offering Circular under "Business" and in the Proxy Statement under "Transactions and Agreements Involving Dynex Capital's Securities" is incorporated herein by reference.

ITEM 7. SOURCE AND AMOUNT OF FUNDS OR OTHER CONSIDERATION

(a) Source of funds. The information set forth in the Offering Circular under "Summary Term Sheet – How Will Dynex Capital Finance the Offer and the Recapitalization?," "The Offer – Source and Amount of Funds" and "Purposes and Effects of the Offer" and in the Proxy Statement under "Summary Term Sheet – Questions and Answers about the Proxy Materials and the Series D Conversion – How Will Dynex Capital Finance the Series D Conversion?" is incorporated herein by reference.

(b) Conditions. None.

(d) Borrowed funds. Not applicable.

ITEM 8. INTEREST IN SECURITIES OF THE SUBJECT COMPANY

(a) Securities ownership. The information set forth in the Offering Circular under "Security Ownership of Certain Beneficial Owners and Management" and in the Proxy Statement under "Security Ownership of Certain Beneficial Owners and Management" is incorporated herein by reference.

(b) Securities transactions. The information set forth in the Offering Circular under "Security Ownership of Certain Beneficial Owners and Management – Recent Transactions" and in the Proxy Statement under "Security Ownership of Certain Beneficial Owners and Management – Recent Transactions" is incorporated herein by reference.

ITEM 9. PERSONS/ASSETS, RETAINED, EMPLOYED, COMPENSATED OR USED

(a) Solicitations or recommendations. Except with respect to directors, officers and employees of Dynex Capital who will not be separately compensated for their efforts, neither Dynex Capital nor any person acting on its behalf has or currently intends to employ, retain or compensate any person to make solicitations or recommendations to the holders of Series A Preferred Stock, Series B Preferred Stock, or Series C Preferred Stock with respect to the Note Offer or the Series D conversion. The information set forth in the Offering Circular under "The Offer – Payment of Expenses" and in the Proxy Statement under "Information about the Meeting – Solicitation of Proxies" is incorporated herein by reference.

ITEM 10. FINANCIAL STATEMENTS

(a) Financial information. The information set forth in the Offering Circular under "Summary Historical and Pro Forma Financial Information" and "Capitalization," in the Proxy Statement under "Selected Historical and Pro Forma Financial Data and Other Information" and

"Capitalization" and in Dynex Capital's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002, its Quarterly Reports on Forms 10-Q/A for the fiscal quarters ended March 31 and June 30, 2003, and its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2003 is incorporated herein by reference.

(b) Pro forma information. The information set forth in the Offering Circular under "Summary Historical and Pro Forma Financial Information" and "Capitalization" and in the Proxy Statement under "Selected Historical and Pro Forma Financial Data and Other Information" and "Capitalization" is incorporated herein by reference.

ITEM 11. ADDITIONAL INFORMATION

(a) Agreements, regulatory requirements and legal proceedings. With respect to regulatory requirements, the Indenture under which the Senior Notes will be issued must be qualified under the Trust Indenture Act of 1939. The Issuer will file a Form T-3 for this purpose. The information set forth in the Offering Circular under "Security Ownership of Certain Beneficial Owners and Management" and in the Proxy Statement under "Security Ownership of Certain Beneficial Owners and Management" is also incorporated herein by reference.

(b) Other material information. Not applicable.

ITEM 12. EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
*(a)(1)(A)	Preliminary Offering Circular.
**(a)(1)(B)(i)	Series A Preferred Stock Letter of Transmittal.
**(a)(1)(B)(ii)	Series B Preferred Stock Letter of Transmittal.
**(a)(1)(B)(iii)	Series C Preferred Stock Letter of Transmittal.
**(a)(1)(C)	Notice of Guaranteed Delivery.
**(a)(1)(D)	Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
**(a)(1)(E)	Letter to Clients from Brokers, Dealers, Commercial Banks, Trust Companies and other Nominees.
**(a)(1)(F)	Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.

*(a)(1)(H)	Indenture between Dynex and Wachovia Bank, as Trustee, with respect to the 9.50% Senior Notes due 2007.
*(a)(1)(I)	Form of Senior Note.
(a)(2)(A)	Preliminary Proxy Statement. Incorporated by reference from Dynex Capital's Schedule 14A filed with the Securities and Exchange Commission on January 8, 2004.
(a)(2)(B)(i)	Series A Preferred Stock Proxy Card. Incorporated by reference from Dynex Capital's Schedule 14A filed with the Securities and Exchange Commission on January 8, 2004.
(a)(2)(B)(ii)	Series B Preferred Stock Proxy Card. Incorporated by reference from Dynex Capital's Schedule 14A filed with the Securities and Exchange Commission on January 8, 2004.
(a)(2)(B)(iii)	Series B Preferred Stock Proxy Card. Incorporated by reference from Dynex Capital's Schedule 14A filed with the Securities and Exchange Commission on January 8, 2004.
(a)(3)	Not applicable.
(a)(4)	Not applicable.
(a)(5)	Not applicable.
(b)	Not applicable.
(c)	Not applicable.
(d)	Not applicable.
(e)	Not applicable.
(f)	Not applicable.
(g)	Not applicable.
(h)	Not applicable.

* Filed herewith
** To be filed by amendment

ITEM 13. INFORMATION REQUIRED BY SCHEDULE 13E-3

The information set forth in this Item 13 includes information required by Schedule 13E-3 that is not required by Schedule TO and described in response to the Schedule TO items above.

SCHEDULE 13E-3, ITEM 2. Subject Company Information.

(d) Dividends. The information set forth in the Offering Circular under "Dividends" and in the Proxy Statement under "Selected Historical and Pro Forma Financial Data and Other Information – Dividends" is incorporated herein by reference.

(e) Prior public offerings. Not applicable.

(f) Prior stock purchases. The information set forth in the Offering Circular in "Special Factors – Background of the Recapitalization" and "Description of Capital Stock – Preferred Stock" and in the Proxy Statement under "Special Factors – Background of the Recapitalization" is incorporated herein by reference.

SCHEDULE 13E-3, ITEM 4. Terms of the transaction.

(c) Different Terms. No holder of Preferred Stock of any series will be treated in the Note Offer or the Series D conversion differently from any other holder of shares of that series.

(d) Appraisal rights. Dissenting securityholders in the Series D conversion are not entitled to any appraisal or similar rights. The information contained in the Proxy Statement under "Summary Term Sheet – Questions and Answers about the Proxy Materials and the Series D Conversion – Do I Have Special Rights if I Oppose the Series D Conversion?" and "Proposal: Amendment of Dynex Capital's Articles of Incorporation to Accomplish Series D Conversion – No Appraisal Rights" is incorporated herein by reference.

(e) Provisions for unaffiliated securities holders. None.

(f) Eligibility for listing or trading. The information contained in the Offering Circular under "Summary Term Sheet – Will the Senior Notes Be Listed for Trading on a Securities Exchange?," "- Will the Note Offer Affect Trading of the Preferred Stock on the Nasdaq National Market?," "Risk Factors – The Market May View the Note Offer Unfavorably, Which May Adversely Affect the Market Price of the Preferred Stock and the Senior Notes," "The Note Offer – General – The Note Offer" and "Purposes and Effects of the Offer" and in the Proxy Statement under "Summary Term Sheet – Questions and Answers About the Proxy Materials and the Series D Conversion – Will the Series D Preferred Stock be Listed for Trading on a Securities Exchange?," "Special Factors – Reasons for the Series D Conversion" and "Effect of Series D Conversion – Series D Preferred Stock" is incorporated herein by reference.

SCHEDULE 13E-3, ITEM 5. Past Contacts, Transactions, Negotiations and Agreements.

(a) Transactions. The information set forth in the Offering Circular under "Management – Certain Relationships and Related Transactions" and in the Proxy Statement under "Certain Relationships and Related Transactions" is incorporated herein by reference.

(b) Significant corporate events. (i) Dynex Capital conducted a tender offer for Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock that was completed in February 2003, and certain directors of Dynex Capital participated in that tender offer on the same basis as all other holders of Preferred Stock that participated in the tender offer.

(ii) On April 26, 2002, Dynex Capital entered into a settlement agreement with Leeward Capital L. P., Leeward Investments, L.L.C., Eric P. Von der Porten and James M. Bogin pursuant to which those parties ended a solicitation for directors at Dynex Capital's 2002 stockholders' meeting in exchange for an agreement to add Mr. Von der Porten to the slate of nominees for election at the 2002 annual meeting. That agreement did not require the inclusion of Mr. Von der Porten on the slate of nominees for the 2003 annual meeting, but Mr. Von der Porten was nevertheless included on that slate and reelected at that meeting.

(c) Negotiations or contacts. See the response to sub-item (b) above.

SCHEDULE 13E-3, ITEM 6. Purposes of the Transaction and Plans or Proposals.

(c)(8) Suspension of Reporting Obligations. None.

SCHEDULE 13E-4, ITEM 7. Purposes, Alternatives, Reasons and Effects.

(a) Purposes. The information set forth in the Offering Circular under "Summary Term Sheet – What Are The Reasons for the Recapitalization?," "Special Factors – Reasons for the Offer," and "Purposes and Effects of the Offer" and in the Proxy Statement under "Summary Term Sheet – Questions and Answers About the Proxy Materials and the Series D Conversion – What Are the Reasons for the Recapitalization?," "Special Factors – Reasons for the Series D Conversion" and "Effect of the Series D Conversion" are incorporated herein by reference.

(b) Alternatives. The information set forth in the Offering Circular under "Summary Term Sheet – Did the Board of Directors and the Committee Consider Alternatives to the Note Offer and the Series D Conversion?," "Special Factors – Background of the Recapitalization" and "- Reasons for Offer" and in the Proxy Statement under "Summary Term Sheet – Questions and Answers About the Proxy Materials and the Series D Conversion – Did the Board of Directors and the Committee Consider Alternatives to the Note Offer and the Series D Conversion?," "Special Factors – Background of the Recapitalization" and "- Reasons for the Series D Conversion" are incorporated herein by reference.

(c) Reasons. The information set forth in the Offering Circular under "Summary Term Sheet – What are the Reasons for the Recapitalization?," "– Did the Board of Directors and the Committee Consider Alternatives to the Note Offer and the Series D Conversion?," "Special Factors – Background of the Recapitalization" and "- Reasons for Offer" and in the Proxy Statement under "Summary Term Sheet– Questions and Answers About the Proxy Materials and

the Series D Conversion – What Are the Reasons for the Recapitalization?," "– Did the Board of Directors and the Committee Consider Alternatives to the Note Offer and the Series D Conversion?," "Special Factors – Background of the Recapitalization" and "- Reasons for Series D Conversion" are incorporated herein by reference.

(d) Effects. The information set forth in the Offering Circular under "Summary Term Sheet," "Special Factors – Reasons for the Note Offer," "– Negative Factors Considered by the Board of Directors and the Committee," "Risk Factors – Risks Particular to the Note Offer," "Summary Historical and Pro Forma Financial Information," "The Offer," "Purposes and Effects of the Offer," "Capitalization" and "Material United States Federal Income Tax Consequences" and in the Proxy Statement under "Summary Term Sheet – Questions and Answers About the Proxy Materials and the Series D Conversion," "Selected Historical Pro Forma Financial Data and Other Information," "Special Factors – Reasons for the Series D Conversion," "- Negative Factors Considered by the Board of Directors and the Committee," "Effect of the Series D Conversion," "Proposal: Amendment of Dynex Capital's Articles of Incorporation to Accomplish Series D Conversion," "Capitalization" and "Material United States Federal Income Tax Consequences" is incorporated herein by reference.

SCHEDULE 13E-3, ITEM 8. Fairness of the Transaction.

(a) Fairness. The information set forth in the Offering Circular under "Summary Term Sheet – Do the Board and Committee Believe that the Recapitalization is Fair to Existing Stockholders?" and "Special Factors – Recommendation of the Board of Directors; Fairness of the Recapitalization" and in the Proxy Statement under "Summary Term Sheet – Questions and Answers About the Proxy Materials and the Series D Conversion – Did the Board and the Committee Believe that the Recapitalization is Fair to Existing Stockholders?" and "Special Factors – Recommendation of the Board of Directors; Fairness of the Recapitalization" is incorporated herein by reference.

(b) Factors considered in determining fairness. The information set forth in the Offering Circular under "Summary Term Sheet – Do the Board and Committee Believe that the Recapitalization is Fair to Existing Stockholders?," "Special Factors – Reasons for the Offer," "– Negative Factors Considered by the Board of Directors and Committee," "- Recommendation of the Board of Directors; Fairness of the Recapitalization" and in the Proxy Statement in "Summary Term Sheet – Questions and Answers About the Proxy Materials and the Series D Conversion – Did the Board and the Committee Believe that the Recapitalization is Fair to Existing Stockholders?," "– Did the Board and the Committee Retain a Financial Advisor?," "Special Factors – Reasons for the Offer," "– Negative Factors Considered by the Board of Directors and Committee" and "– Recommendation of the Board of Directors; Fairness of the Recapitalization" is incorporated herein by reference.

(c) Approval of security holders. The Note Offer does not require shareholder approval. The Series D conversion requires the approval of two-thirds of the holders of each series of Preferred Stock. Because the directors, the sole executive officer and their affiliates beneficially own less than one-third of each series of Preferred Stock, the effect of the two-thirds approval requirement is to also require that at least a majority of the unaffiliated holders of the Preferred

Stock approve the articles of amendment that will implement the Series D conversion. The information contained under "Summary Term Sheet – Do the Board and its Committee Believe that the Recapitalization is Fair to Existing Stockholders?," "Special Factors – Recommendation of Board of Directors; Fairness of the Recapitalization." "– Interests of Dynex Capital's Directors and Affiliated Parties in the Recapitalization" and in the Proxy Statement under "Summary Term Sheet – Questions and Answers About the Proxy Materials and the Series D Conversion – Did the Board and the Committee Believe that the Recapitalization is Fair to Existing Stockholders?," "– Did the Board and the Committee Retain a Financial Advisor?," "Special Factors – Recommendation of the Board of Directors; Fairness of the Recapitalization" and "– Interests of Dynex Capital's Directors and Affiliated Parties in the Recapitalization" is incorporated herein by reference.

(d) Unaffiliated Representative. Dynex Capital did not retain an unaffiliated representative to act solely on behalf of the unaffiliated holders of Dynex Capital's Preferred Stock or Common Stock for the purposes of negotiating the terms of the Note Offer or the Series D conversion and/or preparing a report concerning the fairness of the transactions. The information contained in the Offering Circular under "Special Factors – Recommendation of the Board of Directors; Fairness of the Recapitalization" and "Risk Factors – Risk-Particular to the Note Offer – We Did Not Base the Terms of the Recapitalization on and Did Not Retain the Advice of an Outside Financial Advisor" and in the Proxy Statement under "Special Factors – Recommendation of the Board of Directors; Fairness of the Recapitalization" is incorporated herein by reference.

(e) Approval of directors. None of the directors of Dynex Capital are employees of the company and so as to all aspects of the recapitalization, including the Notes Offer and the Series D conversion, the transaction was approved by a majority of the directors who are not employees of the company.

(f) Other offers. No offer of the type described in paragraph (viii) of Instruction 2 to Item 1014 of Regulation M-A has been received by Dynex Capital.

Schedule 13E-3, Item 9. Reports, Opinions, Appraisals and Negotiations.

(a) Report, opinion or appraisal. Neither Dynex Capital nor any of its affiliates received any report, opinion or appraisal from an outside party that is materially related to any aspect of the recapitalization, including the Note Offer and the Series D conversion.

(b) Preparer and summary of the report, opinion or appraisal. Not applicable.

(c) Availability of documents. Not applicable.

SCHEDULE 13E-3, ITEM 10. Sources and Amounts of Funds or Other Consideration.

(c) Expenses. The information set forth in the Offering Circular under "The Note Offer – General – The Note Offer" and in the Proxy Statement under "Summary Term Sheet – Questions and Answers About the Proxy Materials and the Series D Conversion – How Will Dynex Capital Finance the Series D Conversion?," "Information about the Meeting – Solicitation of Proxies" and

"Proposal: Amendment of Dynex Capital's Articles of Incorporation to Accomplish Series D Conversion – Fees and Expenses" is incorporated herein by reference.

SCHEDULE 13E-3, ITEM 12. Solicitation or Recommendation.

(d) Intent to tender or vote in a going-private transaction. Each executive officer and director of Dynex Capital has indicated that he intends to vote all shares of Preferred Stock and Common Stock beneficially owned by him or for which he otherwise has proxy authority in favor of the Series D conversion. The information set forth in the Offering Circular under "Special Factors – Reasons for the Note Offer," and in the Proxy Statement under "Special Factors – Reasons for the Series D Conversion" is incorporated herein by reference.

(e) Recommendations of others. The information set forth in the Offering Circular under "Summary Term Sheet – Has Dynex Capital or Its Board of Directors Adopted a Position on the Note Offer and the Series D Conversion?" and "Special Factors – Recommendations of the Board of Directors; Fairness of the Recapitalization" and in the Proxy Statement under "Summary Term Sheet—Questions and Answers About the Proxy Materials and the Series D Conversion – Has the Board of Directors Recommended that I Vote in Favor of the Series D Conversion?" and "Special Factors – Recommendation of the Board of Directors; Fairness of the Recapitalization" is incorporated herein by reference.

SCHEDULE 13E-3, ITEM 14. Persons/Assets Retained, Employed, Compensated or Used.

(b) Employees and Corporate Assets. The information set forth in the Proxy Statement under "Information About the Meeting – Solicitation of Proxies" is incorporated herein by reference.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

DYNEX CAPITAL, INC.

By: /s/ Stephen J. Benedetti

Stephen Benedetti
Chief Financial Officer

Dated: January 8, 2004

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
*(a)(1)(A)	Preliminary Offering Circular.
**(a)(1)(B)(i)	Series A Preferred Stock Letter of Transmittal.
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**(a)(1)(C)	Notice of Guaranteed Delivery.
**(a)(1)(D)	Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
**(a)(1)(E)	Letter to Clients from Brokers, Dealers, Commercial Banks, Trust Companies and other Nominees.
**(a)(1)(F)	Guidelines for Certification of Taxpayer Identification Number on Substitute Form W-9.
*(a)(1)(G)	Press Release dated January 8, 2004.
*(a)(1)(H)	Indenture between Dynex and Wachovia Bank, as Trustee, with respect to the 9.50% Senior Notes due 2007.
*(a)(1)(I)	Form of Senior Note.
(a)(2)(A)	Preliminary Proxy Statement. Incorporated by reference from Dynex Capital's Schedule 14A filed with the Securities and Exchange Commission on January 8, 2004.
(a)(2)(B)(i)	Series A Preferred Stock Proxy Card. Incorporated by reference from Dynex Capital's Schedule 14A filed with the Securities and Exchange Commission on January 8, 2004.
(a)(2)(B)(ii)	Series B Preferred Stock Proxy Card. Incorporated by reference from Dynex Capital's Schedule 14A filed with the Securities and Exchange Commission on January 8, 2004.
(a)(2)(B)(iii)	Series C Preferred Stock Proxy Card. Incorporated by reference from Dynex Capital's Schedule 14A filed with the Securities and Exchange Commission on January 8, 2004.
(a)(3)	Not applicable.
(a)(4)	Not applicable.

(a)(5)	Not applicable.
(b)	Not applicable.
(c)	Not applicable.
(d)	Not applicable.
(e)	Not applicable.
(f)	Not applicable.
(g)	Not applicable.
(h)	Not applicable.

* Filed herewith
** To be filed by amendment

EXHIBIT (a)(1)(A)

PRELIMINARY COPY

SUBJECT TO COMPLETION—DATED JANUARY , 2004

Offering Circular

DYNEX CAPITAL, INC.

Offer to Exchange
Its 9.50% Senior Notes, due 2007
for up to
345,579 Shares of Its Outstanding Series A Preferred Stock,
481,819 Shares of Its Outstanding Series B Preferred Stock, and
479,512 Shares of Its Outstanding Series C Preferred Stock

THE EXCHANGE OFFER, AND RELATED WITHDRAWAL RIGHTS AND PRORATION PERIOD, WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON _____ _____, 2004, UNLESS EXTENDED OR EARLIER TERMINATED BY US.

Dynex Capital, Inc., a Virginia corporation, invites its stockholders to tender shares of its Series A preferred stock (the "Series A Preferred Stock"), shares of its Series B preferred stock (the "Series B Preferred Stock"), and shares of its Series C preferred stock (the "Series C Preferred Stock," and, collectively, with the Series A Preferred Stock and the Series B Preferred Stock, the "Preferred Stock"), all upon the terms and subject to the conditions set forth in this document and in the related letters of transmittal (which, as amended or supplemented from time to time, together constitute the "Note Offer"). Each share of Preferred Stock has a par value of $0.01 per share. Upon the terms and subject to the conditions of the Note Offer, we are offering to acquire up to an aggregate of 345,579 shares of Series A Preferred Stock, up to an aggregate of 481,819 shares of Series B Preferred Stock, and up to an aggregate of 479,512 shares of Series C Preferred Stock (or, in each case, such lesser number of shares as are properly tendered and not properly withdrawn), as so noted on the enclosed letter of transmittal, for:

- $27.84 in principal amount of our 9.50% Senior Notes, the principal of which will be payable on the third anniversary of issuance (collectively, the "Senior Notes" and each, a "Senior Note"), per share of Series A Preferred Stock tendered, up to an aggregate maximum of 345,579 shares of Series A Preferred Stock;
- $28.42 in principal amount of the Senior Notes per share of Series B Preferred Stock tendered, up to an aggregate maximum of 481,819 shares of Series B Preferred Stock; and
- $34.80 in principal amount of the Senior Notes per share of Series C Preferred Stock tendered, up to an aggregate maximum of 479,512 shares of Series C Preferred Stock.

Under this Note Offer, the per share principal amount of Senior Notes to be received for each share of Preferred Stock tendered in the Note Offer is equal to 116% of the original issue price of each share of Preferred Stock. The Senior Notes will be issued in denominations of $1,000 or in integral multiples of $1,000. In cases where the aggregate consideration for shares of each series you tender

(determined by multiplying the aggregate issue price of each share of your Preferred Stock by 116%) is not an even multiple of $1,000, you will receive cash for the amount in excess of the nearest lower $1,000 multiple not to exceed $999.99. For a more detailed description of the terms of the Senior Notes being offered, please see "Description of Senior Notes."

Subject to the terms and conditions of the Note Offer, we will issue up to $40,000,000 aggregate principal amount of Senior Notes, in exchange for up to 1,306,910 shares of Preferred Stock with an aggregate original issue price of $34,483,822 and an aggregate liquidation preference as of December 31, 2003 of $_____.

This Note Offer is part of a recapitalization transaction in which Dynex Capital (1) seeks to exchange Senior Notes for outstanding shares of Preferred Stock and (2) is asking stockholders to approve an amendment of our articles of incorporation that will (i) designate and establish the terms of a new Series D Preferred Stock, and (ii) eliminate the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock following their conversion into shares of new Series D Preferred Stock and Common Stock (the "Series D conversion"). Information about the Series D conversion is more fully described in the proxy statement that is being distributed to Dynex Capital's Preferred Stockholders with this offering circular. We encourage you to read the proxy statement carefully.

The Note Offer is conditioned upon a minimum tender of shares of Preferred Stock that will result in the issuance of at least $10,000,000 in aggregate principal amount of Senior Notes. The Note Offer is also conditioned on completion of the Series D conversion and other general conditions described in this offering circular. See "The Note Offer–Conditions to the Note Offer."

You may request additional copies of this offering circular, the letter of transmittal and related documents from the information agent at its address and telephone number set forth on the back cover of this offering circular.

Tendering holders of Preferred Stock will not be obligated to pay brokerage commissions, solicitation fees, or, upon the terms and subject to the conditions of the Note Offer, stock transfer taxes on the sale of shares of Preferred Stock to Dynex Capital. However, any tendering stockholder or other payee required to complete a letter of transmittal who fails to complete fully and sign the box captioned "Substitute Form W-9" included in the letter of transmittal or, in the case of a non-U.S. holder, who fails to certify its non-U.S. status, may be subject to a required tax withholding of 28% of the gross proceeds paid to the stockholder or other payee pursuant to the Note Offer. See "Material United States Federal Income Tax Consequences." We will pay all charges and expenses of Wachovia Bank, N.A., the exchange agent, and MacKenzie Partners, Inc., the information agent, incurred in connection with the Note Offer.

Tendering holders of Preferred Stock will not receive any dividends with respect to their tendered shares, including dividends in arrears that have accumulated to date, which will be cancelled if the tendered shares are accepted by us. As of December 31, 2003, a total of approximately $9.07, $9.07 and $11.31 in dividends in arrears will have accumulated per share on the Series A Preferred Stock, the Series B Preferred Stock and the Series C Preferred Stock, respectively.

Tenders pursuant to the Note Offer may be withdrawn at any time prior to 5:00 p.m., New York City time, on _____, 2004, which is the expiration time of the Note Offer, or such later expiration time if we extend the Note Offer, and, if not yet accepted for payment, after _____, 2004.

As of January 7, 2004 (the last trading day ending prior to our public announcement of our intention to commence the Note Offer), the closing bid price per share for each series of our Preferred Stock, as reported on the Nasdaq National Market, was $26.50 for our Series A Preferred Stock, $26.90 for our Series B Preferred Stock, and $34.30 for our Series C Preferred Stock. The exchange price for the Series A Preferred Stock offered by this Note Offer represented a premium of 5.1% above the bid price as

of January 7, 2004, the exchange price for the Series B Preferred Stock represented a premium of 5.7% above the bid price as of January 7, 2004, and the exchange price for the Series C Preferred Stock represented a premium of 1.5% above the bid price as of January 7, 2004. **We urge you to obtain current market quotations for the shares. See "Price Range of Preferred Stock."**

PLEASE READ THE ENCLOSED MATERIALS CAREFULLY.

For a further description of our Preferred Stock, see "Description of Capital Stock." We intend to apply for listing of the Senior Notes for trading on the New York Stock Exchange. However, there is no assurance that the Senior Notes will be listed on the New York Stock Exchange or that a liquid trading market will develop for the Senior Notes. If a trading market does develop, there can be no assurance as to any price at which the Senior Notes will trade. See "Risk Factors—By Tendering Your Preferred Stock for the Senior Notes, You Will Lose Rights Associated with Your Preferred Stock."

The Senior Notes will be unsecured obligations of Dynex Capital. The Senior Notes mature on the third anniversary of their issuance and bear interest at 9.50% per annum on the outstanding principal balance. Interest only will be paid semiannually. We will have the right to prepay the Senior Notes in whole or in part, including all interest accrued thereon, without penalty. The Senior Notes will be issued under an Indenture between Dynex Capital and Wachovia Bank, N.A., as trustee. The terms of the Senior Notes Indenture are governed by certain provisions contained in the Trust Indenture Act of 1939 (the "Trust Indenture Act"). See "Description of Senior Notes."

Our board of directors has evaluated the fairness of the recapitalization, including the Note Offer and the amendments to Dynex Capital's articles of incorporation that will result in the Series D conversion. Based on a number of factors, the board of directors has determined that the recapitalization, including the Note Offer, is fair to Dynex Capital's unaffiliated Preferred Stockholders and unaffiliated Common Stockholders from both a substantive and procedural point of view, and is advisable and in the best interests of Dynex Capital and all of its stockholders. However, neither our directors nor Dynex Capital makes any recommendation as to whether you should tender shares pursuant to this Note Offer. You must make your own decision whether to tender your shares and, if so, how many shares to tender. Neither we nor our board of directors makes any recommendation to you with respect to the Note Offer, and no person has been authorized by us or our board of directors to make any such recommendation.

We have been advised that some of our directors who hold shares of Preferred Stock intend to tender shares of Preferred Stock for Senior Notes in the Note Offer. As of December 17, 2003, our directors held 128,117 shares of Series A Preferred Stock, representing approximately 25.96% of the outstanding Series A Preferred Stock, 187,216 shares of Series B Preferred Stock, representing approximately 27.2% of the outstanding Series B Preferred Stock, and 143,980 of Series C Preferred Stock, representing approximately 21.02% of the outstanding Series C Preferred Stock.

You should carefully consider the matters discussed under "Risk Factors" commencing on page __ of this offering circular before tendering your shares of Preferred Stock.

You should evaluate carefully all of the information contained or referred to in this offering circular and make your own decision whether to tender shares pursuant to the Note Offer. We urge you to consult a tax advisor concerning any federal, state, local or foreign tax consequences of a sale of preferred stock pursuant to the Note Offer.

The address and telephone number of the principal executive offices of Dynex Capital are 4551 Cox Road, Suite 300, Glen Allen, Virginia 23060, (804) 217-5800.

THE DATE OF THIS OFFERING CIRCULAR IS _____, 2004

IMPORTANT

Any stockholder of record desiring to tender all or any portion of his, her or its shares of Preferred Stock should *either* complete and sign the letter of transmittal or a facsimile thereof in accordance with the instructions set forth therein and mail or deliver the letter of transmittal, together with the stock certificates for such shares and any required signature guarantee and any other required documents, to the exchange agent *or* comply with the book-entry transfer facility's automated tender offer program procedures described in "The Note Offer—How to Tender" to the extent it is available. A stockholder having shares of Preferred Stock registered in the name of a broker or a dealer, commercial bank, trust company or other nominee must contact those persons if the stockholder desires to tender such shares. Stockholders who desire to tender shares of Preferred Stock and whose certificates for such shares are not immediately available or whose other required documentation cannot be delivered to the exchange agent by the expiration of the Note Offer should tender such shares by following the procedures for guaranteed delivery described in "The Note Offer–How to Tender." Any stockholder of record desiring to tender shares of Preferred Stock for Senior Notes must have or establish an account with, and tender such shares through, a broker, dealer, bank or other financial institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of The Depository Trust Corporation ("DTC"). The Senior Notes will be issued only in book-entry form pursuant to a global note to be registered in the name of DTC's nominee, Cede & Co., Inc. See "The Note Offer—How to Tender—Tender Procedure for Stockholders Tendering for Senior Notes."

Questions and requests for assistance may be directed to the information agent at the address and telephone number set forth on the back cover of this offering circular. Requests for additional copies of this offering circular and all related documents may also be directed to the information agent.

The Senior Notes are being offered pursuant to an exemption from registration under Section 3(a)(9) of the Securities Act of 1933, as amended. The United States Securities and Exchange Commission does not pass upon the merits of the Senior Notes, nor does it pass upon the accuracy or completeness of any offering circular or other sales literature.

We have made no arrangements for and have no understanding with any dealer, salesman or other person regarding the solicitation of tenders hereunder, other than the information agent, and no person has been authorized to give any information or to make any representation not contained in this offering circular in connection with the Note Offer, and, if given or made, such information or representation must not be relied upon as having been authorized by us or any other person. Neither the delivery of this offering circular nor any exchange or sale shall, under any circumstances, create any implication that there has been no change in our affairs since the respective dates as of which information is given.

This offering circular does not constitute an offer to exchange or sell, or a solicitation of an offer to exchange or buy, any securities other than the securities covered by this offering circular by us or any other person, or any such offer or solicitation of such securities by us or any such other person in any state or other jurisdiction to any person to whom it is unlawful to make any such offer or solicitation. In any state or other jurisdiction where it is required that the securities offered by this offering circular be qualified for offering or that the offering be approved pursuant to tender offer statutes in such state or jurisdiction, no offer is hereby being made to, and tenders will not be accepted from, residents of any such state or jurisdiction unless and until such requirements have been satisfied.

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SUMMARY TERM SHEET

This summary term sheet highlights selected information from this offering circular but may not contain all of the information that is important to you. To better understand the Note Offer and for a more complete description of the terms of the Note Offer, you should carefully read this entire offering circular and its appendices and the other documents to which we refer. When used in this offering circular, the terms "Company," "Dynex Capital," "we," "our," "ours" and "us" refer to Dynex Capital, Inc. and its consolidated subsidiaries, unless otherwise specified or the context requires otherwise.

What Is Dynex Capital Seeking to Accomplish?

Dynex Capital is seeking to recapitalize its capital structure. We seek to accomplish this recapitalization this through two steps: (1) this offer to exchange your shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock for new 9.5% Senior Notes, due on the third anniversary of their issuance (the "Note Offer") and (2) an amendment to our articles of incorporation that will eliminate all shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock not tendered and accepted by us in the Note Offer and simultaneously convert all such shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock into a new Series D Preferred Stock (the "Series D conversion"). The Series D conversion is described in detail in the separate proxy statement that is being distributed to holders of Preferred Stock with this offering circular. You are encouraged to read the proxy statement carefully. The Note Offer and the Series D conversion are equally important parts of the recapitalization. Dynex Capital will not complete one without the other. If the Series D conversion is not approved by our stockholders, we will terminate the Note Offer without accepting any shares tendered and will not effect the Series D conversion.

See "Special Factors – Background of the Recapitalization," "—Recommendation of the Board of Directors; Fairness of the Recapitalization," "The Note Offer—Conditions to the Note Offer" and "Purposes and Effects of the Note Offer."

What Transactions Are Involved in the Recapitalization?

In this Note Offer, you are being given the opportunity to tender shares of your Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock for our new 9.50% Senior Notes. These Senior Notes will be issued in denominations of $1,000 or integral multiples thereof, based on the original issue price of each series. If you tender your shares of Preferred Stock for Senior Notes, and your tender is accepted, you will also receive cash consideration for any amount of shares tendered in excess of the nearest $1,000. If you tender all of your shares of Preferred Stock and your tender is accepted, you will not participate in the Series D conversion.

In the Series D conversion, we are seeking the approval of the holders of each series of our Preferred Stock to convert the Series A, Series B and Series C Preferred Stock into shares of a new Series D Preferred Stock and Common Stock. The Series D Preferred Stock will have an issue price of $10.00 per share, a dividend rate of 9.50%, and will be convertible one share of Preferred Stock for one share of Common Stock. The conversion will result in the elimination of the dividends in arrears for all existing series of Preferred Stock. The Series D conversion must be approved by at least two-thirds of the outstanding shares of each series of Preferred Stock. A majority of the holders of the Common Stock present at a meeting of the common stockholders is also required to approve certain aspects of the Series D conversion.

See "Special Factors – Recommendation of the Board of Directors; Fairness of the Recapitalization," "The Note Offer – Conditions to the Note Offer," "Risk Factors – The Note Offer is Subject to Certain Contingencies Which May Prevent Its Consummation."

Is Dynex Capital Willing To Complete Only Part of the Recapitalization?

No. If the Series D conversion is not approved, we will not consummate any portion of the Note Offer. Likewise, if the principal amount of Senior Notes to be issued to tendering stockholders is not at least $10,000,000, we do not intend to complete either the Note Offer or the Series D conversion.

How Many Shares of Preferred Stock are Being Sought in the Note Offer and What Consideration is Being Offered for My Shares?

We are offering to acquire up to 345,579 shares of Series A Preferred Stock, up to 481,819 shares of Series B Preferred Stock, and up to 479,512 shares of Series C Preferred Stock.

Upon the terms and subject to the conditions of the Note Offer set forth in this offering circular and the accompanying letter of transmittal, you will receive the following for your shares of Preferred Stock:

- $27.84 in principal amount of our 9.50% Senior Notes due on the third anniversary of their issuance (collectively, the "Senior Notes" and each, a "Senior Note") for each share of Series A Preferred Stock you tender, up to $9,620,000 in aggregate maximum principal amount of Senior Notes for all shares of Series A Preferred Stock tendered for Senior Notes in the Note Offer and up to an aggregate maximum of 345,579 shares of Series A Preferred Stock;
- $28.42 in principal amount of the Senior Notes for each share of Series B Preferred Stock you tender, up to $13,693,000 in aggregate maximum principal amount of Senior Notes for all shares of Series B Preferred Stock tendered for Senior Notes in the Note Offer and up to an aggregate maximum of 481,819 shares of Series B Preferred Stock; and
- $34.80 in principal amount of the Senior Notes for each share of Series C Preferred Stock you tender, up to $16,687,000 in aggregate maximum principal amount of Senior Notes for all shares of Series C Preferred Stock tendered for Senior Notes in the Note Offer and up to an aggregate maximum of 479,512 shares of Series C Preferred Stock.

The per share principal amount to be received for each share of Preferred Stock tendered in the Note Offer is equal to 116% of the original issue price of each share of Preferred Stock. The Senior Notes will be issued in denominations of $1,000 or integral multiples thereof. In cases where the aggregate consideration for shares of each series you tender (determined by multiplying the aggregate issue price of each share of your Preferred Stock by 116%) is not an even multiple of $1,000, you will receive cash for the amount in excess of the nearest lower $1,000 multiple not to exceed $999.99. For a more detailed description of the terms of the Senior Notes being offered, please see "Description of Senior Notes."

We have the right to extend or amend the Note Offer in our sole and absolute discretion and the right to terminate the Note Offer at any time prior to the expiration time of the Note Offer if the conditions to the Note Offer are not satisfied.

See "The Note Offer – General" and "—Expiration Time, Extensions, Termination and Amendments."

What Are the Principal Terms of the Senior Notes I Will Receive in Exchange for My Preferred Stock?

The Senior Notes will be unsecured obligations of Dynex Capital. The Senior Notes mature on the third anniversary of their issuance and bear interest at 9.50% per annum on the outstanding principal balance. Interest will accrue on the Senior Notes commencing on the earlier of April 7, 2004 or the date of issuance and will be paid semiannually. The entire principal amount will be due at maturity. Dynex Capital will have the right to prepay the Senior Notes in whole or in part, including all interest accrued thereon, without penalty. Dynex Capital also will have the right to purchase the Senior Notes in the open market. The Senior Notes will be issued under an Indenture between Dynex Capital and Wachovia Bank, N.A., as trustee. The terms of the Senior Notes Indenture are governed by certain provisions contained in the Trust Indenture Act. See "Description of Senior Notes."

Will I Receive a Premium Above the Current Market Value for Tendering My Preferred Stock?

Whether you will receive a premium above the current market value of the Preferred Stock for tendering shares of Preferred Stock will depend on the market value of our Preferred Stock on the date the Note Offer is completed. As of January 7, 2004 (the last trading day ending prior to our public announcement of our intention to commence the Note Offer), the closing bid price per share for each series of our Preferred Stock, as reported on the Nasdaq National Market, was $26.50 for our Series A Preferred Stock, $26.90 for our Series B Preferred Stock, and $34.30 for our Series C Preferred Stock. The exchange price for the Series A Preferred Stock for the Senior Notes offered by this Note Offer represented a premium of 5.1% above the bid price as of January 7, 2004, the exchange price for the Series B Preferred Stock represented a premium of 5.7% above the bid price as of January 7, 2004, and the exchange price for the Series C Preferred Stock represented a premium of 1.5% above the bid price as of January 7, 2004.

See "Special Factors – Recommendation of the Board of Directors; Fairness of the Recapitalization," "The Note Offer – General – The Note Offer," "Purposes and Effects of the Note Offer" and "Price Range of Preferred Stock."

What Will Happen to the Dividend Arrearages on My Existing Preferred Stock?

If you tender your shares of Series A Preferred Stock, Series B Preferred Stock or Series C Preferred Stock, and your tender is accepted, your Preferred Stock will be cancelled, and you will not receive any dividends on the shares accepted by Dynex Capital, including any accumulated dividend arrearages on those shares of Preferred Stock.

For a description of the anticipated tax implications of the elimination of the arrearages on the existing shares of Preferred Stock, see "Material United States Federal Income Tax Consequences."

Are There any Conditions to the Note Offer?

The completion of the Note Offer is subject to the completion of the Series D conversion, which itself is subject to several conditions, including the following:

- approval of the amendment to our articles of incorporation by the holders of at least two-thirds of the outstanding shares of each series of the existing Preferred Stock.
- approval of the issuance of additional Common Stock in connection with the Series D conversion by a majority of the holders of Common Stock present at a meeting of the common stockholders.

In addition, the completion of the Note Offer is subject to a minimum tender of shares of Preferred Stock that will result in the issuance of at least $10,000,000 in Senior Notes. The board can waive this condition at any time.

If the Series D Conversion is not approved by two-thirds of the holders of each of the Series A, Series B and Series C Preferred Stock, we expect to terminate the Note Offer without accepting any of the shares of Preferred Stock that are tendered. If the Series D conversion is not approved, the holders of Preferred Stock will continue to hold those shares and will continue to be entitled to the dividends and other rights now provided for with respect to each existing series of Preferred Stock.

The Note Offer is also subject to certain general conditions, including the absence of court and government actions prohibiting the Note Offer, general market conditions, the condition of our business, and the Indenture under which the Senior Notes will be issued being qualified under the Trust Indenture Act. See "The Note Offer—Conditions to the Note Offer."

What Are the Reasons for the Recapitalization?

We have been engaged in a number of recapitalization transactions since 1999, including completed tender offers for Preferred Stock in 2001 and 2003 and significant balance sheet restructuring, primarily related to the sale of assets and the repayment of recourse debt. We have decided to pursue the recapitalization at this time because of a number of factors, including:

- a desire to give the holders of Preferred Stock an opportunity through this Note Offer to exchange their shares for a new series of Senior Notes and/or through the Series D conversion convert their existing shares into a new Series D Preferred Stock, both of which will be issued in a principal amount or issue price that is a premium to the bid price as of January 7, 2004, the last trading day before we announced the proposed recapitalization;
- a desire to enhance shareholder value by simplifying our capital structure and eliminating dividends-in-arrears on the existing Preferred Stock in anticipation of actively pursuing new strategic alternatives for Dynex Capital; and
- a desire to offer the holders of Preferred Stock a new series of Preferred Stock with potentially improved liquidity, a guaranty of future representation on the board of directors and stronger covenants if we fail to pay future dividends or otherwise fall below certain financial thresholds.

See "Special Factors—Background of the Recapitalization" and "—Reasons for the Note Offer."

What Process Did the Board Use in Deciding to Pursue the Recapitalization?

The decision to pursue the recapitalization was the result of deliberations by the board of directors and a committee it appointed in 2002 to consider the possibility of changes in our capital structure and other strategic alternatives. The committee conducted numerous meetings and considered a variety of alternatives, and recommended the recapitalization, including the Note Offer and the Series D conversion, to the full board, which unanimously approved the proposed recapitalization. See "Special Factors – Background of the Recapitalization" and "—Recommendation of the Board of Directors; Fairness of the Recapitalization."

Do the Board and Its Committee Believe That the Recapitalization Is Fair to Existing Stockholders?

Yes. Although the board of directors and its committee did not obtain an appraisal or fairness opinion from a separate financial advisor, both the board and the committee believe that the recapitalization, including the Note Offer and the Series D conversion, is both substantively and procedurally fair to the existing holders of the Preferred Stock, including the unaffiliated stockholders, because:

- the holders of Preferred Stock are being given the option to tender their shares for Senior Notes that will be issued in principal amounts representing a premium to the bid price immediately prior to the announcement of the Note Offer, and all holders of Preferred Stock will be treated equally in the Note Offer;

- the holders of Preferred Stock whose shares are converted in the Series D conversion will be treated equally within each series and among the series in the application of the conversion ratios being used to compute the number of shares of Series D Preferred Stock and Common Stock to be received by each stockholder;
- the improved conversion features of the Series D Preferred Stock will create greater opportunities for the holders of Preferred Stock to participate in any future success of Dynex Capital's business strategies by lowering the conversion price into Common Stock from $48 or higher to $10 per share of Common Stock;
- the holders of the new Series D Preferred Stock will be assured of continued representation on Dynex Capital's board of directors, whereas their right to representation on the board of directors under the terms of the existing Preferred Stock depends on our failure to cure current dividend arrearages;
- by combining the three series of Preferred Stock, and providing for the listing of Series D Preferred Stock on a public market, we believe the liquidity of the Preferred Stock will be improved;
- the holders of the Series D Preferred Stock will convert their shares into a senior debt instrument if Dynex Capital fails in the future to maintain current dividends or maintain its stockholders' equity above a required threshold, a right that they do not have under the terms of the existing Preferred Stock; and
- the Series D conversion cannot be approved without the affirmative vote of the holders of two-thirds of each series of Preferred Stock, and the level of ownership of our directors ensures that, as a mathematical issue, at least a majority of unaffiliated holders of each series of Preferred Stock will be necessary to approve the Series D conversion in order for the Series D conversion to be approved.

See "Special Factors – Recommendation of the Board of Directors; Fairness of the Recapitalization."

Did the Board of Directors and the Committee Consider Alternatives to the Note Offer and the Series D Conversion?

Yes. The board of directors and its committee considered four principal alternatives to the Note Offer and Series D conversion:

- **Sale.** Dynex Capital began exploring the possible sale of the company in 1999, resulting in the execution of a merger agreement in November 2000. For a number of reasons, the transaction was not completed and the merger agreement was terminated in January 2001. Since that time Dynex Capital has had various discussions with possible interested parties, but has held no substantive discussions since June 2002. The board and the committee believe that our ability to pursue a sale transaction is complicated by our complex capital structure and by our continued ownership of certain assets that are disfavored in the current market, including our portfolio of manufactured home

loans. We also had net operating loss carryforwards of approximately $130 million as of December 31, 2002, and have not been able to find a transaction that would allow our stockholders to receive suitable consideration for that asset.

- **Liquidation.** We have considered the possibility of liquidating the assets on our balance sheet and returning the proceeds of liquidation to our stockholders. The board and the committee have concluded that we would be unable in the near term to realize the full value of our assets, including our large loss carryforwards, through a liquidation scenario. The difficulty of conducting a successful liquidation is affected by our ownership of complex financial assets that are difficult to price, and by the fact that in a liquidation scenario we would likely be required to substantially discount assets on our balance sheet in order to find a willing buyer.
- **Strategic alternatives.** We have also considered the pursuit of strategic alternatives that would allow us to expand our business and more fully use the available loss carryforwards. As we have previously reported, we have explored the pursuit of a variety of strategic alternatives, including engaging a third-party manager and the possibility of acquiring a financial institution. The substantial dividend arrearages on the Preferred Stock, together with the overall complexity of our capital structure, have been impediments to the successful pursuit of a number of strategic alternatives we have considered.
- **No recapitalization.** We have also considered the effect of electing not to restructure our Preferred Stock. Although we believe that we will generate cash flow sufficient to eliminate the dividend arrearages and/or pay future dividends, this option does not permit us to deploy as much capital to strategic alternatives and does not solve our long-term need to simplify our capital structure.

See “Special Factors – Background of the Recapitalization” and “—Reasons for the Note Offer.”

Has Dynex Capital or its Board Of Directors Adopted a Position on the Note Offer and the Series D Conversion?

Our board of directors has approved the making of this Note Offer. However, neither our directors nor Dynex Capital makes any recommendation as to whether you should tender shares pursuant to this Note Offer. You must make your own decision whether to tender shares and, if so, how many shares to tender.

As described in the proxy statement, our board of directors has recommended that our Preferred Stockholders vote “FOR” the Series D conversion. See “Special Factors – Recommendation of the Board of Directors; Fairness of the Recapitalization.”

Will the Recapitalization Result in a Change of Control of Dynex Capital?

No. If the minimum shares of each series of existing Preferred Stock are tendered and accepted in the Note Offer (17.5%) or the maximum shares of each series are tendered and accepted (70%), we would issue approximately 1,079,110 or 392,404 shares, respectively, of additional Common Stock in the Series D conversion, which would represent only 9.9% or 3.6%, respectively, of the issued and outstanding shares of Common Stock. Because the holders of Preferred Stock are being treated equally in the Note Offer and Series D conversion, the holders of Series D Preferred Stock after the conversion will own Preferred Stock in proportions similar to their pre-conversion ownership of the three existing series of Preferred Stock, subject only to differences arising from individual elections to tender shares in the Note Offer and

from the different conversion ratios that are based on the existing differences in the original issue price of the three series of Preferred Stock.

What Are the Federal Income Tax Consequences of the Note Offer?

For federal income tax purposes, the exchange of shares of Preferred Stock for Senior Notes (and any cash received in lieu of a fractional interest in a Senior Note) will be treated either as (i) a sale or exchange of the tendering stockholder's shares, in which case the stockholder should recognize capital gain or loss equal to the difference between the fair market value of the Senior Notes received (plus any cash received in lieu of a fractional interest in a Senior Note) and the stockholder's adjusted basis in the shares of Preferred Stock exchanged, or (ii) a deemed distribution of property by us with respect to such shares, in which case, given that we do not anticipate having current or accumulated earnings and profits as of the date of the exchange, a tendering stockholder should recognize capital gain to the extent the fair market value of the Senior Notes (plus any cash received in lieu of a fractional interest in a Senior Note) exceeds the stockholder's adjusted tax basis in the shares of Preferred Stock exchanged.

See "Material United States Federal Income Tax Consequences" for a discussion of material federal income tax consequences associated with the Note Offer and ownership of Senior Notes. See also "Risk Factors—Certain United States Federal Income Tax Risks Associated with the Note Offer" for certain federal income tax risks associated with the Note Offer.

Will the Senior Notes Be Subordinate to the Senior Notes Issued by Dynex Capital in February 2003?

No. We intend to redeem the Senior Notes issued by us in February 2003 prior to the completion of the Note Offer. The Senior Notes issued in the Note Offer will be the only outstanding senior unsecured indebtedness of Dynex Capital. See "Special Factors – Background of the Recapitalization," and "The Note Offer—Source and Amount of Funds."

Who Is Offering to Acquire My Shares in the Note Offer?

Dynex Capital is offering to acquire your shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock. For information about our business and certain recent developments, see "Business," and for information about the Note Offer, see "The Note Offer."

How Long Will I Have to Tender My Preferred Stock?

You may tender your shares of Preferred Stock until the Note Offer expires. The Note Offer will expire on _____, 2004 at 5:00 p.m., New York City time, unless we extend it. We may choose to extend the Note Offer for any reason. See "The Note Offer–Expiration Time, Extensions, Termination and Amendments."

Is There a Minimum or Maximum Number of Shares of Preferred Stock You Will Accept in the Note Offer?

We will accept up to an aggregate of 345,579 shares of Series A Preferred Stock, up to an aggregate of 481,819 shares of Series B Preferred Stock, and up to an aggregate of 479,512 shares of Series C Preferred Stock. This represents approximately 70% of the shares of each series of our Preferred Stock outstanding as of December 31, 2003.

The Note Offer is conditioned upon a minimum tender of shares of Preferred Stock that will result in the issuance of at least $10,000,000 in aggregate principal amount of Senior Notes. This represents approximately 17.5% of the shares of each series of our Preferred Stock outstanding as of

December 31, 2003. If the principal amount of Senior Notes to be issued to tendering stockholders is not at least $10,000,000, we do not intend to complete either the Note Offer or the Series D conversion.

See "The Note Offer—Conditions to the Note Offer."

How Will Dynex Capital Determine Which Shares to Accept If the Note Offer Is Oversubscribed?

If more shares of any series of the Preferred Stock are tendered than we are offering to acquire, we will accept shares of that series that are validly tendered on a pro-rata basis, based on the number of shares of that series that are tendered. See "The Note Offer—Proration if Shares of Series of Preferred Stock Tendered Exceed Maximum; Limitations on Senior Notes Consideration."

Will Dynex Capital's Officers and Directors Be Participating in the Note Offer?

Yes. Certain members of the board of directors have informed us that they will participate in the Note Offer. The sole executive officer of Dynex Capital does not own any Preferred Stock. See "The Note Offer – Executive Officer and Director Participation."

How Do I Tender My Preferred Stock?

If you wish to tender your shares of Preferred Stock in the Note Offer:

- You must deliver the share certificate(s) representing your Preferred Stock, a properly completed and duly executed letter of transmittal for the shares and other documents required by the letter of transmittal to the exchange agent at the address set forth in the section entitled "Available Information" and appearing on the back cover of this Note Offering Circular prior to 5:00 p.m., New York City time, on _____, 2004;
- If your shares of Preferred Stock are held in street name – that is, through a broker, dealer or other nominee – you must contact that institution to tender your shares of Preferred Stock. The exchange agent must receive a confirmation of receipt of your shares by book-entry transfer and a properly completed and duly executed letter of transmittal for such shares;
- You must comply with The Depository Trust Company's Automated Tender Offer Program; or
- If you cannot provide the exchange agent with all required documents by the Expiration Time of the Note Offer, you may obtain additional time to submit any missing items by submitting a Notice of Guaranteed Delivery to the exchange agent. See "The Note Offer—How to Tender." However, for your tender to be valid, the exchange agent must receive the missing items within three Nasdaq trading days of the date the exchange agent received your Notice of Guaranteed Delivery.

Further, because the Senior Notes issued pursuant to this Note Offer will be issued in book-entry form only, you must have or establish an account with, and tender those shares through, a broker, dealer, bank or other financial institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of the DTC.

Contact the information agent for assistance. See "The Note Offer—How to Tender."

Will I Be Able to Withdraw Shares of Preferred Stock That I Tender into the Note Offer?

Yes. You may withdraw tenders of shares of Preferred Stock pursuant to the Note Offer at any time prior to 5:00 p.m. on _____, 2004, the expiration time of the Note Offer, or such later expiration time as we specify if we extend the Note Offer. Unless we have previously accepted the shares you have tendered, you may also withdraw your shares after _____, 2004. Except for these rights of withdrawal, all tenders are irrevocable. See "The Note Offer—Withdrawal Rights."

How Will I Be Notified if Dynex Capital Extends the Note Offer?

We will issue a press release by 9:00 a.m., New York City time, no later than the business day after the previous scheduled expiration time if we decide to extend the Note Offer. See "The Note Offer—Expiration Time, Extensions, Termination and Amendments."

When Will I Receive Senior Notes in Exchange for My Preferred Stock Tendered?

Subject to the satisfaction or waiver of all conditions to the Note Offer, and assuming we have not previously elected to terminate or amend the Note Offer, we expect the Note Offer to be completed on the day of the special meeting of the preferred stockholders, or shortly after that date. We will accept shares that are properly tendered and not withdrawn prior to the expiration of the Note Offer at 5:00 p.m., New York City time, on _____, 2004, or such later expiration time as we specify if we extend the Note Offer. As soon as practicable following the expiration time of the Note Offer, Senior Notes and cash consideration for the excess amount of accepted Preferred Stock not divisible in the aggregate by $1,000 will be delivered for your shares of Preferred Stock, in the manner described in this offering circular (subject to any required prorating), up to the maximum aggregate amount we are offering to acquire. Payment of cash and issuance of the Senior Notes is expected to occur no later than _____, 2004 (the "Closing Date"). See "The Note Offer—Acceptance of Shares of Preferred Stock for Exchange; Delivery of Senior Notes to be Exchanged."

Will the Senior Notes Be Listed for Trading on a Securities Exchange?

We intend to apply for listing of the Senior Notes for trading on the New York Stock Exchange. However, there is no assurance that the Senior Notes will be listed on the New York Stock Exchange or that a liquid trading market will develop for the Senior Notes. If a trading market does develop, there can be no assurance as to any price at which the Senior Notes will trade. The Senior Notes will be issued only in book-entry form. Generally, the Senior Notes that you receive in the Note Offer will be freely tradable, unless you are considered an affiliate of ours, as that term is defined in the Securities Act of 1933, as amended (the "Securities Act"). See "Risk Factors—By Exchanging Preferred Stock for the Senior Notes, You Will Lose Rights Associated with Your Preferred Stock" and "The Note Offer—General—The Note Offer."

Will the Senior Notes Be Registered With the Securities and Exchange Commission?

No. In making the Note Offer, we are relying on an exemption from the registration requirements of the Securities Act. Under that exemption, if the shares of Preferred Stock you tender are freely tradable, the Senior Notes you will receive in the Note Offer will be freely tradable. If the shares of Preferred Stock you tender in the Note Offer are restricted, the Senior Notes you receive will be restricted to the same degree. See "The Note Offer—Exemption from Registration Requirements."

How Will Dynex Capital Finance the Note Offer and the Recapitalization?

We expect to fund the payment of fees and expenses related to the Note Offer from available cash. The exchange for Preferred Stock tendered for Senior Notes will be funded by the issuance of the Senior Notes. In addition, to the extent we pay any cash in connection with tenders for Senior Notes

(because the Senior Notes will be issued only in denominations of $1,000 or integral multiples of $1,000), we expect to fund those cash payments from available cash. See "The Note Offer – Source and Amount of Funds."

How Will Dynex Capital Pay the Interest and Repay the Principal on the Senior Notes?

We expect to pay the interest and repay the principal on the Senior Notes from cash flow generated by our investment portfolio. For the quarter ended September 30, 2003, our investment portfolio produced a cash flow of approximately $14.0 million (unaudited). See "Business."

Will the Note Offer Affect Trading of the Preferred Stock on the Nasdaq National Market?

If we complete the Note Offer and the Series D conversion, there will be no shares of Series A Preferred Stock, Series B Preferred Stock or Series C Preferred Stock outstanding. This will necessarily result in the delisting of our Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock from the Nasdaq National Market.

We intend to apply for listing of the new Series D Preferred Stock for quotation on the Nasdaq National Market. However, there is no assurance that the Series D Preferred Stock will be listed on the Nasdaq National Market or that a liquid trading market will develop for the Series D Preferred Stock. If a trading market does develop, there can be no assurance as to any price at which the Series D Preferred Stock will trade.

See "Purposes and Effects of the Note Offer" and "Risk Factors – The Market May View the Note Offer Unfavorably, Which May Adversely Affect the Market Price of the Preferred Stock and the Senior Notes."

Will I Have to Pay Brokerage Commissions if I Tender My Shares?

If you are a registered stockholder and you tender your shares directly to the exchange agent, you will not incur any brokerage commissions. If you hold shares through a broker or bank, we urge you to consult your broker or bank to determine whether any transaction costs will apply. See "The Note Offer – General – The Note Offer."

Will I Have to Pay a Stock Transfer Tax if I Tender My Shares?

If you instruct the exchange agent in the related letter of transmittal to make the payment for the shares to the registered holder, you will not incur any stock transfer tax. See "The Note Offer – Payment of Expenses" and "—Acceptance of Shares of Preferred Stock for Exchange; Delivery of Senior Notes to Be Exchanged."

Who Will Serve as the Exchange Agent in Connection With the Note Offer?

Wachovia Bank, N.A., will serve as the exchange agent for the Note Offer. See "The Note Offer—Exchange Agent" and the information set forth on the back cover of this offering circular.

Who Will Serve as the Information Agent in Connection With the Note Offer?

MacKenzie Partners, Inc. will serve as information agent in connection with the Note Offer. The information agent's telephone number is (212) 929-5500 or (800) 322-2885 (toll free). See "The Note Offer—Information Agent" and the information set forth on the back cover of this offering circular. The information agent can help answer your questions.

What if I Decide Not to Tender Shares of My Preferred Stock?

If we complete the recapitalization, you will receive shares of new Series D Preferred Stock and Common Stock for any shares of Preferred Stock that you do not tender in the Note Offer. We anticipate that the new Series D Preferred Stock will be quoted on the Nasdaq National Market. However, we cannot assure you that a liquid market to trade our Series D Preferred Stock will exist, nor can we assure you that your shares of Series D Preferred Stock will not decline in price. If the Series D conversion does not occur, the holders of Preferred Stock will continue to hold those shares and will continue to be entitled to the dividends and other rights now provided for with respect to each existing series of Preferred Stock.

Should I Vote "FOR" the Series D Conversion Even if I Plan to Tender All of My Shares of Preferred Stock?

Yes. We do not expect to complete the Note Offer until shortly after the special meeting at which the Series D conversion is approved by the holders of Dynex Capital's existing Preferred Stock. For this reason, even if you plan to tender your shares of Preferred Stock, you will continue to hold shares of Preferred Stock and be entitled to vote at the special meeting. Because the holders of two-thirds of the outstanding shares of each series of Preferred Stock must approve the Series D conversion in order for the Series D conversion to proceed, and because we do not plan to consummate the Note Offer unless the Series D conversion takes place, you will have an interest in the outcome of the vote even if your intention is to tender all of your shares of Preferred Stock. See "The Note Offer – Conditions to the Note Offer."

WHO CAN HELP ANSWER YOUR QUESTIONS?

If you have any questions concerning the Note Offer or if you would like additional copies of the offering circular, please call Dynex Capital at (804) 217-5800. The summary information provided above in "question and answer" format is for your convenience only and is merely a summary of material information contained in this offering circular. **You should carefully read this offering circular and the accompanying proxy statement (including the appendices) in their entirety.**

SPECIAL FACTORS

Background of the Recapitalization

Dynex Capital, Inc. was incorporated in Virginia in 1987. Dynex Capital is a financial services company that invests in loans and securities principally consisting of or secured by single family mortgage loans, commercial mortgage loans, manufactured housing installment loans and delinquent property tax receivables. The loans and securities in which Dynex Capital invests have generally been pooled and pledged (i.e., securitized) as collateral for non-recourse bonds ("collateralized bonds"), which provides long term financing for those loans while limiting credit, interest rate and liquidity risk. We have elected to be treated as a REIT for federal income tax purposes, and as a REIT, must distribute substantially all of our taxable income to stockholders.

Dynex Capital's principal source of earnings historically has been net interest income from its investment portfolio. Until 1999, Dynex Capital had generally created investments for its portfolio through the issuance of non-recourse collateralized bonds secured by a pledge of loans and securities as collateral for collateralized bonds. Dynex Capital engaged in a number of loan origination businesses, including single family mortgage lending, commercial mortgage lending, and manufactured housing lending. However, in 1999, as a result of disruptions in the fixed income markets, we implemented a fundamental shift in our business plan to conserve capital and repay recourse debt outstanding, and those businesses have since been sold or discontinued. Dynex Capital's investment portfolio has been declining as a result of sales and pay-downs, with little additional investment having been made by Dynex Capital over the last four years. Since 2000, Dynex Capital's business operations have essentially been limited to the management of its investment portfolio and the active collection of our portfolio of delinquent property tax receivables.

In the last several years, Dynex Capital has conducted several tender offers designed to create additional liquidity for the holders of Preferred Stock and to reduce the outstanding dividend arrearages on the Preferred Stock, which amounted to $17.3 million at September 30, 2003. In 2001, Dynex Capital completed two separate tender offers for the Preferred Stock, resulting in the purchase of more than 1.3 million shares of the Preferred Stock for an aggregate purchase price of $20.0 million, but which shares had an aggregate issue price of $34.4 million, and including dividends-in-arrears, a liquidation preference of $40.9 million. Dynex Capital completed a third tender offer for its Preferred Stock in February 2003. In that offer, Dynex Capital purchased for cash 188,940 shares of its Series A Preferred Stock, 272,977 shares of its Series B Preferred Stock, and 268,792 shares of its Series C Preferred Stock for a total cash payment of $19.3 million. In addition, Dynex Capital exchanged an additional 309,503 shares of Series A Preferred Stock, 417,541 shares of Series B Preferred Stock, and 429,847 shares of Series C Preferred Stock for a series of new 9.50% Senior Notes totaling $30.21 million and due February 28, 2005 (the "2005 Senior Notes"). Dynex Capital paid off its last recourse obligation in December 31, 2002, and was able to complete the cash portion of the 2003 tender offer utilizing cash flow generated from its investment portfolio. Since the completion of the 2003 tender offer, Dynex Capital has been able to use additional cash flow to prepay $10.0 million of the 2005 Senior Notes ahead of their contractual due date, and, in part because restrictions imposed by the 2005 Senior Notes prohibit certain aspects of the recapitalization, intends to complete the prepayment of the 2005 Senior Notes prior to the completion of the of the recapitalization.

Since 1999, we have explored a variety of alternatives for improving value for our preferred and common stockholders. We have considered a sale, but have not received significant indications of interest in purchasing Dynex Capital or its assets for consideration that would provide proceeds sufficient to satisfy our obligations with respect to the Preferred Stock (including obligations for dividend arrearages) and still allow any significant return to the common stockholders. We have received no firm offers since late 2000, and although Dynex Capital negotiated a sale in late 2000, that transaction would have required a substantial discount to be accepted by the holders of Preferred Stock, and provided for

holders of Common Stock to receive only $2.00 per share. That transaction was terminated in 2001 before being submitted for stockholder vote.

We have also at various times evaluated the benefits of a liquidation of the company. The most significant impediments to Dynex Capital's ability to pursue a transaction that would involve the sale or liquidation of Dynex Capital are the complicated capital structure of Dynex Capital and the fact that significant assets held by Dynex Capital are in businesses that are perceived as relatively less attractive, including manufactured home lending and the collection of delinquent property tax receivables. In exploring the possibility of liquidation, Dynex Capital has also determined that both because of the character of its assets and of the likely perception of reduced negotiating leverage that would accompany an announced liquidation plan, Dynex Capital would not be able to realize the full value of its assets upon liquidation. In addition, because Dynex Capital sold substantial assets over the last several years in order to free up capital and repay its secured indebtedness in full, the present assets of Dynex Capital consist disproportionately of less saleable assets that we believe have more value on the balance sheet of Dynex Capital than in a sale or liquidation scenario.

A primary consideration of Dynex Capital when considering any strategic alternative involves the availability to Dynex Capital of approximately $130 million of net operating loss carryforwards and $61 million in capital loss carryforwards that could be used in the future to offset REIT distribution requirements and therefore allow Dynex Capital to retain capital for investment in a strategic plan. In addition, Dynex Capital could elect to forego REIT status and use its net operating loss carryforwards as a shelter for taxable income for Dynex Capital itself or for any taxable REIT subsidiary Dynex Capital might establish. This option will allow Dynex Capital to explore business strategies that include activities not traditionally associated with REITs. Dynex Capital views the carryforwards as significant potential assets, and in evaluating alternatives, has taken into consideration the fact that Dynex Capital would be unlikely to realize significant value for these assets in most sale or liquidation transactions.

We also considered the option of using cash flow to eliminate the existing dividend arrearages. Once the 2005 Senior Notes are prepaid, we will be free of restrictions on the payment of preferred stock dividends, and will no longer be obligated to use liquidity to pay interest on that indebtedness. We continue to generate substantial cash flow, and could choose to use that liquidity to catch up on previously accrued preferred stock dividends and pay future dividends on that stock. However, this option would hamper our ability to deploy capital to potential strategic alternatives and would not solve our long-term need to simplify our capital structure.

Our primary focus at the present time is to maximize cash flows from our investment portfolio and opportunistically call securities pursuant to clean-up calls if the underlying collateral has value for Dynex Capital. Longer term, the board of directors is continuing to evaluate alternatives for the use of Dynex Capital's cash flow in an effort to improve overall stockholder value. This evaluation has and will continue to include a number of alternatives, including the acquisition of a new business. In 2002, for example, we actively explored the possibility of acquiring a financial institution. During the course of this evaluation, the board of directors determined that we would be unable to complete such a transaction in part because of the substantial dividend arrearages outstanding on the Preferred Stock. As a result, in September 2002, the Board of Directors formed a committee to explore various alternatives with respect to the Preferred Stock.

Since 2002, this committee has met regularly with management and discussed numerous strategic alternatives with respect to Dynex Capital and the Preferred Stock. The committee's efforts resulted in the completed tender offer in February 2003, which eliminated a substantial portion of the Preferred Stock dividend arrearages. The committee has continued to meet regularly to discuss the Preferred Stock. The committee, the board and management have also consulted regularly with legal counsel and Dynex Capital's auditors. The committee approved the proposal for the Note Offer and the Series D conversion at a telephone meeting held on November 25, 2003, and recommended approval of this recapitalization plan to the full board of directors. The board of directors met by telephone to discuss and give tentative

approval to the recapitalization on December 15, 2003, and met again to give final approval to the plan on January 6, 2004.

Reasons for the Note Offer

Dynex Capital's primary reasons for carrying out the recapitalization, including the Note Offer, are to provide the holders of the Preferred Stock with increased liquidity for their shares, to simplify Dynex Capital's capital structure in order to enhance our ability to pursue strategic alternatives, and to enhance overall stockholder value by completing the recapitalization of the Preferred Stock at discounts to their current liquidation preferences. The board of directors has unanimously determined that the terms of the recapitalization, including the Series D conversion, are substantively and procedurally fair to, and in the best interests of, all of Dynex Capital's stockholders, including the holders of Common Stock, the holders of Preferred Stock and the holders of all classes of stock who are unaffiliated with Dynex Capital. The recapitalization was unanimously approved by the board of directors, and the board recommends that the holders of Preferred Stock vote for the proposed articles of amendment to Dynex Capital's articles of incorporation that are necessary to effect the Series D conversion.

In addition, because of New York Stock Exchange requirements, Dynex Capital is also required to seek the approval of the holders of its Common Stock for the aspects of the Series D conversion that involve the issuance of additional shares of Common Stock, and the board has also recommended that the holders of its Common Stock approve those aspects of the Series D conversion. Dynex Capital will provide a separate proxy statement and related disclosure to the holders of Common Stock, who are expected to vote on aspects of the Series D conversion at a separate meeting of Common Stockholders to be held contemporaneously with the special meeting of Preferred Stock holders.

We have been advised by each of Dynex Capital's directors and its sole executive officer that he intends to vote all of the shares of Preferred Stock and Common Stock beneficially owned by him in favor of the Series D conversion. However, as of _____, 2004, the directors and the sole executive officer of Dynex Capital beneficially owned only the following outstanding shares:

Name	Common Stock	% of outstanding	Series A Preferred	% of outstanding	Series B Preferred	% of outstanding	Series C Preferred	% of outstanding
Stephen J. Benedetti	18,114	*	—	—	—	—	—	—
J. Sidney Davenport	25,356	*	—	—	—	—	—	—
Thomas H. Potts	326,495	3.0%	—	—	—	—	—	—
Donald B. Vaden	9,483	*	—	—	—	—	—	—
Eric P. Von der Porten	140,200	1.29%	—	—	1,598	*	3,225	*
Leon A. Felman	12,570	*	—	—	—	—	20,847	3.04%
Barry Igdaloff	22,280	*	49,546	10.04%	52,820	7.68%	67,300	9.83%
Thomas B. Akin	994,000	9.14%	78,571	15.92%	132,798	19.30%	52,608	7.68%
Total:	1,548,498	14.24%	128,117	25.96%	187,216	27.20%	143,980	21.02%

* Less than 1% of shares outstanding.

In making its unanimous determination that the terms of the recapitalization, including the Series D conversion, are fair to, and in the best interests of, the unaffiliated holders of the Preferred Stock and the Common Stock, and its decision to approve the articles of amendment and to recommend that the holders of Preferred Stock and Common Stock approve the articles of amendment and the other terms of the Series D conversion, the board considered:

- The determination by a committee of the board of directors that the terms of the recapitalization, including the Series D conversion, are substantively and procedurally fair to, and in the best interests of, the unaffiliated holders of the Preferred Stock and the Common Stock, and the recommendation by the committee that the board approve the articles of amendment and that the board recommend to Dynex Capital's stockholders that they approve and adopt the articles of amendment and other terms of the Series D conversion; and
- The factors considered by a committee of the board of directors in its deliberations, as described below.

In connection with this consideration of the determination by the committee, and as part of its determination with respect to the fairness of the consideration that will be received by the holders of the Preferred Stock in the Series D conversion, the board expressly adopted the conclusions and underlying reasoning of the committee, based upon the view of the board that the conclusions and factors considered by the committee were reasonable.

The committee considered the following factors, which constitute the material factors considered by the committee in making its own determination that the terms of the recapitalization, including the Series D conversion, were both substantively and procedurally fair to, and in the best interests of, the unaffiliated holders of the Preferred Stock and the Common Stock, and its decision to recommend that the board of directors approve the articles of amendment and recommend to Dynex Capital's stockholders that they approve and adopt the articles of amendment and the other terms of the Series D conversion:

- The Note Offer, which is an integral part of the overall recapitalization plan, will give holders of the Preferred Stock the option of exchanging their shares for a new series of Senior Notes that will be issued at a premium to the bid price of the Preferred Stock prior to the announcement of the Note Offer.
- The elimination of the dividend arrearages in the three separate series of Preferred Stock, the replacement of three series with a single series, and the reduction in the overall amount of Preferred Stock outstanding will simplify our capital structure, and should create opportunities for us to engage in strategic transactions, access the capital markets, and/or reinvest in business activities.
- The Note Offer will benefit Dynex Capital by freeing it of significant dividend arrearages and future dividend obligations by exchanging Preferred Stock for Senior Notes issued at a premium to the original issue price and bid price of the Preferred Stock prior to the announcement of the Note Offer, but at a discount to its present liquidation value.
- The improved conversion features of the Series D Preferred Stock will create greater opportunities for the holders of Preferred Stock to participate in any future success in Dynex

Capital's business strategies by lowering the conversion price into shares of Common Stock from $48 or higher to $10 per share of Common Stock.

- The conversion of the three series of Preferred Stock into Series D Preferred Stock, the elimination of the dividend arrearages, and the payment of dividends on Series D Preferred Stock will likely enhance the market liquidity of the Series D Preferred Stock relative to the existing liquidity of the three separate series of Preferred Stock.
- The value of the consideration received by the Preferred Stockholders in either the Note Offer or the Series D conversion represents fair value in relation to the market price of the Preferred Stock immediately prior to the announcement of the recapitalization, and exceeds and is a premium to the historical prices of the Preferred Stock. The consideration also exceeds the consideration paid in Dynex' previous tender offers in 2001 and 2003.
- Although the committee did not obtain an appraisal or explicitly compare the consideration being made available in the Note Offer and the Series D conversion to the liquidation or going concern value of Dynex Capital, the committee concluded that these comparisons would not be appropriate. The committee considered the fact that Dynex Capital has not received any firm offers for the company or its assets since late 2000, the fact that the agreement entered into in late 2000 was at a price substantially below the value of the recapitalization to both the Preferred Stockholders and Common Stockholders, and the fact that Dynex Capital is unlikely to be able to liquidate many of its significant assets at a price that would yield any significant proceeds to Common Stockholders, or proceeds to Preferred Stockholders in excess of the value of the transactions included within the recapitalization.
- The effect of the Series D conversion will be to reduce costs to Dynex Capital, including legal, accounting and listing costs related to the maintenance of three separate series of Preferred Stock.
- As long as there are shares of Series D Preferred Stock outstanding, the holders of Series D Preferred Stock will have permanent representation on the board of directors of Dynex Capital.
- If Dynex Capital fails to meet certain net equity covenants or to pay dividends on a current basis, the Series D Preferred Stock will automatically convert into a new unsecured debt instrument that will be subordinate only to Dynex Capital's secured indebtedness and the Senior Notes being issued in conjunction with the Note Offer.
- The holders of Common Stock will benefit from a capital structure that commits fewer long-term resources to the payment of Preferred Stock dividends and that reduces the liquidation preference held by the holders of Preferred Stock primarily through the issuance of additional Common Stock.

There can be no assurance that any of the objectives described above will be achieved, that Dynex Capital will pay dividends on shares of the Series D Preferred Stock in the future or that the Series D Preferred Stock will be made available for trading on the Nasdaq National Market, or otherwise provide greater liquidity than the existing shares of Preferred Stock.

Negative Factors Considered by the Board of Directors and the Committee

The board of directors and the committee each also considered potentially negative factors for both Dynex Capital and the holders of the Preferred Stock that could or will arise from the recapitalization, including the following:

- As a result of the Note Offer, perpetual Preferred Stock will be exchanged for Senior Notes, which will have a fixed maturity date of three years from the date of their issuance, resulting in an increase in liquidity risk for us.

- Dynex Capital will likely incur significant transaction costs, and the recapitalization will require substantial management time and effort to complete.
- Dynex Capital faces a risk that the anticipated benefits to Dynex Capital of the recapitalization might not be realized to the extent anticipated.
- The holders of Preferred Stock will receive a premium to the original issue and to the bid prices of their shares prior to the announcement of the Note Offer, but at a discount to the liquidation value of their shares because they will forfeit the accrued dividend arrearages on their shares.
- The holders of each of the three series of Preferred Stock are presently entitled to vote as a separate class on all changes affecting the terms of their shares, but after the Series D conversion, will vote as a single class with the other holders of the Series D Preferred, and so individual holders of Preferred Stock may have less ability to influence the outcome of a future change in the terms of their shares of Preferred Stock.
- The stated dividend rate on the Series D Preferred Stock is lower than the present stated dividend rate on each of the three existing series of Preferred Stock.
- The board of directors and the committee did not engage an independent financial advisor to appraise or otherwise calculate the value of Dynex Capital or its assets, or retain an independent advisor to represent the interests of the unaffiliated stockholders.
- The exchange of Preferred Stock for Senior Notes and the conversion of the existing shares of Preferred Stock into shares of Series D Preferred Stock will create new instruments which will require us to make payments of interest and dividends, or risk defaulting on these instruments. If we fail to make two successive dividend payments on the Series D Preferred Stock, the Preferred Stock will automatically convert into new Senior Notes.
- Different holders of the Preferred Stock will have different tax consequences arising from the recapitalization, and for some holders of Preferred Stock with an extremely low basis in their shares, the recapitalization may trigger short-term tax obligations that will not be shared by the holders of the Preferred Stock as a whole.

Recommendation of the Board of Directors; Fairness of the Recapitalization

The foregoing discussion of the information and factors considered by the board of directors and the committee is not intended to be exhaustive but is believed to include all material factors considered by them. In reaching its determination, the committee concluded that the potential benefits outweighed the potential risks, but did not, in view of the wide variety of information and factors considered, assign any relative or specific weights to the foregoing factors, and individual directors may have given differing weights to different factors. Likewise, the members of the full board of directors, in considering the recommendation of the committee, separately weighed each of the material factors described above and concluded that the potential benefits of the recapitalization, including the Series D conversion, outweighed the potential risks. Although several directors have interests in the recapitalization, as described below, see "—Interests of Dynex Capital's Directors and Affiliated Parties in the Recapitalization," the board did not consider the potential benefits to be received by these individuals as a

factor in reaching its decision and did not obtain a third party appraisal or engage a separate representative to represent the unaffiliated stockholders.

The board and the committee chose not to obtain a fairness opinion from a separate financial advisor, and did not consult a financial advisor in structuring the Note Offer or the Series D conversion. The board and the committee independently determined that they believed that the Series D conversion, in conjunction with the Note Offer, is substantively and procedurally fair to the existing holders of the Preferred Stock. In reaching this determination, the committee and the board, in following and separately considering and adopting the committee's recommendations and reasoning, took into account the following substantive and procedural factors:

- The Note Offer provides liquidity to the holders of the holders of Preferred Stock by giving them the election to tender all or a substantial portion of their shares for a debt instrument with fixed payment terms and a favorable coupon.
- The new Series D Preferred Stock contains improved voting rights in the form of guaranteed representation on the board of directors, stronger covenants than the existing Preferred Stock that will enable the conversion of Series D Preferred Stock into a new series of notes upon certain defaults, and a conversion threshold that is much closer to the market price prior to the announcement of the Note Offer for Common Stock than the conversion provisions of the existing series of Preferred Stock, which contain conversion prices that range from 7.68 times to 9.60 times the highest market price achieved by the Common Stock from January 1, 2003 through January 7, 2004.
- All holders of each series of Preferred Stock, and the series of Preferred Stock collectively, will be treated equally in the Series D conversion and will receive an equal premium to the original issue price of their shares in the form of new Series D Preferred Stock and Common Stock, with the only difference among the series representing proportional differences that depend on the original issue price of the three separate series of the Preferred Stock.
- The belief of the board of directors and the committee that by combining the Preferred Stock into a single series, and providing for the listing of the Series D Preferred Stock on a public market, the liquidity of the Preferred Stock will be improved.
- The holders of Common Stock will have an improved opportunity to benefit from any future successes of Dynex Capital because the outstanding dividend arrearages will be eliminated, fewer future resources will be committed to dividend payments and the liquidation preference of preferred stockholders will be reduced.
- The holders of the Series D Preferred Stock will have an improved opportunity to benefit from any future successes of Dynex Capital as a result of the reduced conversion price and conversion ratio, and as a result of receiving shares of Common Stock in connection with the Series D conversion.
- The fact that Dynex Capital has been unable to attract a purchaser for the entire company or a substantial portion of its assets at a favorable price, and the unlikelihood that Dynex Capital could obtain sufficient value for its assets in a series of liquidation transactions.
- The fact that the Series D conversion cannot be approved by the holders of the Preferred Stock unless a majority of the holders of the Preferred Stock who are unaffiliated with members of the board of directors vote in favor of the Series D conversion.

- The fact that the Series D conversion will not take place unless the issuance of additional shares of Common Stock and possible future issuance of Common Stock in conjunction with any future conversion of Series D Preferred Stock are approved by the holders of a majority of the shares of the Common Stock present at a meeting of the common stockholders of Dynex Capital, and the fact that because the members of the board of directors and the sole executive officer of Dynex Capital hold in aggregate less than 15% of the outstanding shares of the Common Stock, this approval requirement will require substantial support by the unaffiliated holders of Common Stock.

Interests of Dynex Capital's Directors and Affiliated Parties in the Recapitalization

As noted above, the members of the board of directors of Dynex Capital in the aggregate own the following numbers and percentages of outstanding shares of the Common Stock and each series of Preferred Stock:

	Number of Shares	Percentage of Outstanding Shares
Common Stock	1,530,384	14.07%
Series A Preferred Stock	128,117	25.96%
Series B Preferred Stock	187,216	27.20%
Series C Preferred Stock	143,980	21.02%

Because the directors own their shares of Preferred Stock in the three separate series in different proportions than the holders of Preferred Stock as a whole, and because their tax basis for their shares may differ from the holders of the Preferred Stock as a whole, the members of the board of directors recognize the possibility that they may have economic interests not identical with the holders of the Preferred Stock as a whole. However, the members of the board of directors believe that their recommendation of the recapitalization was not influenced by the extent to which their interests might differ from the interests of the stockholders as a whole because those differences are likely to be relatively minor. The Series D conversion has been proposed in a manner that gives equivalent economic treatment to each outstanding share of Preferred Stock in each of the three outstanding series of Preferred Stock, and for most purposes, the interests of the directors who hold Preferred Stock and the unaffiliated holders of Preferred Stock will be the same. The members of the board of directors are not receiving any preference with regard to the tender of their shares in the Note Offer, and to the extent they remain holders of Preferred Stock who participate in the Series D conversion, will receive the same per share consideration, calculated in exactly the same manner, as each other holder of Preferred Stock. Moreover, because the directors as a whole beneficially own less than one-third of any of the series of the Preferred Stock, and because approval of the Series D conversion requires the affirmative vote of the holders of at least two-thirds of the outstanding shares of each series of Preferred Stock, it is mathematically impossible for the Series D conversion to be approved unless it is approved by a majority of the unaffiliated holders of Preferred Stock of each series.

None of the directors are employees of Dynex Capital. Stephen J. Benedetti, Dynex Capital's sole executive officer, is the beneficial owner of no shares of Preferred Stock and 18,114 shares of Common Stock currently outstanding.

RISK FACTORS

Before deciding to tender your shares, you should consider carefully the risks described in this offering circular, as well as other information we include or incorporate by reference in this offering circular, and the additional information in the reports that we file with the SEC. The risks and

uncertainties described below are not the only ones we face or the only ones that may exist with respect to the Note Offer. Additional risks and uncertainties that we do not presently know about, that we currently believe are immaterial or which are similar to those faced by other companies in our industry or business in general, may also adversely impact our business.

Risks Particular to Dynex Capital

Our Business Is Affected by General Economic Conditions

We are affected by general economic conditions. The risk of defaults and credit losses could increase during an economic slowdown or recession, which may be accompanied by declining real estate values. This could have an adverse effect on the performance of our securitized loan pools and on our overall financial performance. For example, any material decline in real estate values reduces the ability of borrowers to use home equity to support borrowings and increases the loan-to-value ratios of loans previously made, thereby weakening collateral coverage and increasing the possibility of a loss in the event of default.

Our Income Is Dependent on our Ability to Manage Interest Rate Spreads, and Changes in Interest Rates May Affect Our Investment Portfolio

Our income and cash flow depends on our ability to earn greater interest on our investments than the interest cost to finance these investments. Interest rates in the markets we serve generally rise or fall with interest rates as a whole. A majority of the loans currently pledged as collateral for our collateralized bonds are fixed-rate. We currently finance these fixed-rate assets through non-recourse collateralized bonds, approximately $198 million of which as of September 30, 2003 is variable rate which resets monthly. Financing fixed rate assets with variable rate bonds exposes us to reductions in income and cash flow in a period of rising interest rates. Through the use of interest rate swaps and synthetic swaps, we have reduced this exposure by approximately $146 million at September 30, 2003 on an amortizing basis through approximately June 2005. In addition, a significant amount of the investments we hold is adjustable-rate collateral for collateralized bonds, which generally reset on a delayed basis and have periodic interest rate caps. These investments are financed through non-recourse long-term collateralized bonds which reset monthly and which have no periodic caps. In total at September 30, 2003, we had approximately $587 million of variable-rate collateralized bonds. Our net interest spread and cash flow could decrease materially during a period of rapidly rising short-term interest rates, despite the use of interest-rate swaps and synthetic swaps, as a result of the monthly reset in the rate on the adjustable-rate collateralized bonds issued by us.

Our Investment Portfolio Is Subject to Credit Risk

Credit risk is the risk of loss from the failure of a borrower (or the proceeds from the liquidation of the underlying collateral) to fully repay the principal balance and interest due on a loan. A borrower's ability to repay, or the value of the underlying collateral, could be negatively influenced by economic and market conditions. We have credit risk principally by virtue of our investment in collateral for collateralized bonds, which credit risk is generally limited to our net investment in the collateralized bond structure (also known as over-collateralization) and subordinated securities that it may retain from the securitization. We provide reserves for expected losses and record impairment charges for other than temporary declines in value based on the current performance of the respective pool of loans; however, if losses are experienced more rapidly than we had provided for in our reserves, we may be required to provide for additional reserves for these losses.

An Increase in Defaults By Borrowers Could Adversely Impact Our Business

Defaults by borrowers on loans securitized by us may have an adverse impact on our financial performance, if actual credit losses differ materially from estimates made by us or exceed reserves for loss recorded in the financial statements. The allowance for losses is calculated on the basis of historical experience and management's best estimates. Actual default rates or loss severity may differ from our estimate as a result of economic conditions. In particular, the default rate and loss severity on our portfolio of manufactured housing loans and securities has been higher than initially estimated. Actual defaults on ARM loans may increase during a rising interest rate environment. In addition, commercial mortgage loans are generally large dollar balance loans, and a significant loan default may have an adverse impact on our financial results. We believe that our reserves are adequate for such risks on loans as of December 31, 2003.

Our Business Is Dependent Upon Third-Party Servicers

Third-party servicers service the majority of our investment portfolio. To the extent that these servicers are financially impaired, the performance of our investment portfolio may deteriorate, and defaults and credit losses may be greater than estimated.

An Increase in Prepayments by Borrowers Could Adversely Impact Our Business

Prepayments by borrowers on loans securitized by us may have an adverse impact on our financial performance, including a reduction in our overall cash flow from our investment portfolio and a reduction in our overall investment portfolio. Prepayments are expected to increase during a declining interest rate or flat yield curve environment. Our exposure to rapid prepayments is primarily the result of (i) the faster amortization of premium on the investments and, to the extent applicable, the amortization of bond discount, and (ii) the replacement of investments in our investment portfolio with lower yield securities.

We May Invest in a New Business Strategy

We intend to explore various new business strategies. The pursuit of any strategy is subject to the outcome of our investigation, but it is our belief that a new business strategy may be the best use of our available capital on a go-forward basis after the completion of this Note Offer and the recapitalization. One alternative that we have considered is the acquisition of a depository institution. We have no business experience in operating a depository institution, and may not have any prior business experience in other businesses that we may choose to pursue as part of our future business strategy. Consequently, there can be no assurance that the pursuit of a different strategy would result in any benefit to us.

An Adverse Outcome in Pending Litigation Could Substantially Impair Our Liquidity

Dynex Capital is a defendant in a state court case in Dallas County, Texas that commenced in January 2004. Dynex Capital is vigorously defending the claims involved in this litigation, in which the plaintiff is seeking damages of approximately $40 million. Dynex Capital cannot predict the outcome of this litigation, and if the outcome is unfavorable to Dynex Capital, a judgment against us could substantially impair our liquidity and adversely affect our ability to pay the interest or the principal on the Senior Notes or dividends on the Series D Preferred Stock. See "Legal Proceedings."

Regulatory Changes Could Affect Our Business

Our businesses as of December 31, 2003 are not subject to any material federal or state regulation or licensing requirements. However, changes in existing laws and regulations or in the interpretation thereof, or the introduction of new laws and regulations, could adversely affect us and the performance of our securitized loan pools or our ability to collect on our delinquent property tax receivables.

Risks Particular to the Note Offer

The Note Offer Will Increase Our Leverage and Debt Service Obligations, Which May Adversely Affect Continuing Operations

Following the Note Offer, we will be more leveraged and have additional debt service obligations in addition to operating expenses and planned capital expenditures. The issuance of the maximum $40,000,000 principal amount of the Senior Notes would increase our total recourse indebtedness by $40,000,000. Assuming the issuance of the maximum $40,000,000 principal amount of the Senior Notes pursuant to the Note Offer, and that the Senior Notes begin to accrue interest on April 7, 2004, we would incur additional debt service obligations of approximately $2,800,000 in 2004, $3,800,000 in 2005 and $3,800,000 in 2006.

Increased levels of indebtedness may have several important effects on our future operations, including, without limitation, (i) a substantial portion of our cash flow from operations must be dedicated to the payment of interest and principal on its indebtedness, reducing the funds available for operations and for capital expenditures, (ii) our leveraged position will increase our vulnerability to adverse changes in general economic, industry and competitive conditions, and (iii) our ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate and other purposes may be limited. Our ability to meet debt service obligations and to reduce total indebtedness will be dependent upon our future performance, which will be subject to general economic, industry and competitive conditions and to financial, business and other factors affecting operations, or ability to raise additional equity, many of which are beyond our control. If we are unable to generate sufficient cash flow from operations in the future to service debt, we may be required, among other things, to seek additional financing in the debt or equity markets, to refinance or restructure all or a portion of our indebtedness, including the Senior Notes, to sell selected assets, or to reduce or delay planned capital expenditures and growth or business strategies. There can be no assurance that any such measures would be sufficient to enable us to service our debt, or that any of these measures could be effected on satisfactory terms, if at all.

If we fail to pay any required payment of interest or principal with respect to the Senior Notes on a timely basis, such failure will constitute a default under the terms of the Indenture. An event of default under the Indenture also may trigger an event of default under certain other obligations, if any should exist at that time. As of the date of this Note Offer, no such obligations exist. As a result, the incurrence of additional debt resulting from the Note Offer will increase the risk of possible default with respect to future obligations. The Indenture does not contain restrictions on our ability to incur additional indebtedness.

If We Complete the Series D Conversion but Later Default on Preferred Stock Dividend or Equity Requirements, We Will Incur Additional Indebtedness that May Impair Our Liquidity

The terms of the Series D Preferred Stock will provide for the automatic conversion of that stock into a new class of indebtedness if we ever fall in arrears in the payment of two quarterly dividend payments or cease to have shareholder's equity of at least 200% of the then outstanding aggregate issue price (which will be $10 per share) of the outstanding Series D Preferred Stock. If this conversion occurs, we will have additional indebtedness that will be junior to the Senior Notes, but that could adversely affect our liquidity and ability to pursue strategic alternatives and other business operations.

The Senior Notes Require Principal Payment in Full Three Years After Issuance, and We May Not Have the Liquidity to Meet This Obligation

The Senior Notes and the Indenture do not contain a sinking fund obligation or require the making of regular principal payments, and the principal becomes due in full on the third anniversary of issuance. We cannot be certain that we will have liquidity sufficient at that time to make the required

lump sum principal payment on the Senior Notes, and in any event, this large obligation could adversely affect our ability to engage in our business or require us to sell assets in order to meet the obligation. If we are required to dispose of assets in order to generate the liquidity needed to pay the principal on the Senior Notes, we may have to sell assets we would prefer to retain because their sale is inconsistent with our business strategy, or at a price that is disadvantageous to us.

The Note Offer Will Reduce Our Amount of Cash and Cash Equivalents

At September 30, 2003, our cash and cash equivalents were approximately $9,208,000 (unaudited). If the Note Offer to exchange Senior Notes for Preferred Stock is fully subscribed we will pay out cash to the extent that we are required to pay cash to tendering stockholders in connection with tenders for Senior Notes (because Senior Notes will only be issued in denominations of $1,000 or in integral multiples of $1,000 and cash consideration will be paid for amounts in excess of the nearest $1,000 not to exceed $999.99). As a result, our ability to internally finance working capital, capital expenditures, acquisitions, general corporate and other purposes may be impaired. If we are unable to generate sufficient cash flow from operations in the future to service our debt and other liabilities, we may be required, among other things, to seek additional financing in the debt or equity markets, to refinance or restructure all or a portion of our indebtedness, including the Senior Notes, to sell selected assets, or to reduce or delay planned capital expenditures and growth or business strategies. There can be no assurance that any such measures would be sufficient to enable us to meet our obligations, or that any of these measures could be effected on satisfactory terms, if at all.

By Tendering Your Preferred Stock for the Senior Notes, You Will Lose Rights Associated With Your Preferred Stock

To the extent that shares of your Preferred Stock you tender are accepted by us, you will be relinquishing rights available to you as a stockholder. If your Preferred Stock is validly tendered and accepted for exchange, upon acceptance of the shares by us (which will occur after the special meeting of Preferred Stockholders to be held on _____, 2004 to vote on the Series D conversion and the recapitalization), you will lose the right to share in any capital appreciation of our Preferred Stock, will not be entitled to vote upon any matters submitted to our stockholders for which you might otherwise be eligible to vote, and will no longer be entitled to dividends paid, if any, on our Preferred Stock. In addition, while we intend to apply for the listing of the Senior Notes for trading on the New York Stock Exchange, there is no assurance that such application will be accepted. Therefore, there is no assurance that a liquid trading market will develop for the Senior Notes. If a trading market does develop, it is likely that trading in the Senior Notes will be thin and that the liquidity of your investment in Dynex Capital may be reduced.

The Market May View the Note Offer Unfavorably, Which May Adversely Affect the Market Price of the Preferred Stock and the Senior Notes

The Note Offer will reduce our shareholders' equity and increase our indebtedness, thereby increasing our debt to equity ratio and debt service obligations. The market may regard these results unfavorably and the price of our Common Stock and Preferred Stock may be adversely affected. To the extent that the market does not regard the Note Offer as favorable, the market price, if any, of the Senior Notes also could be adversely affected. If we complete the Note Offer and the recapitalization, there will be no shares of Series A Preferred Stock, Series B Preferred Stock or Series C Preferred Stock outstanding. This will necessarily result in the delisting of our Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock from the Nasdaq National Market.

We intend to apply for listing of the new Series D Preferred Stock for quotation on the Nasdaq National Market. However, there is no assurance that the Series D Preferred Stock will be listed on the Nasdaq National Market or that a liquid trading market will develop for the Series D Preferred Stock. If a

trading market does develop, there can be no assurance as to any price at which the Series D Preferred Stock will trade.

The Senior Notes May Be Prepaid by Dynex Capital, Which Could Prevent You From Realizing Interest Income Associated With the Senior Notes

The Senior Notes are subject to redemption at our option in whole at any time or in part from time to time without penalty or premium upon notice to the holders of the Senior Notes. As a result, holders of the Senior Notes will be subject to a risk of prepayment at a time when interest rates may be generally declining. In such case, holders of Senior Notes will no longer have the right to receive interest and may be forced to reinvest the redemption proceeds in securities with a lower rate of interest.

We Did Not Base the Terms of the Recapitalization on an Appraisal and Did Not Retain the Advice of an Outside Financial Advisor

Although the board of directors and its committee carefully considered the alternatives available to Dynex Capital, the market price of each series of Preferred Stock, our future liquidity and other factors that they believed to be relevant to the decision to pursue the recapitalization, the board's decisions were not based upon an appraisal or advice received from a third-party financial advisor. Moreover, because several of the directors and members of the committee are holders of Preferred Stock, they may have individual financial interests that differ from the interests of the holders of Preferred Stock as a whole. Dynex Capital also did not engage an independent advisor to represent the interests of the unaffiliated holders of Preferred Stock or Common Stock, and it is possible that an independent representative might have proposed terms of the recapitalization that would differ from those approved by the board of directors. See "Special Factors—Interests of Dynex Capital's Directors and Affiliated Parties in the Recapitalization" and "Security Ownership of Certain Beneficial Owners and Management."

The Note Offer Could Be Deemed a Fraudulent Conveyance by a Court of Law, Which Could Result in a Court Voiding All or a Portion of Our Obligations to Holders of the Senior Notes

Various fraudulent conveyance laws enacted for the protection of creditors may apply to the issuance of the Senior Notes. Under federal or state fraudulent transfer laws, if a court were to find that, at the time the Senior Notes were issued, we (i) issued the Senior Notes with the intent of hindering, delaying or defrauding current or future creditors or (ii) (A) received less than fair consideration or reasonably equivalent value for incurring the indebtedness represented by the Senior Notes and (B) (1) were insolvent or were rendered insolvent or contemplated insolvency by reason of the issuance of the Senior Notes, (2) were engaged, or about to engage, in a business or transaction for which our assets or capital were unreasonably small or (3) intended to incur, or believed (or should have believed) we would incur, debts beyond our ability to pay as such debts mature (as all of the foregoing terms are defined in or interpreted under such fraudulent transfer statutes), such court could void all or a portion of our obligations to the holders of the Senior Notes, or void or subordinate our obligations to the holders of the Senior Notes, and take other action detrimental to the holders of the Senior Notes, including in certain circumstances, invalidating the Senior Notes. In that event, repayment on the Senior Notes may not be recovered by the holders of the Senior Notes.

The definition of insolvency for purposes of the foregoing consideration varies among jurisdictions depending upon the federal or state law that is being applied in any such proceeding. Generally, however, we would be considered insolvent at the time we incur the indebtedness constituting the Senior Notes, if (i) the fair market value (or fair saleable value) of our assets is less than the amount required to pay our total existing debts and liabilities (including the probable liability on contingent liabilities) as they become absolute or matured or (ii) we were incurring debts beyond our ability to pay as such debts mature. Based upon financial and other information, we believes that we are solvent and will continue to be solvent after issuing the Senior Notes, will have sufficient capital for carrying on our business after such issuance and will be able to pay our debts as they mature. There can be no assurance,

however, that a court passing on such standards would agree with Dynex Capital. There can also be no assurance as to what standard a court would apply in order to determine whether we were "insolvent" as of the date the Senior Notes were issued, or that, regardless of the method of valuation, a court would not determine that we were insolvent on that date or otherwise agree with us with respect to the above standards.

The Note Offer Is Subject to Certain Contingencies that May Prevent its Consummation

The consummation of the Note Offer is subject to certain conditions that are not within our control. For example, consummation of the Note Offer is conditioned upon approval of the Series D conversion and the recapitalization by the Preferred Stockholders. In addition, the Note Offer requires qualification of the Indenture under the Trust Indenture Act. The consummation of the Note Offer is also conditioned on, among other things, there being no material adverse changes in our business, no pending or threatened action by a governmental body challenging the Note Offer and no general suspension of trading in the securities markets. We expect the Trust Indenture to qualify under the Trust Indenture Act.

Certain United States Federal Income Tax Risks Associated With The Note Offer

Tax Consequences of the Note Offer

The exchange of shares of Preferred Stock for Senior Notes by a tendering stockholder pursuant to the Note Offer will be a taxable event treated for United States federal income tax purposes as either (1) a sale or exchange of the stockholder's shares or (2) a deemed distribution of property by Dynex Capital with respect to such shares.

Sale or exchange treatment will result if a tendering stockholder satisfies any of three tests under Section 302 of the Internal Revenue Code (the "Code") which measure reductions in a stockholder's overall equity interest. If treated as a sale or exchange, a stockholder should recognize gain or loss in an amount equal to the difference between (a) the fair market value of the Senior Notes received, and (b) the stockholder's adjusted tax basis of the shares exchanged pursuant to the Note Offer.

If none of the Section 302 tests is satisfied, then to the extent of Dynex Capital's current or accumulated "earnings and profits" (as determined for federal income tax purposes), a tendering stockholder will be treated as having received a dividend taxable as ordinary income in an amount equal to the fair market value of the Senior Notes received without reduction for the adjusted tax basis of the shares tendered and accepted by Dynex Capital pursuant to the Note Offer. Dynex Capital does not expect to report any accumulated or current "earnings and profits" through 2004. To the extent, if any, that the fair market value of the Senior Notes exceeds Dynex Capital's current and accumulated earnings and profits (as determined for federal income tax purposes), the excess will be treated first as a tax-free return of such stockholder's tax basis in the shares exchanged for Senior Notes and thereafter as capital gain. Corporate stockholders receiving a dividend must assess the applicability of the dividends-received deduction to the extent applicable.

Dynex Capital cannot predict whether or to what extent the Note Offer will be oversubscribed. If the Note Offer is oversubscribed, pro-ration of the tenders pursuant to the Note Offer will cause Dynex Capital to accept fewer shares than are tendered. Therefore, a stockholder can be given no assurance that a sufficient number of his shares will be exchanged for Senior Notes pursuant to the Note Offer to ensure that such exchange will satisfy one or more of the Section 302 tests and be treated as a sale, rather than as a dividend, for United States federal income tax purposes.

See "Material United States Federal Income Tax Consequences—Certain Federal Income Tax Consequences to Tendering Stockholders; Characterization of the Exchange" for the circumstances in which a sale or exchange treatment would apply as well as other relevant rules.

Interest on Senior Notes – General

Depending upon a stockholder's particular circumstances, the tax consequences of holding Senior Notes may be less advantageous than the consequences of holding shares of Preferred Stock because, for example, interest payments on the Senior Notes will not be eligible for any dividends-received deduction that might otherwise be available to corporate stockholders.

Withholding for Non-United States Holders

The exchange agent may be required to withhold United States federal income tax on gross payments payable to a Non-United States Holder. However, the Non-United States Holder may qualify for a reduced rate of withholding or an exemption from withholding. See "Material United States Federal Income Tax Consequences—Certain Federal Tax Consequences to Prospective Non-United States Holders of Senior Notes" for a more detailed discussion of applicable withholding rules.

We urge stockholders contemplating an exchange of shares for Senior Note pursuant to the Note Offer to consult their own tax advisors to determine the specific federal, state, local, foreign and other tax consequences of exchanges made by them pursuant to the Note Offer, as well as the specific federal, state, local, foreign and other tax consequences associated with the ownership of any Senior Notes receivable in connection with the Note Offer.

USE OF PROCEEDS

We will not receive any cash proceeds from the Note Offer. All shares of Preferred Stock that are properly tendered and accepted by us will be retired and cancelled.

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL INFORMATION

This summary historical and pro forma financial information should be read in conjunction with our unaudited condensed consolidated financial statements set forth in our quarterly report on Form 10-Q for the quarter ended September 30, 2003 which reflect all adjustments which, in the opinion of management, are necessary to a fair statement of results for all interim periods presented, our audited consolidated financial statements set forth in our annual report on Form 10-K, as amended, for the fiscal year ended December 31, 2002, and the sections of these Forms 10-Q and 10-K captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations," each of which is incorporated herein by reference.

The following summary historical financial information is derived from our audited consolidated financial statements for the years ended December 31, 2002 and 2001, and the unaudited consolidated financial statements for the nine months ended September 30, 2003 and 2002, which are incorporated by reference into this offering circular.

(amounts in thousands except share data)

	Nine Months Ended September 30,		Year Ended December 31	
	2003	2002	2002	2001
Total interest income	$ 112,485	$ 134,418	$ 176,367	$ 222,760
Total interest and related expense	83,383	97,636	127,214	174,678
Provision for losses	(29,715)	(16,292)	(28,483)	(19,672)
Net interest margin	(613)	20,490	20,670	28,410
Net gain (loss) on sales, write-downs, and impairment charges (3)	1,779	(84)	(18,299)	(39,078)
Trading losses		(3,307)	(3,307)	(3,091)
Other income (expense)	170	1,403	848	104
General and administrative expenses	(6,296)	(6,744)	(9,493)	(10,526)
Extraordinary item – gain (loss) on extinguishment of debt			221	2,972
Net (loss) income	(9,442)	2,205	(9,360)	$ (21,209)
Net loss applicable to common shareholders	$ (1,403)	$ (4,984)	$ (18,946)	$ (13,492)
Loss per common share before extraordinary item:				
Basic and Diluted (1)	$ (0.13)	$ (0.46)	$ (1.76)	$ (1.44)
Net loss per common share:				
Basic and Diluted (1)	$ (0.13)	$ (0.46)	$ (1.74)	$ (1.18)

	September 30,		December 31	
	2003	2002	2002	2001
Investments (2)	$ 1,940,281	$ 2,323,553	$ 2,218,315	$ 2,549,579
Total assets	1,952,797	2,337,620	2,238,304	2,569,859
Non-recourse debt	1,776,110	2,098,202	2,013,271	2,264,213
Recourse debt	14,059			58,134
Total liabilities	1,791,369	2,103,478	2,014,883	2,327,749
Shareholders' equity	161,428	234,142	223,421	242,110
Number of common shares outstanding	10,873,903	10,873,903	10,873,903	10,873,853
Average number of common shares	10,873,871	10,873,866	10,873,871	11,430,471
Book value per common share (1)	$ 8.73	$ 9.77	$ 8.57	$ 11.06

(1) Inclusive of the liquidation preference on our preferred stock.

(2) Investments classified as available for sale are shown at fair value.

(3) Net loss on sales, write-downs, and impairment charges for the years ended December 31, 2002 and 2001 include several adjustments related largely to non-recurring items. See Footnote 14 to the consolidated financial statements included in the annual report on Form 10-K, as amended, for the year ended December 31, 2002.

The following unaudited pro forma condensed consolidated balance sheet data as of September 30, 2003 gives pro forma effect to this Note Offer and the Series D conversion, assuming (1) that the minimum 17.5% of shares of each series are tendered for Senior Notes at the prices offered herein, and (2) alternatively, that the maximum 70% of shares of each series are tendered for Senior Notes at the prices offered herein, in each case, as if the recapitalization had occurred on September 30, 2003. The unaudited condensed consolidated statements of operations data for the year ended December 31, 2002 and the nine months ended September 30, 2003 give pro forma effect to this Note Offer and the Series D conversion, assuming (1) that the minimum 17.5% of shares of each series are tendered for Senior Notes at the prices offered herein, and (2) alternatively, that the maximum 70% of shares of each series are tendered for Senior Notes at the prices offered herein, in each case, as if the recapitalization was effective as of January 1, 2002, the beginning of Dynex Capital's 2002 fiscal year. The unaudited pro forma condensed consolidated statements of operations data for the year ended December 31, 2002 and the nine months ended September 30, 2003 also assume that Dynex Capital was free to undertake the recapitalization as of January 1, 2002 without restriction, and further assumes that no repayments of principal on the new Senior Notes occurs during the pro forma periods presented.

The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable under the circumstances. The summary unaudited pro forma financial information is not necessarily indicative of what our results would have been if the recapitalization actually had occurred as of the dates indicated or of what our future operating results will be.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
As of September 30, 2003
(amounts in thousands except share data)

	Historical	Pro Forma Adjustments	Pro Forma	Pro Forma Adjustments	Pro Forma
		17.5%		70%	
Collateral for collateralized bonds	1,880,363	—	1,880,363	—	1,880,363
Other investments, securities and loans	59,918	—	59,918	—	59,918
Cash and other assets	12,516	(14,059)	(1,543)	(14,059)(1)	(1,543)
Total assets	1,952,797	(14,059)	1,938,738	(14,059)	1,938,738
Non-recourse debt	1,776,110	—	1,776,110	—	1,776,110
Recourse debt	14,059	(4,061)	9,998	25,942(1,2)	40,001
Accrued expenses and other liabilities	1,200	—	1,200	—	1,200
Total liabilities	1,791,369	(4,061)	1,787,308	25,942	1,817,311
Shareholders' equity	161,428	(9,998)	151430	(40,001)(3)	121,427
Total liabilities and Shareholders' equity	1,952,797	(14,059)	1,938,738	(14,059)	1,938,738

(1) Assumes 2005 Senior Notes were paid off prior to new Senior Notes being issued.
(2) Issuance of Senior Notes for Preferred Stock tendered.
(3) Reduction for aggregate purchase price for Preferred Stock tendered and subsequently retired.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Nine Months Ended September 30, 2003
(amounts in thousands except share data)

	Historical	Pro Forma Adjustments	Pro Forma	Pro Forma Adjustments	Pro Forma
		17.5%		70%	
Interest income:					
Collateral for collateralized bonds	107,927	—	107,927	—	107,927
Other investments, securities, and loans	4,558	(162)(1)	4,396	(162)(1)	4,396
Interest expense:					
Non-recourse debt	81,609	—	81,609	—	81,609
Recourse debt	1,774	(828)(2)	946	1,310(2)	3,084
Net interest margin before provision for losses	29,102	666	29,768	(1,472)	27,630
Provision for losses	(29,715)	—	(29,715)	—	(29,715)
Net interest margin	(613)	666	53	(1,472)	(2,085)
Net loss on sales, write-downs and impairment charges	(2,703)	—	(2,703)	—	(2,703)
Trading losses		—		—	
Other income	170	—	170	—	170
General and administrative expenses	(6,296)	—	(6,296)	—	(6,296)
Loss before extraordinary items	(9,442)	666	(8,776)	(1,472)	(10,914)
Extraordinary item– gain on extinguishment of debt	—	—	—	—	—
Net loss	(9,442)	666	(8,776)	(1,472)	(10,914)
Preferred stock charges	8,039	(13,295)(3)	(5,256)	(13,289)(3)	(5,250)
Net loss applicable to common shareholders	(1,403)	(12,629)	(14,032)	(14,761)	(16,164)
Loss per common share before extraordinary item:					
Basic and Diluted	(0.13)		(1.17)		(1.43)
Loss per common share:					
Basic and Diluted	(0.13)		(1.17)		(1.43)

(1) Interest income for nine months ended September 30, 2003 for the cash used to retire the 2005 Senior Notes.

(2) Interest expense for the nine months ended September 30, 2003 for the Senior Notes issued for Preferred Stock tendered less interest expense for the nine months ended September 30, 2003 for the 2005 Senior Notes which would have been paid off prior to issuance of the Senior Notes issued for this tender offer.

(3) Reduction for dividend charges associated with Preferred Stock tendered and subsequently retired. Only dividends for the 10 quarters through December 31, 2001 are included. Also, reflects premium to book value on the February 2003 tender offer.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Year Ended December 31, 2002
(amounts in thousands except share data)

	Historical	Pro Forma Adjustments	Pro Forma	Pro Forma Adjustments	Pro Forma
		17.5%		70%	
Interest income:					
Collateral for collateralized bonds	169,227	—	169,227	—	169,227
Other investments, securities, and loans	7,140	—	7,140	—	7,140
Interest expense:					
Non-recourse debt	124,996	—	124,996	—	124,996
Recourse debt	2,218	950(1)	3,168	3,800(1)	6,018
Net interest margin before provision for losses	49,153	(950)	48,203	(3,800)	45,343
Provision for losses	(28,483)	—	(28,483)	—	(28,483)
Net interest margin	20,670	(950)	19,720	(3,800)	16,870
Net loss on sales, write-downs and impairment charges	(18,299)	—	(18,299)	—	(18,299)
Trading losses	(3,307)	—	(3,307)	—	(3,307)
Other income	848	—	848	—	848
General and administrative expenses	(9,493)	—	(9,493)	—	(9,493)
Loss before extraordinary items	(9,581)	(950)	(10,531)	(3,800)	(13,381)
Extraordinary item – gain on extinguishment of debt	221	—	221	—	221
Net loss	(9,360)	(950)	(10,310)	(3,800)	(13,160)
Preferred stock charges	(9,586)	8,389(2)	(1,197)	8,395(2)	(1,191)
Net loss applicable to common shareholders	(18,946)	7,439	(11,507)	4,595	(14,351)
Loss per common share before extraordinary item:					
Basic and Diluted	(1.76)		(0.98)		(1.29)
Loss per common share:					
Basic and Diluted	(1.74)		(0.96)		(1.27)

(1) Interest expense for the twelve months ended December 31, 2002 for the Senior Notes issued for Preferred Stock tendered.

(2) Reduction for dividend charges associated with Preferred Stock tendered and subsequently retired. Excludes Preferred Stock charges for 2002 which were comprised only of dividends in arrears for the twelve months ended December 31, 2002.

FORWARD-LOOKING STATEMENTS

Any statements in this offering circular and the documents incorporated by reference in and attached to this offering circular about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as "believe," "will likely result," "expect," "will continue," "anticipate," "estimate," "intend," "plan," "projection," "would" and "outlook." Accordingly, these statements involve estimates, assumptions and uncertainties which could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this offering circular. Such statements may include, but not be limited to:

- estimates of the value of our Preferred Stock,
- predictions as to the future liquidity of the new Senior Notes or Series D Preferred Stock,
- expectations as to future revenues and other results of operations, capital expenditures, plans for future operations, financing needs or plans,
- plans relating to the pursuit of strategic business alternatives,
- our ability to service our debt obligations, and
- plans relating to our products or services, as well as assumptions relating to the foregoing.

Forward looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward looking statements. Statements in this offering circular describe factors, among others, that could contribute to or cause such differences. You should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

THE NOTE OFFER

General

We invite our stockholders to tender shares of our Preferred Stock to us under the terms set forth below. Tendering holders of Preferred Stock will not receive any dividends with respect to their shares, including unpaid dividends accumulated to date, which will be cancelled. Shares of Preferred Stock must be tendered on the terms and subject to the conditions set forth in this Note Offer and in the related Letters of Transmittal included herewith.

We are offering to acquire up to 345,579 shares of Series A Preferred Stock, up to 481,819 shares of Series B Preferred Stock, and up to 479,512 shares of Series C Preferred Stock.

The Note Offer

- $27.84 in principal amount of our Senior Notes for each share of Series A Preferred Stock you tender, up to $9,620,000 in aggregate maximum principal amount of Senior Notes for all shares of Series A Preferred Stock tendered for Senior Notes in the Note Offer and up to an aggregate maximum of 345,579 shares of Series A Preferred Stock;

- $28.42 in principal amount of the Senior Notes for each share of Series B Preferred Stock you tender, up to $13,693,000 in aggregate maximum principal amount of Senior Notes for all shares of Series B Preferred Stock tendered in the Note Offer for Senior Notes and up to an aggregate maximum of 481,819 shares of Series B Preferred Stock; and
- $34.80 in principal amount of the Senior Notes for each share of Series C Preferred Stock you tender, up to $16,687,000 in aggregate maximum principal amount of Senior Notes for all shares of Series C Preferred Stock tendered in the Note Offer for Senior Notes and up to an aggregate maximum of 479,512 shares of Series C Preferred Stock;

Under the Note Offer, the per share principal amount to be received for each share of Preferred Stock tendered in the Note Offer is equal to 116% of the original issue price of such share of Preferred Stock. The Senior Notes will be issued in denominations of $1,000 or integral multiples thereof. In cases where the aggregate consideration for shares of each series you tender (determined by multiplying the aggregate issue price of each share of your Preferred Stock by 116%) is not an even multiple of $1,000, you will receive cash for the amount in excess of the nearest lower $1,000 multiple not to exceed $999.99. For a more detailed description of the terms of the Senior Notes being offered, please see "Description of Senior Notes."

The number of shares being tendered for in the Note Offer is equal to approximately 70% of the shares of each series of our Preferred Stock currently outstanding.

The Note Offer for the Preferred Stock provides preferred stockholders who elect to tender a premium over the bid prices for the preferred stocks as of January 7, 2004, and provides greater liquidity for the holders of our Preferred Stock at such price levels. Under the Note Offer, the exchange price for the Series A Preferred Stock represented a premium of 5.1% above the bid price as of January 7, 2004, the exchange price for the Series B Preferred Stock represented a premium of 5.7% above the bid price as of January 7, 2004, and the exchange price for the Series C Preferred Stock represented a premium of 1.5% above the bid price as of January 7, 2004.

The Note Offer is conditioned upon a minimum tender of shares of Preferred Stock that will result in the issuance of at least $10,000,000 in aggregate principal amount of Senior Notes. The Note Offer is also conditioned on completion of the Series D conversion and other general conditions, including approval by the Preferred Stockholders of the Series D Conversion and completion of the recapitalization described in the proxy statement accompanying this offering circular. See "The Note Offer —Conditions to the Note Offer."

Stockholders tendering Preferred Stock will not be obligated to pay brokerage commissions, solicitation fees, or, upon the terms and subject to the conditions of the Note Offer, stock transfer taxes on the acceptance of shares of Preferred Stock by Dynex Capital. However, any tendering stockholder or other payee required to complete a letter of transmittal who fails to complete fully and sign the box captioned "Substitute Form W-9" included in the letter of transmittal may be subject to a required federal backup withholding tax of 28% of the gross proceeds paid to the stockholder or other payee pursuant to the Note Offer. See "Certain United States Federal Income Tax Consequences." Dynex Capital will pay all charges and expenses of exchange agent and the information agent incurred in connection with the Note Offer.

Tendering holders of Preferred Stock will not receive any dividends with respect to such shares, including unpaid dividends accumulated to date, which will be cancelled. We will only consummate the Note Offer if the Series D conversion is also consummated. This means that following the Note Offer, any shares of Preferred Stock not tendered in the Note Offer will be exchanged for shares of new Series D

Preferred Stock and Common Stock of Dynex Capital. There can be no assurance that holders that do not tender their shares will receive any dividends on the Series D Preferred Stock in the future.

Tenders pursuant to the Note Offer may be withdrawn at any time prior to _____, 2004, at 5:00 p.m., New York City time, the expiration time of the Note Offer (including any extensions), and, if not yet accepted for payment, after _____, 2004.

Our board of directors has approved the making of the Note Offer. You must, however, make your own decision whether to tender shares and, if so, how many shares to tender. Neither we nor our board of directors makes any recommendation to you with respect to the Note Offer, and no person has been authorized by us or our board of directors to make any such recommendation.

You should evaluate carefully all of the information contained or referred to in this offering circular and make your own decision whether to tender shares pursuant to the Note Offer. We urge you to consult a tax advisor concerning any federal, state, local or foreign tax consequences of a sale of Preferred Stock pursuant to the Note Offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved this transaction or determined if this document is accurate or complete.

Any stockholder of record desiring to tender all or any portion of his, her or its shares should complete and sign the applicable letter of transmittal or a facsimile thereof in accordance with the instructions in the applicable letter of transmittal, mail or deliver it with any required signature guarantee and any other required documents to the exchange agent and either mail or deliver the stock certificates for such shares of Preferred Stock to the exchange agent (with all such other documents). A stockholder having shares registered in the name of a broker or a dealer, commercial bank, trust company or other nominee (each, a "nominee") must contact that nominee if such stockholder desires to tender such shares. Nominees may also tender shares in accordance with the Automated Tender Offer Program procedures of The Depository Trust Company. Stockholders who desire to tender shares of Preferred Stock and whose certificates for such shares are not immediately available or whose other required documentation cannot be delivered to the exchange agent by the Expiration Time should tender such shares by following the procedures for guaranteed delivery set forth in the section entitled "The Note Offer—How to Tender." In addition, because the Senior Notes issued pursuant to this Note Offer will be issued in book-entry form only, if you desire to tender shares of Preferred Stock for Senior Notes, you must have or establish an account with, and tender those shares through, a broker, dealer, bank or other financial institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of DTC. See "The Note Offer—How to Tender—Tender Procedure for Stockholders Tendering for Senior Notes."

The Series A Preferred Stock is listed for trading on the Nasdaq National Market under the symbol "DXCPP." Dynex Capital announced its intention to make the Note Offer after the close of the Nasdaq National Market on January 8, 2004. As of January 7, 2004 (the last trading day ending prior to such announcement), the closing per share sales price of the Series A Preferred Stock, as reported on the Nasdaq National Market, was $28.50, and the closing bid price was $26.50. The Series B Preferred Stock is listed for trading on the Nasdaq National Market under the symbol "DXCPO." As of January 7, 2004, the closing per share sales price of the Series B Preferred Stock, as reported on the Nasdaq National Market, was $28.00, and the closing bid price was $26.90. The Series C Preferred Stock is listed for trading on the Nasdaq National Market under the symbol "DXCPN." As of January 7, 2004, the closing per share sales price of the Series C Preferred Stock, as reported on the Nasdaq National Market, was $34.30, and the closing bid price was $34.30. **We urge stockholders to obtain current market quotations for the shares. See "Price Range of Preferred Stock."**

Dynex Capital, Inc. was incorporated on December 18, 1987 in Virginia and commenced operations in February 1988. We are a financial services company that invests in loans and securities consisting of or secured by, principally single family mortgage loans, commercial mortgage loans, manufactured housing installment loans and delinquent property tax receivables. Currently, our primary focus is on maximizing cash flows from our investment portfolio, opportunistically calling securities pursuant to clean-up calls if the underlying collateral has value for us and securing third-party servicing contracts to leverage our delinquent property tax receivables platform. During 2001 and 2002, we incurred losses before any charges or benefits on our Preferred Stocks of approximately $21,209,000 and $9,360,000, respectively. During the nine months ended September 30, 2003, Dynex Capital reported a loss of approximately $9,442,000 before any charges or benefits related to its Preferred Stocks. See “Business.”

Stockholders who tender for Senior Notes will receive Senior Notes with the following rights compared to those associated with the ownership of existing Preferred Stock.

Preferred Stock	Senior Notes
Equity; specified liquidation preference senior to that of common stockholders but junior to that of debtholders and creditors, plus right to share in future capital appreciation, if any;	Debt; right to receive a specified principal amount with a claim on our assets senior to holders of equity, plus the right to receive interest, but no right to capital appreciation;
No interest payable on Preferred Stock; however, holders of Preferred Stock are entitled to cumulative cash dividends prior to any payment of dividends on our common stock; we are in arrears in the payment of dividends to holders of our Preferred Stock;	Interest will accrue commencing on the Closing Date and will be payable semiannually at a rate of 9.50% per annum; the entire principal amount will be due at maturity;
Right to convert your shares to common stock;	No right of conversion;
Voting rights on certain matters submitted to stockholders; and	No voting rights; and
Listed on the Nasdaq Stock Market and are subject to an established trading market, although the public float is relatively low and the historic trading activity has been thin.	We intend to apply to list the Senior Notes for trading on the New York Stock Exchange; however, even if the Senior Notes are listed on the New York Stock Exchange there is no assurance that a liquid trading market in the Senior Notes will develop.

The foregoing table is set forth for comparative purposes only and does not take into account all factors relating to a comparison of the shares of Preferred Stock to the Senior Notes, nor does it take into account any factors relating to the tax consequences of accepting the Note Offer. For a more complete description of the Senior Notes and the Preferred Stock, see “Description of Senior Notes” and “Description of Capital Stock.” See also “Certain United States Federal Income Tax Consequences.”

Proration if Shares of Series of Preferred Stock Tendered Exceed Maximum; Limitations on Senior Notes Consideration

We will accept up to an aggregate of 345,579 shares of Series A Preferred Stock, up to an aggregate of 481,819 shares of Series B Preferred Stock, and up to an aggregate of 479,512 shares of Series C Preferred Stock. This represents approximately 70% of the shares of each series of our Preferred Stock outstanding as of December 31, 2003. If the number of shares validly tendered and not properly withdrawn prior to the Expiration Time is less than or equal to an aggregate of 345,579 shares in the case of Series A Preferred Stock, less than or equal to an aggregate of 481,819 shares of its Series B Preferred Stock, or less than or equal to an aggregate of 479,512 shares of its Series C Preferred Stock (or such greater number of shares as Dynex Capital may elect to accept in accordance with the Note Offer), Dynex Capital will, upon the terms and subject to the conditions of the Note Offer, accept all shares of such series so tendered.

If more shares of any series of Preferred Stock are tendered than we are offering to acquire, we will accept shares of such series that are validly tendered and not properly withdrawn prior to the expiration time of the Note Offer on a pro-rata basis, disregarding fractions that arise as a result of such pro-rationing, according to the number of shares of such series tendered by each holder of such series of Preferred Stock prior to the expiration time of the Note Offer. Thus, with respect to each oversubscribed series of Preferred Stock, we will accept from each holder tendering shares of such series that number of shares of such series equal to the total number of shares of such series tendered by such tendering holder multiplied by a fraction, the numerator of which is the total number of shares of such series sought by us in the Note Offer and the denominator of which is the total number of shares of such series tendered by all tendering holders. Notwithstanding the foregoing, we reserve the right, in our sole discretion, to elect to purchase any and all of the excess shares tendered; and so long as the excess number accepted by us does not exceed two percent (2%) of the issued and outstanding shares of such series of Preferred Stock, no extension of the Note Offer period and no further notice to the stockholders will be required or given. If we elect to accept excess tendered shares of a series, but less than all of the tendered shares of a series, then the shares of such series tendered shall be accepted on a pro-rata basis, as described above.

As described under “Material United States Federal Income Tax Consequences,” the number of shares of a series that Dynex Capital will accept from a stockholder pursuant to the Note Offer may affect the United States federal income tax consequences to the tendering stockholder and, therefore may be relevant to a stockholder’s decision whether or not to tender shares.

Executive Officer and Director Participation

Certain members of the board of directors have informed us that they will participate in the Note Offer. The sole executive officer of Dynex Capital does not own any Preferred Stock.

Expiration Time, Extensions, Termination and Amendments

The Note Offer will terminate at 5:00 p.m., New York City time, on _____, 2004 unless extended by Dynex Capital in its sole discretion. During any extension of the Note Offer, all shares of Preferred Stock previously tendered and not yet exchanged will remain subject to the Note Offer (subject to withdrawal rights specified herein) and may be accepted for exchange by Dynex Capital. The later of 5:00 p.m., New York City time, on _____, 2004, or the latest time and date to which the Note Offer may be extended by Dynex Capital, is referred to herein as the “Expiration Time.” Dynex Capital expressly reserves the right, at any time or from time to time, to extend the period of time for which the Note Offer is to remain open by giving oral or written notice to the exchange agent of such extension prior to 9:00 a.m., New York City time, on the business day after the previously scheduled Expiration Time. We will issue a press release by 9:00 a.m., New York City time, no later than the business day after the previous scheduled expiration time if we decide to extend the Note Offer.

Dynex Capital expressly reserves the right, in its sole discretion, at any time and from time to time, and regardless of whether or not any of the events set forth herein under "The Note Offer—Conditions to the Note Offer" shall have occurred or shall be deemed by Dynex Capital to have occurred, to extend the period of time during which the Note Offer is open and thereby delay acceptance for payment of, and payment for, and issuance of Senior Notes for, any shares by giving oral or written notice of such extension to the exchange agent and making a public announcement thereof. Dynex Capital also expressly reserves the right, in its sole discretion, to terminate the Note Offer and not accept for payment or pay for, or issue Senior Notes for, any shares not previously accepted for payment or paid for, or with respect to which Senior Notes were issued or, subject to applicable law, to postpone payment for shares upon the occurrence of any of the conditions specified herein under "The Note Offer—Conditions to the Note Offer" by giving oral or written notice of such termination or postponement to the exchange agent and making a public announcement thereof. Dynex Capital's reservation of the right to delay payment for shares which it has accepted for payment is limited by Rule 13e-4(f)(5) promulgated under the Exchange Act, which requires that Dynex Capital must pay the consideration offered or return the shares tendered promptly after termination or withdrawal of an Offer.

Subject to compliance with applicable law, Dynex Capital further reserves the right, in its sole discretion, and regardless of whether any of the events set forth herein under "The Note Offer—Conditions to the Note Offer" shall have occurred or shall be deemed by Dynex Capital to have occurred, to amend the Note Offer in any respect (including, without limitation, by decreasing or increasing the consideration offered in the Note Offer to holders of shares or by decreasing or increasing the number of shares being sought in the Note Offer). Amendments to the Note Offer may be made at any time and from time to time by public announcement thereof. In the case of an extension, such announcement will be issued no later than 9:00 a.m., New York City time, on the next business day after the last previously scheduled or announced Expiration Time. Any material change to the terms of the Note Offer will be disseminated promptly to stockholders in a manner reasonably designed to inform stockholders of such change. Without limiting the manner in which Dynex Capital may choose to inform stockholders, except as required by applicable law, Dynex Capital shall have no obligation to publish, advertise or otherwise communicate any such change other than by making a release to the Dow Jones News Service. If Dynex Capital materially changes the terms of the Note Offer or the information concerning the Note Offer, or if it waives a material condition of the Note Offer, Dynex Capital will extend the Note Offer to the extent required by Rules 13e-4(d)(2) and 13e-4(e)(3) promulgated under the Exchange Act. Under these rules, the minimum period during which an offer must remain open following material changes in the terms of the Note Offer or information concerning the Note Offer will depend on the facts and circumstances, including the relative materiality of such terms or information. If (i) Dynex Capital increases or decreases the price to be paid for shares, increases or decreases the number of shares being sought in the Note Offer or, in the event of an increase in the number of shares being sought, such increase exceeds 2% of the number of outstanding shares of a series of Preferred Stock, and (ii) the Note Offer is scheduled to expire at any time earlier than the expiration of a period ending on the tenth business day from, and including, the date that such notice of an increase or decrease is first published, sent or given in the manner specified herein, the Note Offer will be extended until the expiration of such period of ten business days. For the purposes of the Note Offer, a "business day" means any day other than a Saturday, Sunday or Federal holiday and consists of the time period from 12:01 a.m. through 12:00 Midnight, New York City time.

How to Tender

A stockholder whose shares are registered in the name of a nominee must contact that nominee for information on how to tender shares. All other stockholders must comply with the procedures set forth below.

Tender Procedures for Stockholders of Record. A letter of transmittal for the respective series is provided for use by stockholders of record tendering shares. To properly tender shares pursuant to the Note Offer, a stockholder of record must (i) complete and duly execute the letter of transmittal for the respective

series (or facsimile thereof), in accordance with the instructions included within the letter of transmittal (together with a signature guarantee, if required, as well as any other documents required by the letter of transmittal) and deliver the same to the exchange agent at its address set forth on the back cover of this Note Offer which material must be received by the exchange agent prior to the Expiration Time, and (ii) either (A) deliver the stock certificate or certificates evidencing the tendered shares to the exchange agent at its address set forth on the back cover of this Note Offer, which certificate(s) must also be received by the exchange agent prior to the Expiration Time, or (B) comply with the guaranteed delivery procedures described below.

Tender Procedures for Nominees. The exchange agent will establish an account with respect to the shares of each series subject to this Note Offer, for purposes of the Note Offer, at The Depository Trust Company (the "Book-Entry Transfer Facility") within two business days after the date of this Note Offer. Any nominee that is a participant in the Book-Entry Transfer Facility's system may tender shares in accordance with the Book-Entry Transfer Facility's Automated Tender Offer Program ("ATOP") to the extent it is available to such participants for the shares they wish to tender by making book-entry delivery of the shares by causing the Book-Entry Transfer Facility to transfer shares into the exchange agent's account in accordance with the Book-Entry Transfer Facility's procedures for transfer. A stockholder tendering through ATOP must expressly acknowledge that the stockholder has received and agreed to be bound by the letter of transmittal and that the letter of transmittal may be enforced against such stockholder. In order to tender shares by means of ATOP, the procedures for ATOP delivery must be duly and timely completed prior to the Expiration Time. Alternatively, nominees may also complete the letter of transmittal and deliver shares as provided under "The Note Offer—How to Tender—Tender Procedures for Stockholders of Record" above.

Tender Procedure for Stockholders Tendering for Senior Notes. The Senior Notes issued pursuant to this Note Offer will be issued in book-entry form only. See "Description of Senior Notes—Global Note; Book Entry Form" for a description of the book-entry nature of the Senior Notes. The Senior Notes will be issued solely in global form and be registered in the name of Cede & Company, Inc., the nominee of DTC. Consequently, stockholders who wish to tender any shares for Senior Notes must have or establish an account with, and tender those shares through, a broker, dealer, bank or other financial institution that either clears through or maintains a custodial relationship with a direct or indirect participant in the book entry and transfer system of DTC in order to be eligible to receive the Senior Notes. The DTC participant will then tender the shares on behalf of the stockholder using the procedures set forth above in "How to Tender—Tender Procedures for Nominees."

Delivery of the letter of transmittal for a series of Preferred Stock and any other required documents to the Book-Entry Transfer Facility does not constitute delivery to the exchange agent.

Signature Guarantees and Method of Delivery. No signature guarantee on the letter of transmittal is required: (i) if the letter of transmittal is signed by the stockholder(s) of record of the shares (which term, for purposes of this section, shall include any participant in the Book-Entry Transfer Facility) whose name appears on a security position listing as the owner of the shares tendered therewith and such holder has not completed either the box entitled "Special Delivery Instructions" or the box entitled "Special Payment Instructions" on the letter of transmittal; or (ii) if shares are tendered for the account of a bank, broker, dealer, credit union, savings association or other entity which is a member in good standing of the Securities Transfer Agents Medallion Program or a bank, broker, dealer, credit union, savings association or other entity which is an "eligible guarantor institution," as such term is defined in Rule 17Ad-15 under the Exchange Act (each of the foregoing constituting an "Eligible Institution"). See Instruction 1 of the letter of transmittal. If a certificate is registered in the name of a person other than the person executing a letter of transmittal, or if payment is to be made to a person other than the stockholder of record, then the certificate must be endorsed or accompanied by an appropriate stock power, in either case, signed exactly as the name of the stockholder of record appears on the certificate, with the signature guaranteed by an Eligible Institution.

In all cases, payment for shares tendered and accepted for payment pursuant to the Note Offer will be made only after timely receipt by the exchange agent of certificates for such shares (or a timely confirmation of the book-entry transfer of the shares into the exchange agent's account at the Book-Entry Transfer Facility), a properly completed and duly executed letter of transmittal (or a manually signed facsimile thereof) (unless such tender is made through ATOP) and any other documents required by the letter of transmittal or ATOP.

The method of delivery of all documents, including certificates for shares, the letter of transmittal and any other required documents, is at the election and risk of the tendering stockholder. If delivery is by mail, then we recommend using registered mail with return receipt requested, properly insured.

Guaranteed Delivery. If a stockholder desires to tender shares of Preferred Stock pursuant to the Note Offer and the stockholder's share certificates are not immediately available or cannot be delivered to the exchange agent prior to the Expiration Time (or the procedure for book-entry transfer cannot be completed on a timely basis) or if time will not permit all required documents to reach the exchange agent prior to the Expiration Time, the shares may nevertheless be tendered, provided that all of the following conditions are satisfied:

(a) the tender is made by or through an Eligible Institution;

(b) the exchange agent receives by hand, mail, overnight courier, telegram or facsimile transmission, at or prior to the Expiration Time, a properly completed and duly executed Notice of Guaranteed Delivery substantially in the form Dynex Capital has provided with this Note Offer, including (where required) a signature guarantee by an Eligible Institution in the form set forth in such Notice of Guaranteed Delivery; and

(c) the certificates for all tendered shares of Preferred Stock, in proper form for transfer (or confirmation of book-entry transfer of such shares into the exchange agent's account at the Book-Entry Transfer Facility), together with a properly completed and duly executed letter of transmittal for such series (or a manually signed facsimile thereof) and any required signature guarantees or other documents required by the letter of transmittal, are received by the exchange agent within three Nasdaq National Market trading days after the date of receipt by the exchange agent of the Notice of Guaranteed Delivery.

Return of Tendered and Unaccepted Shares of Preferred Stock. If any tendered shares of Preferred Stock are not accepted, or if fewer than all shares evidenced by a stockholder's certificates are tendered, certificates for unaccepted shares will be returned promptly after the expiration or termination of the Note Offer or, in the case of shares tendered by book-entry transfer at the Book-Entry Transfer Facility, the shares will be credited to the appropriate account maintained by the tendering stockholder at the Book-Entry Transfer Facility, in each case without expense to the stockholder.

Determination of Validity; Rejection of Shares of Preferred Stock; Waiver of Defects; No Obligation to Give Notice of Defects. All questions as to the number of shares of Preferred Stock to be accepted and the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of shares will be determined by Dynex Capital, in its sole discretion, and its determination shall be final and binding on all parties. Dynex Capital reserves the absolute right to reject any or all tenders of any shares that it determines are not in proper form or the acceptance for payment of or payment for which may, in the opinion of Dynex Capital's counsel, be unlawful. Dynex Capital also reserves the absolute right to waive any of the conditions of the Note Offer or any defect or irregularity in any tender with respect to any particular shares or any particular stockholder and Dynex Capital's interpretation of the terms of the Note Offer will be final and binding on all parties. No tender of shares will be deemed to have been properly made until all defects or irregularities have been cured by the tendering stockholder or waived by Dynex Capital. None of Dynex Capital, the exchange agent, the information agent or any other person

will be obligated to give notice of any defects or irregularities in tenders, nor will any of them incur any liability for failure to give any notice.

Tendering Stockholder's Representation and Warranty; Dynex Capital Acceptance Constitutes an Agreement. A tender of shares pursuant to any of the procedures described above will constitute the tendering stockholder's acceptance of the terms and conditions of the Note Offer, as well as the tendering stockholder's representation and warranty to Dynex Capital that (a) the stockholder has a net long position in the shares of the series of Preferred Stock tendered or equivalent securities at least equal to the number of shares tendered, within the meaning of Rule 14e-4 promulgated by the SEC under the Exchange Act and (b) such tender of shares complies with Rule 14e-4. It is a violation of Rule 14e-4 for a person, directly or indirectly, to tender shares for that person's own account unless, at the time of tender and at the end of the proration period (including any extensions thereof), the person so tendering (i) has a net long position equal to or greater than the amount of (x) shares of the series of Preferred Stock tendered or (y) other securities convertible into or exchangeable or exercisable for the shares of the series tendered and will acquire the shares of the series of Preferred Stock for tender by conversion, exchange or exercise and (ii) will deliver or cause to be delivered the shares of the series tendered in accordance with the terms of the Note Offer. Rule 14e-4 provides a similar restriction applicable to the tender or guarantee of a tender on behalf of another person. Dynex Capital's acceptance for payment of shares tendered pursuant to the Note Offer will constitute a binding agreement between the tendering stockholder and Dynex Capital upon the terms and conditions of the Note Offer.

Lost or Destroyed Certificates. Stockholders whose certificates for part or all of their shares have been lost, stolen, misplaced or destroyed may contact the exchange agent at (888) 422-8979, for instructions as to the documents which will be required to be submitted together with the respective Letters of Transmittal in order to receive certificate(s) representing the shares. A bond may be required to be posted by the stockholder to secure against the risk that the certificates may be subsequently recirculated. Stockholders are urged to contact the exchange agent immediately in order to permit timely processing of this documentation and to determine if the posting of a bond is required.

Certificates for shares, together with a properly completed letter of transmittal for such series of Preferred Stock and any other documents required by the letter of transmittal, must be delivered to the exchange agent and not to Dynex Capital. Any such documents delivered to Dynex Capital will not be forwarded to the exchange agent and therefore will not be deemed to be properly tendered.

Withdrawal Rights

Except as otherwise provided in this section, tenders made pursuant to the Note Offer are irrevocable. Shares of Preferred Stock tendered pursuant to this Note Offer may be withdrawn:

1. at any time prior to the Expiration Time; or
2. if not yet accepted for payment, after _____, 2004.

For a withdrawal to be effective, the exchange agent must receive a notice of withdrawal in written, telegraphic or facsimile form in a timely manner at the appropriate address set forth on the back cover of this Note Offer and as set forth herein. Any such notice of withdrawal must specify the name of the person having tendered the shares to be withdrawn, the number of shares tendered, the number of shares to be withdrawn, and, if certificates representing such shares have been delivered to the exchange agent, the name of the stockholder of record of such shares, as set forth in such certificates. If the certificates have been delivered to the exchange agent, the tendering holder of Preferred Stock must also submit the serial numbers of the particular certificates for the shares to be withdrawn, and the signature on the stockholder's notice of withdrawal must be guaranteed by an Eligible Institution, as described previously (except in the case of shares tendered for the account of an Eligible Institution). If shares have been tendered pursuant to the ATOP (book-entry transfer) procedures set forth in "The Note Offer—How

to Tender," the notice of withdrawal also must specify the name and the number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn shares and must otherwise comply with such Book-Entry Transfer Facility's procedures.

All questions as to the form and validity (including the time of receipt) of notices of withdrawal will be determined by Dynex Capital in its sole discretion, and its determination shall be final and binding on all parties. None of Dynex Capital, the information agent or the exchange agent or any other person is or will be obligated to give notice of any defects or irregularities in any notice of withdrawal, and none of them will incur any liability for failure to give any such notice.

Withdrawals may not be rescinded, and shares properly withdrawn shall not be deemed to be duly tendered for purposes of the Note Offer. Withdrawn shares, however, may be re-tendered before the Expiration Time by again following the procedures described under "The Note Offer—How to Tender."

If Dynex Capital extends the Note Offer, is delayed in its purchase of Preferred Stock or is unable to accept shares pursuant to the Note Offer for any reason, then, without prejudice to Dynex Capital rights under the Note Offer, the exchange agent may, subject to applicable law, retain tendered shares on behalf of Dynex Capital, and such shares may not be withdrawn except to the extent tendering stockholders are entitled to withdrawal rights as described herein.

Acceptance of Shares of Preferred Stock for Exchange; Delivery of Senior Notes to be Exchanged

Upon the terms and subject to the conditions of the Note Offer, promptly following the Expiration Time, Dynex Capital will accept for exchange shares properly tendered prior to the Expiration Time. Dynex Capital shall issue the Senior Notes and pay cash for excess amounts for shares of Preferred Stock that are properly tendered and not properly withdrawn (subject to the proration provisions and the other terms and conditions of the Note Offer and any required prorationing) only when, as and if it gives oral or written notice to the exchange agent of its acceptance of shares for exchange pursuant to the Note Offer. That notice, subject to the provisions of the Note Offer, may be given at any time after the Expiration Time.

Upon the terms and subject to the conditions of the Note Offer, promptly following the Expiration Time, Dynex Capital will accept up to an aggregate of 345,579 shares of its Series A Preferred Stock, up to an aggregate of 481,819 shares of its Series B Preferred Stock, and up to an aggregate of 479,512 shares of its Series C Preferred Stock properly tendered or such lesser number of shares as are properly tendered and not properly withdrawn.

Dynex Capital will pay for shares purchased pursuant to the Note Offer by depositing cash in lieu of fractional Senior Notes with the exchange agent, which will act as agent for the tendering stockholders for the purpose of receiving payment from Dynex Capital and transmitting any payment to the tendering stockholders. The Senior Notes will be issued to DTC in the name of its nominee, Cede & Co., Inc., and the accounts of its participants appropriately credited. Issuance of the Senior Notes is expected to occur no later than the Closing Date. Certificates for all tendered shares not purchased, including shares not purchased due to proration, will be returned promptly after the Expiration Time or termination of the Note Offer to the tendering stockholder (or, in the case of shares tendered by book-entry transfer, will be credited to the account maintained with the Book-Entry Transfer Facility by the participant who so delivered the shares), without expense to the tendering stockholder. In addition, if certain events occur, Dynex Capital may not be obligated to purchase any shares in the Note Offer. See "The Note Offer—Conditions to the Note Offer."

Dynex Capital will pay all stock transfer taxes, if any, payable on the transfer to it of shares acquired pursuant to the Note Offer by stockholders of record. However, if the Senior Notes are to be registered in the name of any person other than the stockholder of record, or if tendered certificates are registered in the name of any person other than the person signing the respective Letters of Transmittal,

the amount of any stock transfer taxes (whether imposed on the stockholder of record or such other person) payable on account of the transfer to such person will be deducted from the exchange price (i.e., the principal amount of the Senior Notes issued in the Note Offer), unless satisfactory evidence of the payment of such taxes or exemption therefrom is submitted. See Instruction 6 of the letter of transmittal.

Any tendering stockholder of record (or other payee) who fails to complete fully and sign the "Substitute Form W-9" included as part of the respective letter of transmittal may be subject to required back-up federal income tax withholding of 28% of the gross proceeds paid to such stockholder or other payee pursuant to the Note Offer. See "Certain United States Federal Income Tax Consequences."

Denominations

The Senior Notes will be issued only in denominations of $1,000 and integral multiples thereof, and we will issue cash in lieu of issuing Senior Notes in denominations less than $1,000.

Conditions to the Note Offer

We will not complete the Note Offer unless the following conditions are satisfied:

- The holders of the Preferred Stock tender shares of Preferred Stock in the Note Offer that will result in the issuance of at least $10 million in principal amount of Senior Notes.
- The Series D conversion is approved by the holders of each series of Preferred Stock, which requires the approval of the holders of two-thirds of the shares of each series of Preferred Stock.
- The issuance of additional shares of Common Stock in conjunction with the Series D conversion and the potential future conversion of Series D Preferred Stock into additional indebtedness of Dynex Capital is approved by a majority of the holders of the Common Stock present at a meeting of the holders of the Common Stock at which a quorum is present.
- The qualification of the Indenture under which the Senior Notes will be issued under the Trust Indenture Act of 1939.

In addition, the completion of the Note Offer is subject to the conditions applicable to the completion of the Series D conversion, as described in the proxy statement. These conditions include the occurrence of any of the following events that, in Dynex's judgment make it inadvisable to proceed with the Note Offer or the Series D conversion:

(a) there shall have been threatened, instituted or pending any action or proceeding by any government or governmental, regulatory or administrative agency, authority or tribunal or any other person, domestic or foreign, before any court, authority, agency or tribunal that directly or indirectly (i) challenges the making of the Note Offer or the completion of the Series D conversion, the acquisition of some or all of the shares pursuant to the Note Offer or otherwise relates in any manner to the Note Offer or the completion of the Series D conversion, or (ii) in Dynex Capital's reasonable judgment, could (A) materially and adversely affect the business, condition (financial or otherwise), assets, income, operations or prospects of Dynex Capital and its subsidiaries, taken as a whole, or otherwise materially impair in any way the contemplated future conduct of the business of Dynex Capital or any of its subsidiaries or materially impair the contemplated benefits of the Note Offer or Series D conversion to Dynex Capital, (B) make the acceptance for payment of, or payment for, some or all of the tendered shares illegal or otherwise restrict or prohibit consummation of the Note Offer or Series D conversion or (C) delay or restrict the ability of Dynex Capital, or render Dynex Capital unable, to accept for payment

or pay for or issue Senior Notes for some or all of the tendered shares or to complete the Series D conversion;

(b) there shall have been any action threatened, pending or taken, or approval withheld, or any statute, rule, regulation, judgment, order or injunction threatened, proposed, sought, promulgated, enacted, entered, amended, enforced or deemed to be applicable to the Note Offer, the Series D conversion or Dynex Capital or any of its subsidiaries, by any court or any authority, agency or tribunal that, in Dynex Capital's reasonable judgment, would or might directly or indirectly result in any of the consequences referred to in clauses (i) or (ii) of paragraph (a) above;

(c) there shall have occurred (i) any general suspension of trading in, or limitation on prices for, securities on any national securities exchange or in the over-the-counter market, (ii) the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, (iii) the commencement of a war, armed hostilities or other international or national calamity directly or indirectly involving the United States, (iv) any limitation (whether or not mandatory) by any government or governmental, regulatory or administrative agency, authority or tribunal on, or any event that, in Dynex Capital's reasonable judgment, might affect, the extension of credit by banks or other lending institutions in the United States, (v) any significant decrease in the market price of the Preferred Stock or any change in the general political, market, economic or financial conditions in the United States or abroad that could, in the reasonable judgment of Dynex Capital, have a material adverse effect on Dynex Capital's business, condition (financial or otherwise), assets, income, operations or prospects or the trading in the Preferred Stock, (vi) in the case of any of the foregoing existing at the time of the commencement of the Note Offer, a material acceleration or worsening thereof, or (vii) any decline in either the Dow Jones Industrial Average or the Standard and Poor's Index of 500 Industrial Companies by an amount in excess of 10% measured from the close of business on January ____, 2004;

(d) a tender or exchange offer for any or all of the shares of any class of capital stock of Dynex Capital (other than the Note Offer), or any merger, business combination or other similar transaction with or involving Dynex Capital or any subsidiary, shall have been proposed, announced or made by any person;

(e) (i) any person, entity or "group" (as that term is used in Section 13(d)(3) of the Exchange Act) shall have acquired or proposed to acquire beneficial ownership of more than 5% of the outstanding shares of any class of capital stock (other than any such person, entity or group who has a Schedule 13G on file with the SEC as of January ____, 2004 relating to share ownership in Dynex Capital and does not acquire beneficial ownership of an additional 2% or more of any class of capital stock or effect a change in filing status to Schedule 13D or (ii) any person, entity or group shall have filed a Notification and Report Form under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, or shall have made a public announcement reflecting an intent to acquire Dynex Capital or any of its subsidiaries or any of their respective assets or securities otherwise than in connection with a transaction authorized by the Board;

(f) any change or changes shall have occurred in the business, condition (financial or otherwise), assets, income, operations, prospects or stock ownership of Dynex Capital or its subsidiaries that, in Dynex Capital's reasonable judgment, is or may be material to Dynex Capital or its subsidiaries;

(g) Dynex Capital determines that it is unable to secure the listing of the Senior Notes and/or the Series D Preferred Stock on an appropriate exchange or market; or

(h) Dynex Capital determines that the consummation of the Note Offer or the Series D conversion may adversely affect Dynex Capital's ability to qualify as a real estate investment trust.

Any determination by Dynex Capital concerning any events described in this section and any related judgment or decision by Dynex Capital regarding the inadvisability of proceeding with the Note

Offer or Series D conversion shall be final and binding upon all parties. The foregoing conditions are for the sole benefit of Dynex Capital and may be asserted by Dynex Capital in circumstances giving rise to those conditions or may be waived by Dynex Capital in whole or in part. Dynex Capital's failure at any time to exercise any of the foregoing shall not be deemed a waiver of any such right, and each such right shall be deemed an ongoing right that may be asserted at any time and from time to time. However, Dynex Capital cannot waive the conditions requiring the requisite approvals of the holders of Preferred Stock and Common Stock.

Source and Amount of Funds

The cash to be paid in connection with this Note Offer for validly tendered shares of Preferred Stock, as well as for the costs and expenses of this Note Offer, will come from cash on hand, or funds generated in the ordinary course of business. At September 30, 2003, our cash and cash equivalents were approximately $9.2 million (unaudited). We expect to pay the interest and repay the principal on the Senior Notes from cash flow generated by our investment portfolio. For the quarter ended September 30, 2003, our investment portfolio produced a cash flow of approximately $14.0 million (unaudited).

Exchange Agent

The name and address of the exchange agent are set forth on the back cover of this offering circular.

Information Agent

The name and address of the information agent are set forth on the back cover of this offering circular.

Letters of transmittal and certificates representing the shares should not be sent to the information agent. See "The Note Offer—How to Tender."

No Financial Advisor

No financial advisor has been retained to render, and no financial advisor has rendered, an opinion as to the fairness of the Note Offer to holders of our Preferred Stock or to solicit exchanges of Preferred Stock for Senior Notes.

Exemption from Registration Requirements

The Senior Notes to be included in the Note Offer are being offered pursuant to an exemption from the registration requirements of the Securities Act under Section 3(a)(9) of the Securities Act. Section 3(a)(9) provides for an exemption from registration for any security exchanged by an issuer with its existing security holders exclusively where no commission or other remuneration is paid or given directly or indirectly for soliciting such exchange. When securities are exchanged for other securities of an issuer under Section 3(a)(9), the securities received in essence assume the character of the exchanged securities for purposes of the Securities Act. Accordingly, if tendering stockholders tender shares of Preferred Stock that are "restricted securities" within the meaning of Rule 144 under the Securities Act because of their status as an affiliate of Dynex Capital, the Senior Notes those tendering stockholders will receive in the Note Offer will not be freely tradable and any resale would have to comply with applicable exemptions under the securities laws, including without limitation, Rule 144(k) under the Securities Act. If the shares of Preferred Stock tendering stockholders tender are not so "restricted," the Senior Notes that those tendering stockholders receive will be freely tradable.

Certain Legal Matters; Regulatory Approvals

Dynex Capital is not aware of any license or regulatory permit material to its business that is reasonably likely to be adversely affected by Dynex Capital's acquisition of shares of Preferred Stock as

contemplated herein or of any approval or other action by any government or governmental, administrative or regulatory authority, agency, or tribunal, domestic or foreign, that would be required for the acquisition or ownership of shares by Dynex Capital as contemplated herein. Should any such approval or other action be required, Dynex Capital presently contemplates that such approval or other action will be sought or taken. Dynex Capital is unable to predict whether it will be required to delay the acceptance for payment of or payment for shares tendered pursuant to the Note Offer pending the outcome of any such matter. There can be no assurance that any such approval or other action, if needed, would be obtained or would be obtained without substantial conditions or that the failure to obtain any such approval or other action might not result in adverse consequences to Dynex Capital's business. Dynex Capital's obligations under the Note Offer to accept for payment, and pay for and issue Senior Notes for, shares are subject to certain conditions. See "The Note Offer—Conditions to the Note Offer."

Miscellaneous Matters

Dynex Capital is not aware of any jurisdiction in which the making of the Note Offer is not in compliance with applicable law. If Dynex Capital becomes aware of any jurisdiction where the making of the Note Offer or the acceptance or purchase of the shares is not in compliance with any valid applicable law, Dynex Capital will make a good faith effort to comply with such law. If, after such good faith effort, Dynex Capital cannot comply with such law, the Note Offer will not be made to (nor will tenders be accepted from or on behalf of) the holders of shares residing in such jurisdiction. In any jurisdiction where the securities, blue sky or other laws require the Note Offer to be made by a licensed broker or dealer, the Note Offer shall be deemed to be made on Dynex Capital's behalf by one or more registered brokers or dealers licensed under the laws of the jurisdiction.

Pursuant to Rule 13e-4 promulgated under the Exchange Act, Dynex Capital has filed with the SEC an Issuer Tender Offer Statement on Schedule TO which contains additional information with respect to the Note Offer. The Schedule TO, including the exhibits and any amendments thereto, may be examined, and copies may be obtained at the same places and in the same manner as is set forth under "Where You Can Find More Information—Schedule TO."

Payment of Expenses

The Note Offer is being made by Dynex Capital in reliance on the exemption from the registration requirements of the Securities Act of 1933, as amended, afforded by Section 3(a)(9) thereof. Therefore, Dynex Capital will not pay any commission or other remuneration to any broker, dealer, salesman or other person for soliciting tenders of the Preferred Stock. However, regular employees of Dynex Capital (who will not be additionally compensated therefor) may solicit tenders and will answer inquiries concerning the Note Offer.

Dynex Capital has retained MacKenzie Partners, Inc. to act as information agent and Wachovia Bank, N.A. to act as exchange agent in connection with the Note Offer. The information agent may contact holders of shares by mail, telephone, facsimile, telex, telegraph and personal interviews and may request Nominees to forward materials relating to the Note Offer to beneficial owners. The information agent and the exchange agent will each receive reasonable and customary compensation for their respective services.

No fees or commissions will be payable by Dynex Capital to brokers, dealers or other persons (other than fees to the information agent and exchange agent as described above) for soliciting tenders of shares pursuant to the Note Offer. A stockholder holding shares through a nominee is urged to consult such nominee to determine whether transaction costs are applicable if such stockholder tenders shares through such nominee and not directly to the exchange agent. Dynex Capital will, however, upon request, reimburse nominees for customary mailing and handling expenses incurred by them in forwarding the Note Offer and related materials to the beneficial owners of shares held by them as a nominee or in a fiduciary capacity. No nominee has been authorized to act as the agent of Dynex Capital, the information agent or

the exchange agent for purposes of the Note Offer. Dynex Capital will pay or cause to be paid all stock transfer taxes, if any, on its purchase of shares except as otherwise provided under "The Note Offer—Acceptance of Shares of Preferred Stock for Exchange; Delivery of Senior Notes to be Exchanged" or Instruction 6 in the letter of transmittal.

PURPOSES AND EFFECTS OF THE NOTE OFFER

Our board of directors believes the Note Offer gives holders of each series of Preferred Stock desiring to sell their shares of Preferred Stock the opportunity to liquidate a portion of their holdings of Preferred Stock at respective exchange prices representing a premium to the bid price prior to the announcement of the Note Offer of each series of Preferred Stock, as set forth in the table below based on the closing bid price of each series of Preferred Stock on January 7, 2004, the last trading day ending before the announcement of the Note Offer.

	Senior Notes Price/Share	Closing Bid Price January 7, 2004	Premium
Series A Preferred Stock	$ 27.84	$ 26.50	5.1%
Series B Preferred Stock	$ 28.42	$ 26.90	5.7%
Series C Preferred Stock	$ 34.80	$ 34.30	1.5%

In addition, our Board believes the Note Offer should provide greater liquidity for holders of the Preferred Stock at the price levels represented by the respective exchange prices. The table below sets forth (i) the recent monthly trading volume of each series of Preferred Stock on the Nasdaq National Market during the months of October, November, and December 2003, and (ii) the percentage of the number of shares outstanding represented by the annualized volume (based upon such three month period). In the aggregate, if the Note Offer is fully subscribed, the shares of Preferred Stock to be purchased pursuant to the Note Offer represents approximately 961% of the annualized trading volume.

	Trading Volume 2003				
	October	November	December	Total	Annualized as % of Shares Outstanding
Series A Preferred Stock	2,900	2,700	2,600	8,200	6.65%
Series B Preferred Stock	10,300	3,900	5,700	19,900	11.57%
Series C Preferred Stock	1,700	600	3,600	5,900	3.45%
Total:	14,900	7,200	11,900	34,000	7.29%

While giving holders of Preferred Stock desiring such liquidity the opportunity to sell their Preferred Stock at a premium to the bid prices as described above, the Note Offer also permits us to purchase shares of Preferred Stock tendered pursuant to the Note Offer at a substantial discount from the liquidation preference provided for in the articles of amendment governing the terms of the Preferred Stock. In the event of liquidation, the holders of all series of Preferred Stock will be entitled to receive out of our assets, prior to any such distribution to our common stockholders, the issue price per share of the series in cash, plus any accrued and unpaid dividends.

Assuming that the minimum 17.5% of shares of each series are tendered and accepted in the Note Offer, on a pro-forma basis, as of September 30, 2003, total shareholders' equity would have declined from $_____ to $_____; the aggregate liquidation preference of the Series A Preferred Stock would have declined from $_____ to $_____; the aggregate liquidation preference of the Series B Preferred Stock would have declined from $_____ to $_____; the aggregate liquidation preference of the Series C Preferred Stock would have declined from $_____ to $_____; the aggregate liquidation preference for all series of Preferred Stock will decline from $_____ to $_____; and the book value

per common share inclusive of accrued and unpaid preferred dividends, will increase from $_____ to $_____ per share.

Assuming that the maximum 70% of shares of each series are tendered and accepted in the Note Offer, on a pro-forma basis, as of September 30, 2003, total shareholders' equity would have declined from $_____ to $_____; the aggregate liquidation preference of the Series A Preferred Stock would have declined from $_____ to $_____; the aggregate liquidation preference of the Series B Preferred Stock would have declined from $_____ to $_____; the aggregate liquidation preference of the Series C Preferred Stock would have declined from $_____ to $_____; the aggregate liquidation preference for all series of Preferred Stock will decline from $_____ to $_____; and the book value per common share inclusive of accrued and unpaid preferred dividends, will increase from $_____ to $_____ per share.

In addition, the retirement of the tendered shares of the Preferred Stock at a discount to their respective full liquidation preferences will improve the ratio of net assets available to satisfy the liquidation preference of the shares of Series D Preferred Stock that into which the shares of Preferred Stock not tendered in the Note Offer will be converted.

The other reasons considered by the board of directors in deciding to pursue the recapitalization, including the Notes Offer, are described in "Special Factors—Background of the Recapitalization," "—Reasons for the Note Offer," and "—Recommendation of the Board of Directors; Fairness of the Recapitalization."

The Note Offer provides to stockholders the opportunity to dispose of those shares at a premium to the bid prices as of January 7, 2004 and without the usual transaction costs associated with open market sales, where those shares are tendered by the stockholder of record directly to the exchange agent. The Note Offer also may provide such stockholders greater liquidity for their Preferred Stock than otherwise what is generally available in the market. A stockholder whose shares are held through a nominee should contact such nominee to determine whether any transaction costs apply to any sales of Preferred Stock pursuant to the Note Offer. In addition, the Note Offer gives stockholders the opportunity to dispose of their Preferred Stock at prices greater than the market prices prevailing prior to the announcement of the Note Offer. Stockholders are urged to obtain current market quotations for their shares. See "Price Range of Preferred Stock." The Note Offer also allows stockholders to dispose of a portion of their shares while retaining a continued equity interest in Dynex Capital.

In determining whether to tender shares pursuant to the Note Offer, stockholders should consider the possibility that they may be able to sell their future shares of Series D Preferred Stock on the Nasdaq National Market or otherwise, including in connection with any subsequent tender offer or any subsequent sale, merger or liquidation of Dynex Capital (none of which is currently contemplated), at a net price higher than the respective exchange prices. We intend to apply for listing of the new Series D Preferred Stock for quotation on the Nasdaq National Market. However, there is no assurance that the Series D Preferred Stock will be listed on the Nasdaq National Market or that a liquid trading market will develop for the Series D Preferred Stock. If a trading market does develop, there can be no assurance as to any price at which the Series D Preferred Stock will trade.

The board has approved the Note Offer and believes that it provides holders of Preferred Stock desiring to dispose of some or all of their shares a reasonable opportunity to do so at a premium to the closing bid price of the respective series of Preferred Stock on January 7, 2004. You must, however, make your own decision whether to tender shares and, if so, how many shares to tender. Neither Dynex Capital nor its board makes any recommendation to you with respect to the Note Offer, and no person has been authorized by Dynex Capital or its board to make any such recommendations. Certain members of the board of directors of Dynex Capital have informed Dynex Capital that they will participate in the Note Offer.

Shares of Preferred Stock that Dynex Capital acquires under the Note Offer will be cancelled. Following completion of the Note Offer, as part of the Series D conversion, the outstanding shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock will be exchanged for shares of Series D Preferred Stock and Common Stock, and the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock will be cancelled.

Except as otherwise disclosed in this offering circular or the accompanying proxy statement, Dynex Capital has no plans, proposals or negotiations that relate to or would result in:

- à any extraordinary transaction, such as a merger, reorganization or liquidation, involving Dynex Capital or any of its subsidiaries;
- à any purchase, sale or transfer of a material amount of assets of Dynex Capital or any of its subsidiaries;
- à any change in the present policy to pay dividends only out of taxable income, or, if applicable, as required to maintain its status as a real estate investment trust;
- à any class of equity securities of Dynex Capital being delisted from a national securities exchange;
- à any class of equity securities of Dynex Capital becoming eligible for termination of registration under Section 12(g)(4) of the Exchange Act;
- à any change in the present board of directors or management of Dynex Capital, including, but not limited to, any plans or proposals to change the number or the term of directors or to fill any existing vacancies on the board of directors or to change any material term of the employment contract of any executive officer;
- à any other material change in Dynex Capital's corporate structure or business;
- à the suspension of Dynex Capital's obligation to file reports under the Exchange Act;
- à the acquisition by any person of additional securities of Dynex Capital or the disposition of securities of Dynex Capital; or
- à any change in Dynex Capital's articles of incorporation and bylaws or other governing instruments or other actions which could impede the acquisition of control of Dynex Capital.

If the Note Offer and the Series D conversion are completed, shares of Preferred Stock that are not tendered in the Note Offer will be automatically converted into shares of new Series D Preferred Stock and Common Stock. For holders of a series of Preferred Stock who do not tender their shares, there is no assurance that the price of the Series D Preferred Stock will not trade below the price currently being offered by Dynex Capital pursuant to the Note Offer. For holders of a series of Preferred Stock who do tender, there is no assurance that the trading price of the Series D Preferred Stock will not be higher than the prices being offered by this Note Offer.

CAPITALIZATION

The following table sets forth our capitalization at September 30, 2003 and pro forma information to give effect to the payment of cash pursuant to the Note Offer and the exchange of Senior Notes, assuming (1) that the minimum 17.5% shares of each series are tendered and accepted in the Note Offer, and (2) alternatively, that the maximum 70% shares of each series are tendered and accepted in the Note Offer at the prices offered herein, in each case as if the recapitalization had occurred on September 30, 2003.

(dollars in thousands, except share data)	September 30, 2003		
	Actual	As Adjusted	
		17.5%	70%
Total Debt:			
Non-recourse debt—collateralized bonds	1,776,110	1,776,110	1,776,110
Senior Notes	14,059	9,998	40,000
Accrued expenses and other liabilities	1,200	1,200	1,200
Total debt	1,791,369	1,787,308	1,817,310
Shareholders' Equity:			
Preferred Stock, par value $.01 per share, 50,000,000 shares authorized; 9.75% Cumulative Convertible Series A, 493,595, 0 and 0 shares issued and outstanding ($16,033, $0 and $0 aggregate liquidation preference)	11,274	—	—
9.55% Cumulative Convertible Series B, 688,189, 0 and 0 shares issued and outstanding ($22,698, $0 and $0 aggregate liquidation preference)	16,109	—	—
9.73% Cumulative Convertible Series C 684,893, 0 and 0 shares issued and outstanding ($27,795, $0 and $0 aggregate liquidation preference)	19,630	—	—
9.50% Cumulative Convertible Series D 0, 4,713,579 and 1,713,304 shares issued and outstanding ($0, $47,136 and $17,133 aggregate liquidation preference)	—	47,134	17,132
Common stock, par value $.01 per share, 100,000,000 shares authorized; 10,873,903, 11,978,244 and 11,275,311 issued and outstanding	109	120	113
Additional paid in capital	360,684	350,554	350,560
Net unrealized gain on investments available-for-sale	(3,965)	(3,965)	(3,965)
Accumulated deficit	(242,413)	(242,413)	(242,413)
Total shareholders' equity	161,428	151,430	121,427
Total capitalization	1,952,797	1,938,738	1,938,737

PRICE RANGE OF PREFERRED STOCK

Our shares of Preferred Stock are listed for trading on the Nasdaq National Market under the symbol "DXCPP" for the Series A Preferred Stock, "DXCPO" for the Series B Preferred Stock, and "DXCPN" for the Series C Preferred Stock. The following table sets forth for the calendar quarters indicated the range of the high and low sale prices for each series of Preferred Stock on the Nasdaq National Market since the first quarter of 2001.

	STOCK PRICES					
	SERIES A		SERIES B		SERIES C	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
2001						
1st Quarter	$ 12.25	$ 6.63	$ 12.31	$ 7.00	$ 13.25	$ 7.81
2nd Quarter	12.90	10.15	12.60	9.93	15.55	12.05
3rd Quarter	14.20	11.40	14.40	11.89	18.00	13.97
4th Quarter	16.90	15.90	17.09	16.20	21.10	20.00
2002						
1st Quarter	$ 18.80	$ 15.63	$ 19.00	$ 15.85	$ 23.00	$ 20.00
2nd Quarter	22.75	18.46	22.75	18.40	28.25	22.50
3rd Quarter	22.25	20.50	22.46	21.00	28.00	24.60
4th Quarter	22.50	20.41	22.25	20.50	28.00	25.70
2003						
1st Quarter	$ 24.24	$ 22.50	$ 24.06	$ 22.25	$ 29.77	$ 27.51
2nd Quarter	25.10	22.82	25.15	23.32	31.25	28.43
3rd Quarter	26.25	24.45	26.48	24.71	31.81	30.50
4th Quarter	28.25	25.35	27.89	26.30	34.30	31.75

On January 7, 2004, the last trading day ending prior to the announcement of the Note Offer, the closing per share sales price of the Series A Preferred Stock, as reported on the Nasdaq National Market, was $28.50, and the closing bid price was $26.50. As of January 7, 2004, the exchange price of $27.84 per share for Senior Notes for the Series A Preferred Stock represented a premium of 5.1% above the bid price. As of January 7, 2004, the closing per share sales price of the Series B Preferred Stock was $28.00, and the closing bid price was $26.90. As of January 7, 2004, the exchange price of $28.42 per share for Senior Notes for the Series B Preferred Stock represented a premium of 5.7% above the bid price. As of January 7, 2004, the closing per share sales price of the Series C Preferred Stock was $34.30, and the closing bid price was $34.30. As of January 7, 2004, the exchange price of $34.80 per share for Senior Notes for the Series C Preferred Stock represented a premium of 1.5% above the bid price. **You should obtain current quotations of the market price of the shares and consult an independent financial advisor.**

DIVIDENDS

Dividends on the Preferred Stock are cumulative and equal, per share, to the greater of (i) the per quarter base rate of $0.585 for Series A Preferred Stock and Series B Preferred Stock, and $0.73 for Series C Preferred Stock, or (ii) one-half times the per share quarterly dividend declared on our common stock. During the first two quarters of 1999, we declared dividends in the aggregate amount of $1.17 per share on our shares of Series A Preferred Stock and Series B Preferred Stock, and $1.46 per share on our shares of Series C Preferred Stock. During 2000, we did not declare any dividends. During the second quarter of 2001, we declared dividends of $0.2925 per share on our shares of Series A Preferred Stock and Series B Preferred Stock, and $0.3649 per share on our shares of Series C Preferred Stock. During the third quarter of 2002, we declared dividends of $0.2925 per share on our shares of Series A Preferred Stock and Series B Preferred Stock, and $0.3651 per share on our shares of Series C Preferred Stock. During the third quarter of 2003, we declared dividends of $0.8775 per share on our shares of Series A

Preferred Stock and Series B Preferred Stock, and $1.0950 per share on our shares of Series C Preferred Stock. The 2001, 2002 and 2003 dividends were declared in order for us to maintain our status as a real estate investment trust. We have not declared a dividend on any shares of our Preferred Stock since the third quarter of 2003.

As of September 30, 2003, the total amount of dividends in arrears on the Series A Preferred Stock was $4,187,000 ($8.48 per Series A Preferred Stock share), on the Series B Preferred Stock $5,837,000 ($8.48 per Series B Preferred Stock share), and on the Series C Preferred Stock $7,249,000 ($10.58 per Series C Preferred Stock share).

RATIO OF EARNINGS TO FIXED CHARGES

The following table gives pro forma effect to the Note Offer and the Series D conversion, assuming (1) that the minimum 17.5% of shares of each series are tendered for Senior Notes in the Note Offer, and (2) alternatively, that the maximum 70% of shares of each series are tendered for Senior Notes in the Note Offer.

The pro forma information also considers the costs of the Note Offer and the Series D conversion. This information should be read in conjunction with the summary historical and pro forma financial information included elsewhere in this proxy statement.

	Nine Months Ended September 30, 2003			Year Ended December 31, 2002			Year Ended December 31, 2001
	Actual	Pro Forma		Actual	Pro Forma		Actual
		17.5%	70%		17.5%	70%	
Ratio of earnings to fixed charges *(1)(2)(3)(4)(5)*	(5.13):1	(3.51):1	(1.80):1	(3.38):1	(2.34):1	(1.22):1	(2.00):1

(1) Assumes the 2005 Senior Notes were paid off prior to new Senior Notes being issued.

(2) For purposes of computing the ratios, "earnings" consists of net income (loss) plus interest and debt expense and excludes fixed charges related to the collateralized bonds issued by Dynex Capital which are non-recourse to Dynex Capital. This sum is divided by fixed charges, which includes total interest and debt expense, to determine the ratio of available earnings to fixed charges.

(3) That ratio of earnings to fixed charges is below 1:1 in 2003, 2002 and 2001 due to non-cash charges associated with provision for losses and impairment and other charges. The shortfall for the ratio of earnings to fixed charges relative to a ratio of 1:1 was $9,442,000, $9,360,000 and $21,209,000 for 2003, 2002 and 2001, respectively.

(4) The ratio of earnings to fixed charges on a pro forma basis, assumes the Senior Notes were issued on 17.5% of the preferred shares effective as of January 1, 2002. The shortfall for the ratio of earnings to fixed charges on a pro forma basis relative to a ratio of 1:1 was $10,154,000 and $10,310,000 for the nine months ended September 30, 2003 and the year 2002, respectively.

(5) The ratio of earnings to fixed charges on a pro forma basis, assumes the Senior Notes were issued on 70% of the preferred shares effective as of January 1, 2002. The shortfall for the ratio of earnings to fixed charges on a pro forma basis relative to a ratio of 1:1 was $12,292,000 and $13,160,000 for the nine months ended September 30, 2003 and the year 2002, respectively.

BUSINESS

General

We are a financial services company, which invests in loans and securities consisting of or secured by, principally single family mortgage loans, commercial mortgage loans, manufactured housing installment loans and delinquent property tax receivables. The loans and securities in which we invest

have generally been pooled and pledged (i.e. securitized) as collateral for non-recourse bonds ("collateralized bonds"), which provides long-term financing for such loans while limiting credit, interest rate and liquidity risk. We have elected to be treated as a REIT for federal income tax purposes under the Internal Revenue Code of 1986, as amended, and, as such, must distribute substantially all of our taxable income to shareholders. Provided that we meet all of the prescribed Internal Revenue Code requirements for a REIT, we will generally not be subject to federal income tax.

Our primary focus in the near term is on maximizing cash flows from our investment portfolio, opportunistically calling securities pursuant to clean-up calls if the underlying collateral has value for us and securing third-party servicing contracts to leverage our delinquent property tax receivables platform. During the first nine months of 2003, our investment portfolio generated net cash flows of $43.8 million, including $14.0 million in the third quarter. Depending on prepayment activity on the underlying assets in the investment portfolio, collection activity on the delinquent property tax receivable portfolio and the absolute level of short-term interest rates which directly impacts our financing costs, we estimate that cash flow for the balance of 2003 will be similar to amounts generated during the first nine months of the year. In September 2003, we redeemed or otherwise retired $14 million of our 9.50% 2005 Senior Notes.

We have entered into an agreement to service $7.5 million of liens on real estate for a regional utility in Pennsylvania. We will be compensated based on the results of our collection efforts. Given the existing infrastructure now in place to service our investment in property tax receivables, the incremental cost to service these liens is marginal. We will seek to gain other third-party servicing contracts in the future.

We also own the right to call adjustable-rate and fixed-rate mortgage pass-through securities previously issued and sold by us once the outstanding balance of such securities reaches a call trigger, generally either 10% or less of the original amount issued or a specified date. During the quarter ended September 30, 2003, we called approximately $23.1 million of securities, and subsequently sold approximately $20 million of the underlying seasoned single-family mortgage loan collateral at a gain of $0.8 million. At September 30, 2003, the callable balance at the time of the projected call of the one remaining security expected to reach a call trigger this year is approximately $32.1 million.

Our board of directors continues to evaluate alternatives for the use of our cash flow in an effort to improve overall shareholder value. To that end, we formed a committee to review possible strategic alternatives. This review included a number of alternatives, including the acquisition of a new business. See "Special Factors—Background of the Recapitalization." We have a net operating loss carryforward of approximately $130 million which can be utilized to offset REIT distribution requirements, other than excess inclusion income, which would allow us to retain capital for investment in a new strategic alternative. In addition, we could use the net operating loss carryforward to shelter taxable income from income tax for any taxable-REIT subsidiary or for the company itself if we were to forego our REIT status.

This "Business" section should be read in conjunction with the "Business" sections contained in our 2002 annual report on Form 10-K/A and our third quarter 2003 quarterly report on Form 10-Q, which are incorporated by reference in this offering circular. If any statement contained in the 10-K/A or the 10-Q enclosed with this offering circular is modified or superseded by a statement in this offering circular, or any amended filings to this offering circular, such statement contained in the enclosed 10-K/A or 10-Q will be deemed for the purposes of this offering circular, or any amended filing, to have been modified or superseded by the statement in this offering circular, or the amended filing, and the statement contained in the enclosed 10-K/A or the 10-Q is incorporated by reference herein only as modified or to the extent it is not superseded.

MANAGEMENT

The Board of Directors

Our board of directors currently consists of 7 members. The board of directors is divided into common stock directors and preferred stock directors. There are five directors that are elected by the holders of our common stock and two directors that are elected by the holders of our preferred stock. The common stock directors serve until their terms expire at the next annual meeting of stockholders in 2004 and the preferred stock directors serve until the earlier of: (a) the date upon which (i) the consolidated shareholders' equity of Dynex Capital at the end of any subsequent calendar quarter equals or exceeds $80 million and 150% of the aggregate liquidation preference of the then outstanding preferred stock and (ii) quarterly dividends on the Series A, Series B and Series C preferred stock are current, or (b) the next annual meeting of the stockholders. The following table sets forth the composition of the board of directors:

Common Stock Directors (Term Expiring in 2004)	Preferred Stock Directors (Term Expiring No Later Than 2004)
Thomas B. Akin	Leon A. Felman
J. Sidney Davenport	Barry Igdaloff
Thomas H. Potts	
Donald B. Vaden	
Eric P. Von der Porten	

The following information sets forth as of December 31, 2003, the names, ages, principal occupations and business experience for our directors. Unless otherwise indicated, the business experience and principal occupations shown for each director has extended five or more years.

Thomas B. Akin (51), has been a director of Dynex Capital since May 2003, and Chairman since May 30, 2003. He also has served as the managing general partner of Talkot Capital, LLC located in Sausalito, California since 1995. Talkot Capital is the general partner for various limited partnerships investing in both private and public companies. From 1991 to 1994, Mr. Akin was the managing director of the Western United States for Merrill Lynch Institutional Services. Mr. Akin had been the regional director of the San Francisco and Los Angeles regions for Merrill Lynch Institutional Services from 1981 to 1991. Prior to Merrill Lynch, Mr. Akin was an employee of Salomon Brothers from 1978 to 1981. Mr. Akin is currently on the board of directors of Acacia Research Inc. [1]

J. Sidney Davenport (62), has been a director of Dynex Capital since its organization in December 1987. Mr. Davenport retired from The Ryland Group, Inc., a publicly-owned corporation engaged in residential housing construction and mortgage-related financial services, where he was a Vice President from March 1981 to January 1998. Mr. Davenport was Executive Vice President of Ryland Mortgage Company from April 1992 to January 1998. Mr. Davenport served as a director of Mentor Income Fund, Inc., a publicly traded closed-end mutual fund, from June 1992 to August 1993.

[1] Mr. Akin is the managing general partner of Talkot Capital, LLC. During 1999, Talkot Capital and several other investors invested in Infotec Commercial Systems, Inc. ("Infotec"), a privately held company that provided training in computer technology to businesses throughout the United States. In 2001, Mr. Akin served as Chairman of the Board of Directors of Infotec, which filed for relief under Chapter VII of the United States Bankruptcy Code resulting in the liquidation of the company's assets. The investors of Infotec, including Talkot Capital, did not receive any return on capital.

Thomas H. Potts (54), has been a director of Dynex Capital since its organization in December 1987. From 1987 to June 2002, Mr. Potts served as President of Dynex Capital. Prior to that, Mr. Potts served in various positions on behalf of The Ryland Group, Inc. and its affiliates. Mr. Potts also served as President and director of Mentor Income Fund, Inc. from its inception in December 1988 until June 1992. Mr. Potts is currently the Executive Vice President, People, Process and Strategy for IndyMac Bancorp, Inc. located in Pasadena, California.

Donald B. Vaden (68), has been a director of Dynex Capital since January 1988. In March 1995, Mr. Vaden resumed practicing law specializing in mediation and arbitration, and is certified for general and family mediation by the Supreme Court of Virginia. He is the retired past Chairman of Residential Home Funding Corporation where he served from December 1992 until February 1995.

Eric P. Von der Porten (46), has been a director of Dynex Capital since May 2002. Since 1997, Mr. Von der Porten has served as the managing member of Leeward Investments, LLC, the general partner of Leeward Capital, L.P. Mr. Von der Porten earned an A.B. from the University of Chicago and an M.B.A. from the Stanford Graduate School of Business.

Leon A. Felman (68), has been a director of Dynex Capital since November 2000. Mr. Felman has been a director of Allegiant Bancorp, Inc., a St. Louis, Missouri based bank holding company, since 1992 and a director of Allegiant Bank & Trust Company, Inc. since 2001. Mr. Felman also serves on the audit committee, the real estate committee and chairs both the nominating and corporate governance committee and the ethics committee of Allegiant Bancorp. From 1968 to 1999, Mr. Felman was the president and chief executive officer of Sage Systems, Inc., which operated twenty-eight Arby's restaurants in the St. Louis, Missouri metropolitan area. He also currently serves as the managing operating partner of Sage Systems Liquidating Trust, LLC and is the managing partner of Felman Family Partnership, LP. Mr. Felman has been a private investor in financial institutions since 1999. Mr. Felman graduated from Carnegie Institute of Technology with a B.S. in Industrial Administration.

Barry Igdaloff (49), has been a director of Dynex Capital since November 2000. Mr. Igdaloff has been a registered investment advisor and the sole proprietor of Rose Capital in Columbus, Ohio, since 1995. Mr. Igdaloff graduated from Indiana University in 1976 with a B.S.B. in Accounting and in 1978 graduated from Ohio State University with a J.D. in law. Mr. Igdaloff is a non-practicing certified public accountant and a non-practicing attorney.

Executive Officer Who Is Not A Director

The position of President is currently vacant.

Stephen J. Benedetti (41), Executive Vice President, Chief Financial Officer and Secretary. Mr. Benedetti serves at the discretion of Dynex Capital's board of directors. Mr. Benedetti has served as Executive Vice President, Chief Financial Officer and Secretary since September 2001. From May 2000 to September 2001, Mr. Benedetti had been the Acting Chief Financial Officer and Acting Secretary. From October 1997 until August 2001, Mr. Benedetti served as Vice President and Treasurer of Dynex Capital; and from September 1994 until December 1998, he served as Vice President and Controller. From March 1992 until September 1994, he served as Director of Accounting and Financial Reporting for National Housing Partnerships, a national multifamily housing syndicator and property management concern. Mr. Benedetti also served as audit manager for Deloitte & Touche from 1985 to 1992, where he provided audit and consulting services to various clients primarily in the financial services and real estate development industries. Mr. Benedetti graduated from Virginia Tech in 1985 with a bachelor's degree in accounting and became a Certified Public Accountant in 1986.

Employment Agreement

Mr. Benedetti entered into an employment agreement with Dynex Capital, effective March 18, 2002. Mr. Benedetti's prior employment agreement dated September 4, 2001, was made a part of the new agreement. Under the new agreement, which expires June 30, 2004, Mr. Benedetti receives his current base salary of $180,000 per annum, adjusted each January 1st for inflation. Mr. Benedetti received incentive compensation of $120,000 on June 30, 2002 and, thereafter is entitled to receive up to 66.7% of his base salary for the period ending each June 30th as approved by Dynex Capital's compensation committee. The employment agreement will terminate in the event of Mr. Benedetti's death or total disability, may be terminated by Dynex Capital with "cause" (as defined in the agreement) or for any reason other than cause, and may be terminated by the resignation of Mr. Benedetti. If the employment agreement is terminated by Dynex Capital for any reason other than cause, total disability or death, then Dynex Capital shall pay to Mr. Benedetti his salary for a period equal to the lesser of one year, or through the expiration date of the employment agreement. Dynex Capital also agreed to give Mr. Benedetti six months notice if his employment agreement would not be renewed.

Certain Relationships and Related Transactions

Dynex Capital and Dynex Commercial, Inc. ("DCI") entered into a Litigation Cost Sharing Agreement in 2001, whereby the parties set forth how the costs of defending against certain litigation where both Dynex Capital and DCI have been named as defendants would be shared. Dynex Capital agreed to fund all costs of such litigation, including DCI's portion. The costs funded by Dynex Capital are considered loans and bear simple interest at the rate of Prime plus 8% per annum. Until December 2000, DCI was a subsidiary of Dynex Holding, Inc. ("DHI"), an affiliate of Dynex Capital which was merged into Dynex Capital in December 2000. All litigation against DCI relates to the activities of DCI while it was a subsidiary of DHI. As of September 30, 2003, Dynex Capital has funded $2,961,000 of litigation costs, including settlement amounts. DCI has no assets, and has asserted counterclaims in the litigation. The parties agreed that any proceeds from any counterclaims would be distributed 100% to Dynex Capital and 0% to DCI. ICD Holding, Inc. is the sole stockholder of DCI. Mr. Potts and Mr. Benedetti are the stockholders of ICD Holding, Inc.

During 1999, we made a loan to Mr. Potts, evidenced by a promissory note in the aggregate principal amount of $934,500, with interest accruing on the outstanding balance at the rate of Prime plus ½% per annum through 1999 and for 2000 and 2001, at the short-term monthly "applicable federal rate" based on tables published by the Internal Revenue Service. All of Mr. Potts's directly owned shares of Dynex Capital Common Stock were pledged as collateral to secure the note, except for his 401(k) holdings. Mr. Potts repaid the note in full in 2002.

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 100,000,000 shares of common stock, par value $0.01 per share and 50,000,000 shares of preferred stock, par value $0.01 per share. The relative rights of our common stock and Preferred Stock are defined by our Amended Articles of Incorporation as well as by our Amended By-laws and the Virginia Stock Corporation Act. Set forth below is summary of the relative rights of our common stock and Preferred Stock.

Common Stock

Subject to the rights of holders of any series of Preferred Stock which may from time to time be issued, holders of Common Stock are entitled to one vote per share on matters acted upon at any stockholders' meeting, including the election of directors, and to dividends when, as and if declared by the board of directors out of funds legally available therefor. We have not paid any dividends on our common stock since 1998. There is no cumulative voting and the Common Stock is not redeemable. In the event of any liquidation, dissolution or winding up of Dynex Capital, each holder of Common Stock is

entitled to share ratably in all of our assets remaining after the payment of liabilities and any amounts required to be paid to holders of preferred stock, if any. Holders of Common Stock have no preemptive or conversion rights and are not subject to further calls or assessments by Dynex Capital. All shares of Common Stock now outstanding are fully paid and non-assessable. The common stock is traded on the New York Stock Exchange under the ticker symbol "DX." As of January __, 2004, there were approximately _____ holders of record of common stock, and we have issued and outstanding 10,873,903 shares of Common Stock. This number was derived from our stockholder records, and does not include beneficial owners of our Common Stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries.

Preferred Stock

Our board of directors is authorized to issue shares of preferred stock in one or more series and to determine the voting rights, preferences as to dividends, and the liquidation, conversion, redemption and other rights of each series. The issuance of a series with voting and conversion rights may adversely affect the voting power of the holders of Common Stock. As of the close of business January 7, 2004, we have issued and outstanding 493,595 shares of Series A Preferred Stock, 688,189 shares of Series B Preferred Stock and 684,893 shares of Series C Preferred Stock.

The Series A Preferred Stock is listed and traded on the Nasdaq National Market under the symbol "DXCPP." As of January 7, 2004 (the last trading day ending prior to the announcement of the Note Offer), the closing per share sales price of the Series A Preferred Stock, as reported on the Nasdaq National Market, was $28.50, and the closing bid price was $26.50. The 345,579 shares of Series A Preferred Stock that Dynex Capital is offering to accept in this Note Offer represented approximately 70% of the outstanding Series A Preferred Stock as of January 7, 2004, the most recent practicable date prior to the announcement of the Note Offer.

The Series B Preferred Stock is listed and traded on the Nasdaq National Market under the symbol "DXCPO." As of January 7, 2004 (the last trading day ending prior to the announcement of the Note Offer), the closing per share sales price of the Series B Preferred Stock, as reported on the Nasdaq National Market, was $ 28.00, and the closing bid price was $28.00. The 481,819 shares of Series B Preferred Stock that Dynex Capital is offering to accept in this Note Offer represented approximately 70% of the outstanding Series B Preferred Stock as of January 7, 2004, the most recent practicable date prior to the announcement of the Note Offer.

The Series C Preferred Stock is listed and traded on the Nasdaq National Market under the symbol "DXCPN." As of January 7, 2004 (the last trading day ending prior to the announcement of the Note Offer), the closing per share sales price of the Series C Preferred Stock, as reported on the Nasdaq National Market, was $ 34.30, and the closing bid price was $34.30. The 479,512 shares of Series C Preferred Stock that Dynex Capital is offering to accept in this Note Offer represented approximately 70% of the outstanding Series C Preferred Stock as of January 7, 2004, the most recent practicable date prior to the announcement of the Note Offer.

Stockholders are encouraged to obtain current market quotations of the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock.

For a description of dividends with respect to the Preferred Stock, see "Dividends."

Shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock are convertible at any time at the option of the holder. They are convertible on a basis of one share of Common Stock for two shares of Preferred Stock. In April 2002, one holder of Series B Preferred Stock converted 100 shares of Series B Preferred Stock into 50 shares of Common Stock. No other shares of Series A Preferred Stock, Series B Preferred Stock or Series C Preferred Stock were converted during 2003, 2002 or 2001.

Each series is redeemable by us at any time, in whole or in part at a rate of (i) two shares of preferred stock for one share of common stock, plus accrued and unpaid dividends, provided that for 20

trading days within any period of 30 consecutive trading days, the closing price of the common stock equals or exceeds two times the issue price, or (ii) for cash at the issue price, plus any accrued and unpaid dividends.

In the event of liquidation, the holders of all series of Preferred Stock will be entitled to receive out of our assets, prior to any such distribution to our common stockholders, the issue price per share of the series in cash, plus any accrued and unpaid dividends. As of September 30, 2003 and December 31, 2002, the total liquidation preference on the Preferred Stock was $66,526,000 and $130,250,000 respectively, and the total amount of dividends in arrears on Preferred Stock were $17,273,000 and $31,157,000, respectively.

In 2001, we completed two separate tender offers for our Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock, resulting in the purchase of 1,307,118 shares of our Preferred Stock, consisting of 317,023 shares of Series A Preferred Stock, 533,627 shares of Series B Preferred Stock and 456,468 shares of Series C Preferred Stock, for an aggregate purchase price of $20.0 million and which had an aggregate issue price of $34.4 million, a book value of $32,819,259 and including dividends in arrears, a liquidation preference of $40.9 million.

In 2003, we completed a tender offer for our Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock, resulting in the purchase of 730,709 shares of our Preferred Stock, consisting of 188,940 shares of Series A Preferred Stock, 272,977 shares of Series B Preferred Stock and 268,792 shares of Series C Preferred Stock, for an aggregate purchase price of $19.3 million and which had an aggregate issue price of $19.3 million, a book value of $18.4 million and including dividends in arrears, a liquidation preference of $25.4 million. In addition, we exchanged $32.1 million of our Senior Notes due February 2005 for an additional 309,503 shares of Series A Preferred Stock, 417,541 shares of Series B Preferred Stock and 429,847 shares of Series C Preferred Stock, which had an aggregate issue price of $30.6 million, a book value of $29.2 million and including dividends in arrears, a liquidation preference of $40.2 million.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of shares of Common Stock, Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock as of December 17, 2003, by: (a) each director of Dynex Capital, (b) each of Dynex Capital's sole executive officer, (c) all directors and the executive officer of Dynex Capital as a group, and (d) all other stockholders known by Dynex Capital to be beneficial owners of more than 5% of the outstanding shares of any class of Dynex Capital stock. Unless otherwise indicated, each person has sole investment and sole voting power with respect to the securities shown.

	Number of Shares Beneficially Owned				Percent Beneficially Owned (%) (1)			
Name	Common (2)	Series A Preferred	Series B Preferred	Series C Preferred	Common (2)	Series A Preferred	Series B Preferred	Series C Preferred
Stephen J. Benedetti	18,114(3)	—	—	—	*	—	—	—
J. Sidney Davenport	25,356	—	—	—	*	—	—	—
Thomas H. Potts	326,495(4)	—	—	—	3.0%	—	—	—
Donald B. Vaden	9,483(5)	—	—	—	*	—	—	—
Eric P. Von der Porten (6)	140,200	—	1,598	3,225	1.29%	—	*	*
Leon A. Felman	12,570(7)	—	—	20,847(8)	*	—	—	3.04%
Barry Igdaloff	22,280(9)	49,546(10)	52,820(11)	67,300(12)	*	10.04%	7.68%	9.83%
Thomas B. Akin	994,000(13)	78,571(14)	132,798(15)	52,608(16)	9.14%	15.92%	19.30%	7.68%
Rockwood Partners L.P., Rockwood Asset Management, Inc., as a group (17)	788,500	53,100	50,600	26,100	7.25%	10.76%	7.35%	3.81%
All directors and executive officers as a group (8)	1,548,498	128,117	187,216	143,980	14.24%	25.96%	27.20%	21.02%

* Less than 1% of the outstanding shares.

(1) Percentages are based on 10,873,903 shares of Common Stock, 493,595 shares of Series A Preferred Stock, 688,189 shares of Series B Preferred Stock, and 684,893 shares of Series C Preferred Stock outstanding as of December 17, 2003, plus, for each person, the shares that would be issued

assuming that person exercises all options he holds that are exercisable within 60 days of December 17, 2003.

(2) Does not reflect additional shares of Common Stock that holders of Preferred Stock are entitled to receive upon conversion of their Preferred Stock. Currently, two shares of Preferred Stock are convertible into one share of Common Stock.

(3) Does not include 30,000 stock appreciation rights that vested on June 30, 2002.

(4) Includes 9,077 shares of common stock owned of record by such person's children and spouse. Does not reflect December 30, 2003 sale of 19,536 shares or January __, 2004 purchase of 19,536 shares in connection with 401(k) plan transfer described below.

(5) Includes 583 shares of common stock owned of record by such person's spouse.

(6) Includes 140,200 shares of common stock, 1,598 shares of Series B Preferred Stock and 3,225 shares of Series C Preferred Stock held by Leeward Capital, L.P. Mr. Von der Porten is the managing member of Leeward Investments, LLC, which is the general partner of Leeward Capital, L.P.

(7) Includes 87 shares of common stock owned of record by such person's spouse; 3,600 shares of common stock owned of record by The Leon A. Felman Keogh Profit Sharing Plan of which Mr. Felman is the Trustee; 3,150 shares of common stock owned of record by Homebaker Brand Profit Sharing Plan of which Mr. Felman is the Trustee; and 1,340 shares of common stock held of record by HLF Corporation of which Mr. Felman is an officer.

(8) Includes 11,670 shares of Series C Preferred Stock owned of record by Homebaker Brand Profit Sharing Plan of which Mr. Felman is the Trustee; 3,687 shares of Series C Preferred Stock owned of record by The Leon A. Felman Keogh Profit Sharing Plan of which Mr. Felman is the Trustee; 350 shares of Series C Preferred Stock owned of record by The Felman Family Trust of which Mr. Felman is the Trustee; and 980 shares of Series C Preferred Stock owned of record by HLF Corporation of which Mr. Felman is an officer.

(9) Includes 22,280 shares of common stock owned by clients of Rose Capital of which Mr. Igdaloff is the sole proprietor. Shares are held with shared power to vote and dispose thereof.

(10) Includes 29,146 shares of Series A Preferred Stock owned by clients of Rose Capital. Shares are held with shared power to vote and dispose thereof.

(11) Includes 26,520 shares of Series B Preferred Stock owned by clients of Rose Capital. Shares are held with shared power to vote and dispose thereof.

(12) Includes 24,900 shares of Series C Preferred Stock owned by clients of Rose Capital. Shares are held with shared power to vote and dispose thereof.

(13) Includes 558,400 shares of common stock held by Talkot Crossover Fund, L.P. Mr. Akin is the managing general partner of Talkot Capital which is the general partner of Talkot Crossover Fund, L.P. Shares are held with shared power to vote and dispose thereof.

(14) Includes 64,510 shares of Series A Preferred Stock held by Talkot Crossover Fund, L.P. Mr. Akin is the managing general partner of Talkot Capital which is the general partner of Talkot Crossover Fund, L.P. Shares are held with shared power to vote and dispose thereof.

(15) Includes 93,413 shares of Series B Preferred Stock held by Talkot Crossover Fund, L.P. Mr. Akin is the managing general partner of Talkot Capital which is the general partner of Talkot Crossover Fund, L.P. Shares are held with shared power to vote and dispose thereof.

(16) Includes 23,210 shares of Series C Preferred Stock held by Talkot Crossover Fund, L.P. Mr. Akin is the managing general partner of Talkot Capital which is the general partner of Talkot Crossover Fund, L.P. Shares are held with shared power to vote and dispose thereof.

(17) Address: 35 Mason Street, Greenwich, CT 06830. Shares are held with shared power to vote and dispose thereof.

Recent Transactions

To the best knowledge of Dynex Capital, except as provided below, no executive officer or director has effected any transaction in the Preferred Stock during the past 60 days.

Thomas Potts, a director and former President of Dynex Capital, transferred his Dynex Capital 401(k) account to an IRA account in late December 2003. In connection with this transfer, Dynex Capital's 401(k) plan administrator was required to sell the securities held in his Dynex Capital 401(k) plan account (which included 19,536 shares of Dynex Capital Common Stock) on December 30, 2003. On January 6, 2004, Mr. Potts instructed the administrator of the IRA account to purchase an identical number of shares of Dynex Capital Common Stock in order to effectively reverse this transaction. That purchase transaction is expected to occur on or about January 8, 2004. To the extent that this subsequent purchase of Dynex Capital Common Stock results in "short-swing profits" to Mr. Potts as defined by Section 16(b) of the Securities Exchange Act of 1934, Mr. Potts will pay any such profits to Dynex Capital. The shares of Dynex Capital Common Stock were sold in the open market by the Dynex Capital 401(k) plan administrator at a price of $6.10 per share.

DESCRIPTION OF SENIOR NOTES

The Senior Notes are to be issued under an Indenture, to be dated as of the Closing Date, between us and Wachovia Bank, N.A., as trustee. A copy of the Indenture is available from us upon request and is on file with the SEC. The following summaries of certain provisions of the Senior Notes and the Indenture do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all the provisions of the Senior Notes and the Indenture, including the definitions therein of certain terms which are not otherwise defined in this offering circular. Wherever particular provisions or defined terms of the Indenture (or of the form of Senior Notes which is a part thereof) are referred to, such provisions or defined terms are incorporated herein by reference in their entirety.

General

The Senior Notes will represent senior unsecured and unsubordinated obligations of Dynex Capital and have no conversion rights. The Senior Notes will be limited to $40,000,000 aggregate principal amount, will be issued in book entry form only, in denominations of $1,000.00 in original principal amount or any integral multiple thereof and will mature on the third anniversary of their issuance, unless earlier redeemed at the option of Dynex Capital or repurchased at the option of the Senior Note holder upon a change of control.

The Senior Notes bear interest from the Closing Date, at an annual rate of 9.50% on the outstanding principal balance. Payments of interest will be made semi-annually in arrears in cash on each of _____ and _____, commencing on the earlier of April 7, 2004 or the date of issuance, to holders of record at the close of business on the preceding _____ and _____, respectively. Payments of principal will be made at the office of the Senior Notes Trustee in Richmond, Virginia. Interest will be computed on the basis of a 360-day year composed of twelve 30-day months. The Senior Notes are unrated.

Global Note; Book-Entry Form

The Senior Notes will be issued solely in global form. A recipient of Senior Notes pursuant to this Note Offer will receive a beneficial interest in an unrestricted global note. The global note will be issued to DTC, and registered in the name of Cede as DTC's nominee, and shall be deposited with Wachovia Bank, N.A., as custodian for Cede. Upon issuance of the global note, DTC will credit, on its book-entry registration and transfer systems, the respective principal amounts of the Senior Notes represented by that global note to the accounts of institutions or persons, commonly known as participants, that have accounts with DTC or its nominee. Ownership of beneficial interests in the global note will be limited to participants or persons that may hold beneficial interests through participants. Owners of beneficial interests in the global note will not receive certificates representing their ownership interests in the Senior Notes, except in the event use of the book-entry system for the Senior Notes is

discontinued. Except as set forth below, the record ownership of the global note may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

Payment of principal and interest on and the redemption and repurchase price of the global note will be made to Cede, the nominee for DTC, as registered owner of the global note, by wire transfer of immediately available funds on each principal and interest payment date, each redemption date and each repurchase date, as applicable. None of Dynex Capital, the trustee or any paying agent will have any responsibility or liability for:

- any aspect of the records relating to or payments made on account of beneficial ownership interests in the global note; or
- for maintaining, supervising or reviewing any records relating to such beneficial ownership interest.

We have been informed by DTC that, with respect to any payment of principal of or interest on, or the redemption or repurchase price of, the global note, DTC's practice is, upon receipt of payment, to credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount represented by the global note as shown on the records of DTC. Payments by participants to owners of beneficial interests in the principal amount represented by the global note held through such participants will be the responsibility of such participants, as is now the case with securities held for the accounts of customers registered in "street name."

Transfers between participants will be effected in the ordinary way in accordance with DTC rules and will be settled in immediately available funds. Because DTC can only act on behalf of participants, who in turn act on behalf of persons who hold interests through them and certain banks, the ability of a person having a beneficial interest in the principal amount represented by the global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate evidencing such interest.

Neither Dynex Capital nor the trustee (or any registrar or paying agent under the Indenture) will have responsibility for the performance of DTC or its participants or persons who hold interests through the participants of their respective obligations under the rules and procedures governing their operations. DTC has advised us that it will take any action permitted to be taken by a holder of Senior Notes (including, without limitation, the presentation of Senior Notes for exchange as described below) only at the direction of one or more participants to whose account with DTC interests in the global note are credited, and only in respect of the principal amount of the Senior Notes represented by the global note as to which such participant or participants has or have given such direction.

DTC has advised us as follows:

- DTC is a limited purpose trust company organized under the laws of the State of New York;
- DTC is a member of the Federal Reserve System;
- DTC is a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- DTC is a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act.

DTC holds securities for its participants and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes to accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its participants and by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Indirect access to the DTC system is available to others such as banks, securities brokers and dealers and trust companies that clear through, or maintain a custodial relationship with, a participant, either directly or indirectly. The Rules applicable to DTC and its participants and indirect participants are on file with the SEC.

Although DTC may agree to the foregoing procedures in order to facilitate transfers of interests in the global note among participants, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. If DTC is at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by Dynex Capital within 90 days, we will cause the Senior Notes to be issued in definitive form in exchange for the global note.

Registration and Transfer

This Note Offer is being extended to you in reliance on the exemption from registration provided by Section 3(a)(9) of the Securities Act. As a result, the Senior Notes we issue to you in exchange for your Preferred Stock will have similar characteristics to the Preferred Stock with respect to transfers to third parties. If your shares of Preferred Stock are freely tradable, then the Senior Notes you receive in the exchange can be transferred freely.

Change of Control

Upon the occurrence of a Change of Control (as defined below), each holder of Senior Notes shall have the right to require that we repurchase such holder's Senior Notes in whole or in part at a purchase price in cash in an amount equal to 101% of the outstanding principal amount, together with accrued and unpaid interest to the date of purchase, pursuant to an offer (the "Change of Control Offer") made in accordance with the procedures described below and the other provisions in the Indenture.

The term "Change in Control" shall mean an event or series of events in which (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) acquires "beneficial ownership" (as determined in accordance with Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 50% of the total Voting Stock (as defined below) of Dynex Capital whether by purchase, tender, merger or otherwise; provided, however, that any such person or group shall not be deemed to be the beneficial owner of, or to beneficially own, any Voting Stock tendered in a tender offer until such tendered Voting Stock is accepted for purchase under the tender offer; or (ii) all or substantially all of the assets of Dynex Capital are sold, exchanged or otherwise is transferred to such person or group (other than any pledges or transfers made in connection with the securitization of our assets).

"Voting Stock" means stock of the class or classes pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of a corporation (irrespective whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

Within 30 days following any Change of Control, we shall send by first-class mail, postage prepaid, to the trustee and to each holder of Senior Notes, at such holder's address appearing in the note register, a notice stating, among other things, that a Change of Control has occurred, the repurchase price, the repurchase date, which shall be a business day no earlier than 30 days nor later than 60 days from the date such notice is mailed (or such later date as is necessary to comply with the requirements of the Securities Exchange Act of 1934, as amended), and certain other procedures that a holder of Senior Notes must follow to accept a Change of Control Offer or to withdraw such acceptance. We will comply, to the

extent applicable, with the requirements of Rule 13e-4 and Rule 14e-1 under the Exchange Act and other securities laws or regulations, to the extent such laws are applicable, in connection with the repurchase of the Senior Notes as described above. Future indebtedness may contain prohibitions of certain events which would constitute a Change of Control or require us to offer to repurchase such indebtedness upon a Change of Control. Moreover, the exercise by the holders of Senior Notes of their right to require Dynex Capital to purchase the Senior Notes could cause a default under such indebtedness, even if the Change of Control itself does not, due to the financial effect of such purchase on Dynex Capital. Finally, our ability to pay cash to holders of Senior Notes upon a purchase may be limited by Dynex Capital's then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required purchases. Furthermore, the Change of Control provisions may in certain circumstances make more difficult or discourage a takeover of Dynex Capital and the removal of the incumbent.

Merger, Consolidation and Sale of Assets

The Indenture prohibits us from consolidating with or merging with or into, or conveying, transferring or leasing all or substantially all our assets (determined on a consolidated basis), to any person unless: (i) either Dynex Capital is the resulting, surviving or transferee person (the "Successor Company") or the Successor Company is a person organized and existing under the laws of the United States or any state thereof or the District of Columbia, and the Successor Company (if not Dynex Capital) expressly assumes by a supplemental Indenture, executed and delivered to the trustee, in form satisfactory to the trustee, all the obligations of Dynex Capital under the Indenture and the Senior Notes, (ii) immediately after giving effect to such transaction no Event of Default (as defined below) has happened and is continuing and (iii) Dynex Capital delivers to the trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger or transfer and such supplemental Indenture (if any) comply with the Indenture.

Restrictions and Limitations

The terms of the indenture for the Senior Notes contain certain financial covenants which prohibit us from engaging in certain activities while the Senior Notes are outstanding. For example, the terms of the Indenture prohibits us from, directly or indirectly, making any Restricted Payments, unless no Default or Event of Default shall have occurred and be continuing at the time of or after giving effect to such Restricted Payment. The provisions of this covenant do not prohibit any distribution that is necessary to maintain our status as a real estate investment trust under the Code.

As a result of the Restricted Payments provisions, the Indenture also effectively prohibits us from engaging in any future tender offers with respect to our Preferred Stock until the Senior Notes have been fully repaid.

In addition, under the terms of the Indenture, we and any of our subsidiaries are prohibited from conducting any business or entering into any transactions or series of transactions with or for the benefit of any of our Affiliates (each, an "Affiliate Transaction"), except in good faith and on terms that are, in the aggregate, no less favorable to Dynex Capital, as the case may be, than those that could have been obtained in a comparable transaction on an arm's-length basis from a person or entity who is not such an Affiliate.

For purposes of this section of the joint offering circular/proxy statement, the term "Restricted Payment" means any of the following: (i) the declaration or payment of any dividend or any other distribution on the Capital Stock of Dynex Capital or any payment made to the direct or indirect holders (in all their capacities as such) of Capital Stock of Dynex Capital (other than dividends or distributions payable solely in capital stock (other than Disqualified Stock) or in options, warrants or other rights to purchase capital stock (other than Disqualified Stock); (ii) the purchase, redemption or other acquisition

or retirement for value of any Capital Stock of Dynex Capital or (iii) the making of any principal payment on, or the purchase, defeasance, repurchase, redemption or other acquisition or retirement for value, prior to any scheduled maturity, scheduled repayment or scheduled sinking fund payment, of any indebtedness existing on the issue date of the Senior Notes which is subordinated in right of payment to the Senior Notes (other than indebtedness acquired in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition).

In addition, all Affiliate Transactions (and each series of related Affiliate Transactions which are a part of a common plan) involving aggregate payments or other market value in excess of $6 million, are required to be approved unanimously by the Board of Directors of Dynex Capital, with such approval being evidenced by a board resolution stating that such directors have, in good faith, determined that such transactions or related transactions comply with the foregoing provision; and if Dynex Capital or any subsidiary of Dynex Capital enters into an Affiliate Transaction (or a series of related Affiliate Transactions which are part of a common plan) involving aggregate payments or market value in excess of $10 million, Dynex Capital or such subsidiary is required, prior to the consummation thereof, to obtain a favorable opinion as to the fairness of such transaction or related transactions from an independent financial advisor and file the same with the Trustee; provided that this sentence shall not be applicable with respect to sales or purchases of products or services by Dynex Capital or from its Affiliates in the ordinary course of business on terms similar to those that could have been obtained in a comparable transaction on an arms-length basis from a Person who is not such an Affiliate. Notwithstanding the foregoing, the restrictions set forth in this covenant shall not apply to (i) customary directors' fees and (ii) customary fees or transactions by and among Dynex Capital and its wholly owned subsidiaries.

For purposes of this section of the offering circular, the term "Affiliate" shall mean an "affiliate" as defined in Rule 144(a) as promulgated under the Securities Act.

For purposes of this section of the offering circular, the term "Capital Stock" of any person shall mean any and all shares, interests, participations or other equivalents (however designated) of such person's corporate stock or any and all equivalent ownership interests in a person (other than a corporation) whether now outstanding or issued after the date hereof.

For purposes of this section of the offering circular, the term "Disqualified Stock" means, with respect to any Person, any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is exchangeable for indebtedness, or is redeemable at the option of the holder thereof, in whole or in part on or prior to the stated maturity.

Events of Default and Remedies

An Event of Default is defined in the Indenture as being, among other things: default in payment of the principal on the Senior Notes when due, at maturity, upon redemption or otherwise, including failure by Dynex Capital to purchase the Senior Notes when required as described under "Description of Senior Notes—Change of Control" (whether or not such payment shall be prohibited by the subordination provisions of the Indenture); default for 30 days in payment of any installment of interest on the Senior Notes; default by Dynex Capital for 90 days after notice in the observance or performance of any other covenants in the Indenture; failure to pay certain indebtedness for money borrowed under any mortgage, indenture, or instrument aggregating $25 million or more; final judgments or decrees entered into by a court of competent jurisdiction against Dynex Capital, which have not been vacated, discharged, satisfied or stayed pending appeal within 60 days of entry, involving liabilities of $40 million or more after deducting the portion of such liabilities accepted by an insurance company; or certain events involving bankruptcy, insolvency or reorganization of Dynex Capital. The Indenture provides that the trustee may

withhold notice to the holders of Senior Notes of any default (except in payment of principal or interest with respect to the Senior Notes) if the trustee, in good faith, considers it in the interest of the holders of the Senior Notes to do so.

The Indenture provides that if an Event of Default (other than an Event of Default with respect to certain events, including bankruptcy, insolvency or reorganization of Dynex Capital) shall have occurred and be continuing, the trustee or the holders of not less than 25% in principal amount of the Senior Notes then outstanding may declare the principal on the Senior Notes to be due and payable immediately, but if Dynex Capital shall pay or deposit with the trustee a sum sufficient to pay all matured installments of interest on all Senior Notes and the principal on all Senior Notes that have become due other than by acceleration and certain expenses and fees of the trustee and if all defaults (except the nonpayment of interest on and principal of any Senior Notes which shall have become due by acceleration) shall have been cured or waived and certain other conditions are met, such declaration may be canceled and past defaults may be waived by the holders of a majority in principal amount of the Senior Notes then outstanding.

The holders of a majority in principal amount of the Senior Notes then outstanding shall have the right to direct the time, method and place of conducting any proceedings for any remedy available to the trustee, subject to certain limitations specified in the Indenture. The Indenture provides that, subject to the duty of the trustee following an Event of Default to act with the required standard of care, the trustee will not be under an obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless the trustee receives satisfactory indemnity against any associated costs, liability or expense.

Satisfaction and Discharge; Defeasance

The Indenture will cease to be of further effect as to all outstanding Senior Notes (except as to (i) rights of the holders of Senior Notes to receive payments of principal and interest on, the Senior Notes, (ii) our right of optional redemption, (iii) rights of registration of transfer and exchange, (iv) substitution of apparently mutilated, defaced, destroyed, lost or stolen Senior Notes, (v) rights, obligations and immunities of the trustee under the Indenture and (vi) rights of the holders of Senior Notes as beneficiaries of the Indenture with respect to the property so deposited with the trustee payable to all or any of them) if (A) we will have paid or caused to be paid the principal and interest on the Senior Notes as and when the same will have become due and payable or (B) all outstanding Senior Notes (except lost, stolen or destroyed Senior Notes which have been replaced or paid) have been delivered to the trustee for cancellation or (C) (x) the Senior Notes not previously delivered to the trustee for cancellation will have become due and payable or are by their terms to become due and payable within one year or are to be called for redemption under arrangements satisfactory to the trustee upon delivery of notice and (y) we will have irrevocably deposited with the trustee, as trust funds, cash, in an amount sufficient to pay principal of and interest on the outstanding Senior Notes, to maturity or redemption, as the case may be. Such trust may only be established if such deposit will not result in a breach or violation of, or constitute a default under, any agreement or instrument pursuant to which we are a party or by which we are bound and we have delivered to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions related to such defeasance have been complied with.

The Indenture will also cease to be in effect (except as described in clauses (i) through (vi) in the immediately preceding paragraph) and the indebtedness on all outstanding Senior Notes will be discharged on the 123rd day after the irrevocable deposit by Dynex Capital with the trustee, in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Senior Notes, of cash, U.S. Government Obligations (as defined in the Indenture) or a combination thereof, in an amount sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the trustee, to pay the principal and interest on the Senior Notes then outstanding in accordance with the terms of the Indenture and the Senior Notes ("legal defeasance"). Such legal defeasance may only be effected if (i) no Event of Default has occurred or is

continuing, (ii) such deposit will not result in a breach or violation of, or constitute a default under, any agreement or instrument to which Dynex Capital is a party or by which it is bound, (iii) Dynex Capital has delivered to the trustee an opinion of counsel stating that (A) Dynex Capital has received from, or there has been published by, the United States Internal Revenue Service a ruling or (B) since the date of the Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, based thereon, the holders of the Senior Notes will not recognize income, gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge by Dynex Capital and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if such deposit, defeasance and discharge had not occurred, (iv) Dynex Capital has delivered to the trustee an opinion of counsel to the effect that after the 123rd day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and (v) Dynex Capital has delivered to the trustee an officers certificate and an opinion of counsel stating that all conditions related to the defeasance have been complied with. Dynex Capital may also be released from its obligations under the covenants described above captioned "Description of Senior Notes—Change of Control" and "Description of Senior Notes –Merger, Consolidation and Sale of Assets" with respect to the Senior Notes outstanding on the 123rd day after the irrevocable deposit by Dynex Capital with the trustee, in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Senior Notes, of cash, U.S. Government Obligations or a combination thereof, in an amount sufficient in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the trustee, to pay the principal and interest on the Senior Notes then outstanding in accordance with the terms of the Indenture and the Senior Notes ("covenant defeasance").

Such covenant defeasance may only be effected if (i) no Event of Default has occurred or is continuing (ii) such deposit will not result in a breach or violation of, or constitute a default under, any agreement or instrument to which Dynex Capital is a party or by which it is bound, (iii) Dynex Capital has delivered to the trustee an officers' certificate and an opinion of counsel to the effect that the holders of the Senior Notes will not recognize income, gain or loss for federal income tax purposes as a result of such deposit and covenant defeasance by Dynex Capital and will be subject to federal income tax on the same amount, in the same manner and at the same times as would have been the case if such deposit and covenant defeasance had not occurred, (iv) Dynex Capital has delivered to the trustee an opinion of counsel to the effect that after the 123rd day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally and (v) Dynex Capital has delivered to the trustee an officers' certificate and an opinion of counsel stating that all conditions related to the covenant defeasance have been complied with.

Following such covenant defeasance, Dynex Capital will no longer be required to comply with the obligations described above under "Merger, Consolidation and Sale of Assets" and "Restrictions and Limitations" and will have no obligation to repurchase the Senior Notes pursuant to the provisions described under "Description of Senior Notes – Change of Control."

Modifications of the Indenture

The Indenture contains provisions permitting Dynex Capital and the trustee, with the consent of the holders of not less than a majority in principal amount of the Senior Notes at the time outstanding, to modify the Indenture or any supplemental Indenture or the rights of the holders of the Senior Notes, except that no such modification shall (i) extend the fixed maturity or due date for principal installments thereunder, of any Senior Note or due date for principal installments thereunder, reduce the rate or extend the time of payment of interest thereon, reduce the principal amount thereof, reduce any amount payable upon redemption thereof, change the obligation of Dynex Capital to repurchase the Senior Notes, at the option of the holder, upon the happening of a Change of Control, impair or affect the right of a holder to institute suit for the payment thereof, change the currency in which the Senior Notes are payable, without the consent of the holder of each Senior Note so affected or (ii) reduce the aforesaid percentage of the Senior Notes, without the consent of the holders of all of the Senior Notes then outstanding. Dynex

Capital and the trustee may amend or supplement the Indenture without notice to or consent of any holder in order to provide for the issuance of Senior Notes in coupon form, to correct or supplement any inconsistent or deficient provision in the Indenture, to comply with the provisions of the Trust Indenture Act of 1939 or to appoint a successor trustee.

Concerning the Trustee

Wachovia Bank, N.A., the trustee under the Indenture, has been appointed by Dynex Capital as the paying agent, registrar and custodian with regard to the Senior Notes. The trustee and/or its affiliates may in the future provide banking and other services to us in the ordinary course of their respective businesses. Under the Indenture, each holder or former holder of a Senior Note agrees to indemnify Dynex Capital and the trustee against any liability that may result from the transfer, exchange or assignment of such holder's or former holder's Senior Note in violation of any provision of the Indenture or applicable United States federal or state securities laws.

LEGAL PROCEEDINGS

Dynex Capital is subject to lawsuits or claims which arise in the ordinary course of its business. Set forth below is a description of all material outstanding litigation relating to Dynex Capital.

GLS Capital, Inc. ("GLS"), a subsidiary of Dynex Capital, together with the County of Allegheny, Pennsylvania ("Allegheny County"), were defendants in a lawsuit in the Commonwealth Court of Pennsylvania (the "Commonwealth Court"), the appellate court of the state of Pennsylvania. Plaintiffs were two local businesses seeking status to represent as a class, delinquent taxpayers in Allegheny County whose delinquent tax liens had been assigned to GLS. Plaintiffs challenged the right of Allegheny County and GLS to collect certain interest, costs and expenses related to delinquent property tax receivables in Allegheny County, and whether the County had the right to assign the delinquent property tax receivables to GLS and therefore employ procedures for collection enjoyed by Allegheny County under state statute. This lawsuit was related to the purchase by GLS of delinquent property tax receivables from Allegheny County in 1997, 1998, and 1999. In July 2001, the Commonwealth Court issued a ruling that addressed, among other things, (i) the right of GLS to charge to the delinquent taxpayer a rate of interest of 12% per annum versus 10% per annum on the collection of its delinquent property tax receivables, (ii) the charging of a full month's interest on a partial month's delinquency; (iii) the charging of attorney's fees to the delinquent taxpayer for the collection of such tax receivables, and (iv) the charging to the delinquent taxpayer of certain other fees and costs. The Commonwealth Court in its opinion remanded for further consideration to the lower trial court items (i), (ii) and (iv) above, and ruled that neither Allegheny County nor GLS had the right to charge attorney's fees to the delinquent taxpayer related to the collection of such tax receivables. The Commonwealth Court further ruled that Allegheny County could assign its rights in the delinquent property tax receivables to GLS, and that plaintiffs could maintain equitable class in the action. In October 2001, GLS, along with Allegheny County, filed an Application for Extraordinary Jurisdiction with the Supreme Court of Pennsylvania, Western District appealing certain aspects of the Commonwealth Court's ruling. In March 2003, the Supreme Court issued its opinion as follows: (i) the Supreme Court determined that GLS can charge delinquent taxpayers a rate of 12% per annum; (ii) the Supreme Court remanded back to the lower trial court the charging of a full month's interest on a partial month's delinquency; (iii) the Supreme Court revised the Commonwealth Court's ruling regarding recouping attorney fees for collection of the receivables indicating that the recoupment of fees requires a judicial review of collection procedures used in each case; and (iv) the Supreme Court upheld the Commonwealth Court's ruling that GLS can charge certain fees and costs, while remanding back to the lower trial court for consideration the facts of each individual case. Finally, the Supreme Court remanded to the lower trial court to determine if the remaining claims can be resolved as a class action. No hearing date has been set for the issues remanded back to the lower trial court. In August 2003, the Pennsylvania legislature signed a bill amending and clarifying certain provisions of the Pennsylvania statute governing GLS' right to the collection of certain interest, costs and expenses. If enacted as currently proposed, the law is retroactive to 1996, and amends

and clarifies that as to items (ii)-(iv) noted above by the Supreme Court, that GLS can charge a full month's interest on a partial month's delinquency, that GLS can charge the taxpayer for legal fees, and that GLS can charge certain fees and costs to the taxpayer at redemption.

Dynex Capital and Dynex Commercial, Inc. ("DCI"), a former affiliate of Dynex Capital and now known as DCI Commercial, Inc., are defendants in state court in Dallas County, Texas in the matter of Basic Capital Management et al ("BCM") versus Dynex Commercial, Inc. et al. The suit was filed in April 1999 originally against DCI, and in March 2000, BCM amended the complaint and added Dynex Capital as a defendant. The current complaint alleges that, among other things, DCI and Dynex Capital failed to fund tenant improvement or other advances allegedly required on various loans made by DCI to BCM, which loans were subsequently acquired by Dynex Capital; that DCI breached an alleged $160 million "master" loan commitment entered into in February 1998 and a second alleged loan commitment of approximately $9 million; that DCI and Dynex Capital made negligent misrepresentations in connection with the alleged $160 million commitment; and that DCI and Dynex Capital fraudulently induced BCM into canceling the alleged $160 million master loan commitment in January 1999. Plaintiff BCM is seeking damages approximating $40 million, including approximately $37 million for DCI's breach of the alleged $160 million master loan commitment, approximately $1.6 million for alleged failure to make additional tenant improvement advances, and approximately $1.9 million for DCI's not funding the alleged $9 million commitment. DCI and Dynex Capital are vigorously defending the claims on several grounds. Dynex Capital was not a party to the alleged $160 million master commitment or the alleged $9 million commitment. Dynex Capital has filed a counterclaim for damages approximating $11 million against BCM. Commencement of the trial of the case in Dallas, Texas began in January 2004. During the second quarter 2003, BCM filed suit against Dynex Capital and DCI as third-party defendants in related litigation in the United States District Court Eastern District of Louisiana in the matter Kelly Investment, Inc. versus BCM et al. Dynex Capital sold certain BCM related loans on commercial properties located in Louisiana to Kelly Investment, Inc. in 2000, and Kelly Investment, Inc. subsequently filed suit against BCM in 2001. Claims made by BCM in the US District Court of Louisiana against Dynex Capital and DCI are substantially similar to those being made in Dallas County, Texas. During the third quarter 2003, Kelly and BCM entered into a settlement agreement where BCM paid certain amounts to Kelly. Subsequently, the Louisiana litigation against Dynex Capital and DCI was dismissed. Neither Dynex Capital nor DCI were impacted by the settlement.

Although no assurance can be given with respect to the ultimate outcome of the above litigation, we believe the resolution of these lawsuits will not have a material effect on our consolidated balance sheet, but could materially affect our consolidated results of operations in a given year.

MATERIAL UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

General

The following discussion summarizes certain United States federal income tax consequences associated with the Note Offer and the ownership of Senior Notes. The discussion is intended only as a summary and does not purport to be a complete analysis of all potential tax considerations that may be relevant in connection with the Note Offer. The discussion is based upon the Internal Revenue Code of 1986, as amended as of the date hereof (the "Code"), existing and proposed United States Treasury regulations promulgated thereunder, current administrative pronouncements and judicial decisions, changes to any of which could materially affect the continued validity of the discussion herein and could be made on a retroactive basis. No rulings have been nor will be sought from the United States Internal Revenue Service ("IRS") with respect to the treatment of the Note Offer and no assurance may be given that contrary positions may not be taken by the IRS or by a court of law.

Scope

The discussion relating to stockholders who participate in the Note Offer addresses only stockholders who hold shares of Preferred Stock as capital assets within the meaning of Section 1221 of the Code, and does not address all of the tax consequences that may be relevant to particular stockholders in light of their personal circumstances, or to certain types of stockholders (such as certain financial institutions, brokers, dealers or traders in securities or commodities, insurance companies, "S" Corporations, expatriates, tax-exempt organizations, persons who acquired shares of Preferred Stock as compensation and persons who hold such shares as a position in a "straddle" or as a part of a "hedging" or "conversion" transaction for United States federal income tax purposes). In the context of the discussion pertaining to the Senior Notes, the discussion describes certain United States federal income tax consequences applicable only to original holders of the Senior Notes who hold Senior Notes as capital assets. The discussion does not include any description of the tax laws of any state, local, or foreign government that may be applicable to a particular stockholder. As used herein, a "United States Holder" means (i) a citizen or resident of the United States, (ii) a corporation, partnership or other entity created or organized in or under the laws of the United States, any State or any political subdivision thereof, (iii) an estate the income of which is subject to United States federal income taxation regardless of its source, or (iv) a trust if (A) a court within the United States is able to exercise primary supervision of the administration of the trust and (B) one or more United States Holders have the authority to control all substantial decisions of the trust. As used herein, a "Non-United States Holder" is a holder of shares other than a United States Holder.

The summary discussion set forth herein is included for general information only. It is not tax advice. The tax consequences of an exchange of shares for senior notes pursuant to the Note Offer may vary depending upon, among other things, the particular situation and circumstances of the tendering stockholder. We urge all stockholders to consult their own tax advisors to determine the specific federal, state, local, foreign and other tax consequences of exchanges made by them pursuant to the Note Offer, including the effect of the stock ownership attribution rules described herein.

Certain Federal Income Tax Consequences to Tendering Stockholders; Characterization of the Exchange

An exchange of shares of Preferred Stock for Senior Notes (and any cash received in lieu of a fractional interest in a Senior Note) by a stockholder pursuant to the Note Offer will be a taxable transaction for United States federal income tax purposes. The United States federal income tax consequences of such exchange to a stockholder may vary depending upon the stockholder's particular facts and circumstances. Depending on such facts and circumstances, the exchange for Senior Notes (and any cash received in lieu of a fractional interest in a Senior Note) will be treated as either a sale or a distribution for United States federal income tax purposes.

Under Section 302 of the Code, an exchange of shares of Preferred Stock for Senior Notes (and any cash received in lieu of a fractional interest in a Senior Note) pursuant to the Note Offer will be treated as a "sale or exchange" of such shares of Preferred Stock for United States federal income tax purposes (rather than as a deemed distribution by Dynex Capital with respect to shares continued to be held (or deemed to be held) by the tendering stockholder) if the receipt of Senior Notes upon such exchange (i) is "substantially disproportionate" with respect to the stockholder, (ii) results in a "complete termination" of the stockholder's interest in Dynex Capital, or (iii) is "not essentially equivalent to a dividend" with respect to the stockholder. These tests (the "Section 302 Tests") are explained more fully below. See "Section 302 Tests" below.

If any of the Section 302 Tests is satisfied and the exchange of the tendered shares of Preferred Stock for Senior Notes (and any cash received in lieu of a fractional interest in a Senior Note) is, therefore, treated as a "sale or exchange" of such shares for United States federal income tax purposes, the tendering stockholder will recognize capital gain or loss equal to the difference between (a) the amount of any cash and the fair market value of the Senior Notes received by the stockholder and (b) the

stockholder's adjusted tax basis in the shares of Preferred Stock exchanged pursuant to the Note Offer. Such capital gain or loss will generally be long-term capital gain or loss if the tendering stockholder held the tendered shares for more than 12 months. The gain or loss will generally be recognized at the time of the exchange and generally will not qualify for deferral under the installment method of tax accounting. If none of the Section 302 Tests is satisfied, then, to the extent of Dynex Capital's current and accumulated earnings and profits (as determined for United States federal income tax purposes), the tendering stockholder will generally be treated as having received a dividend in an amount equal to the amount of any cash and the fair market value of the Senior Notes (determined as of the date of the exchange) received by the stockholder pursuant to the Note Offer (without reduction for the adjusted tax basis of the shares tendered pursuant to the Note Offer). Under current Treasury Regulations, no loss would be recognized by the tendering stockholder, and (subject to reduction as described below for corporate stockholders eligible for the dividends-received deduction), the tendering stockholder's adjusted tax basis in the shares exchanged pursuant to the Note Offer will be added to such stockholder's adjusted tax basis in the stockholder's remaining shares, if any. If a tendering stockholder does not retain any shares, such stockholder may lose tax basis entirely. Under Regulations proposed in 2002 by the IRS which are not binding upon you or the IRS, the basis, after required adjustments, of the tendering stockholder's redeemed shares would be treated as a loss recognized on a disposition of the redeemed shares on the closing date of the Note Offer. Such loss would not be recognized by the stockholder until one of the 302 Tests is satisfied, although the character and source of such loss will be determined as of the closing date of the Note Offer. As these Regulations are only proposed Regulations, you are encouraged to consult your tax advisor regarding their status and applicability. If the exchange of shares by a stockholder is not treated as a sale or exchange for federal income tax purposes, the amount (if any) by which any cash and the fair market value of the Senior Notes exceeds the current or accumulated earnings and profits of Dynex Capital (as determined for federal income tax purposes) will be treated, first, as a nontaxable return of capital to the extent of the stockholder's basis in the shares, and thereafter, as taxable capital gain.

Dynex Capital does not expect to report any accumulated or current "earnings and profits" for United States federal income tax purposes through the end of 2004.

To the extent that a tendering stockholder does not receive cash pursuant to the Note Offer or does not receive a sufficient amount of cash pursuant to the Note Offer to satisfy any tax liability in connection with the exchange of shares of Preferred Stock for Senior Notes, a stockholder will need to use his or her other cash resources (including possible dispositions of the Senior Notes) to satisfy any tax liabilities arising from an exchange of shares for Senior Notes.

Constructive Ownership of Stock

In determining whether any of the Section 302 Tests is satisfied, a stockholder must take into account not only the shares which are actually owned by the stockholder, but also shares which are constructively owned by the stockholder by reason of the attribution rules contained in Section 318 of the Code. Under Section 318 of the Code, a stockholder may be treated as owning (i) shares that are actually owned, and in some cases constructively owned, by certain related individuals or entities in which the stockholder owns an interest, or, in the case of stockholders that are entities, by certain individuals or entities that own an interest in the stockholder and (ii) shares which the stockholder has the right to acquire by exercise of an option or a conversion right contained in another instrument held by the stockholder.

Section 302 Tests

One of the following tests must be satisfied in order for the exchange of shares for Senior Notes pursuant to the Note Offer to be treated as a sale or exchange for United States federal income tax purposes.

a. Substantially Disproportionate Test. The exchange of shares for Senior Notes (and any cash received in lieu of a fractional interest in a Senior Note) by a stockholder will be "substantially disproportionate" if the percentage of the outstanding shares actually and constructively owned by the stockholder immediately following the exchange of shares pursuant to the Note Offer (treating as not being outstanding all shares exchanged pursuant to the Note Offer) is less than 80% of the percentage of the outstanding shares actually and constructively owned by such stockholder immediately before the exchange of shares pursuant to the Note Offer (treating as outstanding all shares exchanged pursuant to the Note Offer). Stockholders should consult their own tax advisors with respect to the application of the "substantially disproportionate" test to their particular situation and circumstances.

b. Complete Termination Test. The exchange of shares for Senior Notes (and any cash received in lieu of a fractional interest in a Senior Note) will be a "complete termination" of a stockholder's interest in Dynex Capital if either (i) all of the shares actually and constructively owned by the stockholder are exchanged pursuant to the Note Offer or (ii) all of the shares actually owned by the stockholder are exchanged pursuant to the Note Offer and, with respect to the shares constructively owned by the stockholder which are not exchanged pursuant to the Note Offer, the stockholder is eligible to waive (and effectively waives) constructive ownership of all such shares under procedures described in Section 302(c) of the Code. Stockholders considering making such a waiver should do so in consultation with their own tax advisors.

c. Not Essentially Equivalent to a Dividend Test. A stockholder may satisfy the "not essentially equivalent to a dividend" test if the stockholder's exchange of shares pursuant to the Note Offer results in a "meaningful reduction" in the stockholder's proportionate interest in Dynex Capital. Whether the receipt of Senior Notes (and any cash received in lieu of a fractional interest in a Senior Note) by a stockholder who exchanges shares pursuant to the Note Offer will be "not essentially equivalent to a dividend" will depend upon the stockholder's particular facts and circumstances. Stockholders expecting to rely on the "not essentially equivalent to a dividend" test should consult their own tax advisors as to its application to their particular situation and circumstances.

Dynex Capital cannot predict whether or to what extent the Note Offer will be oversubscribed. If the Note Offer is oversubscribed, proration of the tenders pursuant to the Note Offer will cause Dynex Capital to accept fewer shares than are tendered. Therefore, a stockholder can be given no assurance that a sufficient number of such stockholder's shares will be exchanged pursuant to the Note Offer to ensure that such exchange will satisfy one or more of the Section 302 Tests and be treated as a sale or exchange rather than as a dividend for United States federal income tax purposes pursuant to the rules discussed above.

Contemporaneous dispositions or acquisitions of shares by a stockholder or related individuals or entities may be deemed to be part of a single integrated transaction which will be taken into account in determining whether any of the Section 302 Tests has been satisfied in connection with shares exchanged for Senior Notes (and any cash received in lieu of a fractional interest in a Senior Note) pursuant to the Note Offer. Thus, for example, if a stockholder sells shares to persons other than Dynex Capital at or about the time such stockholder also exchanges shares for Senior Notes (and any cash received in lieu of a fractional interest in a Senior Note) pursuant to the Note Offer, and the various sales effected by the stockholder are part of an overall plan to reduce or terminate such stockholder's proportionate interest in Dynex Capital, then the sales to persons other than Dynex Capital may, for United States federal income tax purposes, be integrated with the stockholder's exchange of shares pursuant to the Note Offer and, if integrated, should be taken into account in determining whether the holder satisfies any of the Section 302 Tests described above.

We urge stockholders contemplating an exchange of shares for Senior Notes to consult their own tax advisors regarding the Section 302 tests, including the effect of the attribution rules and the

possibility that a substantially contemporaneous sale of shares to persons other than Dynex Capital may assist in satisfying one or more of the Section 302 tests, as well as the specific federal, state, local, foreign and other tax consequences of exchanges made by them pursuant to the Note Offer.

Corporate Stockholder Dividend Treatment

If an exchange of shares of Preferred Stock for Senior Notes (and any cash received in lieu of a fractional interest in a Senior Note) pursuant to the Note Offer by a corporate stockholder is treated as a dividend, the corporate stockholder (other than an S corporation) may be entitled to claim the dividends-received deduction under Section 243 of the Code (generally 70%, but 80% under certain circumstances) with respect to the gross dividend, subject to applicable limitations. With respect to the dividends-received deduction, corporate stockholders should consider the effect of various limitations on its application, such as Section 246(c) of the Code, which disallows the dividends-received deduction with respect to any dividend on any share of stock that is held for 45 days or less during the 90-day period beginning on the date which is 45 days before the date on which such share becomes ex-dividend with respect to such dividend. Additionally, corporate stockholders that have incurred indebtedness directly attributable to an investment in shares should consider the effect of Section 246A of the Code which reduces the dividends-received deduction by a percentage generally computed based on the amount of such indebtedness and the stockholder's total adjusted tax basis in the shares.

Corporate stockholders should consult their own tax advisors as to the application of the dividends-received deduction to the Note Offer and the various limitations on its application.

Certain Federal Income Tax Consequences to Prospective United States Holders of Senior Notes; Interest on the Senior Notes—General

With respect to stockholders who exchange shares of Preferred Stock for Senior Notes (and any cash received in lieu of a fractional interest in a Senior Note) in the Note Offer, stated interest on the Senior Notes will generally be taxable as ordinary interest income at the time such amounts are accrued or received in accordance with the holder's method of accounting for United States federal income tax purposes.

Notwithstanding the foregoing, if the fair market value of the Senior Notes at the time of the Note Offer is less than the stated principal amount of the Senior Notes, then the Senior Notes may be deemed issued with "original issue discount" ("OID") to the extent of the difference. In that case, special tax rules will apply that in general would impute additional interest income to the holders of the Senior Notes.

If the fair market value of the Senior Notes at the time of the Note Offer is more than the stated principal amount of the Senior Notes, then the Senior Notes may be deemed issued with "amortizable bond premium" ("premium") to the extent of the difference. In that case, a holder would be able to elect to deduct the premium over the life of the Senior Note and offset a portion of the stated interest income. In the absence of such an election, the premium would be deducted or recovered when the Senior Note was redeemed, retired or sold.

Dynex Capital believes the fair market value of the Senior Notes at the time of the Note Offer will be substantially identical to the stated principal amount of the Senior Notes, and, as a result, that the Senior Notes will either have no OID or premium, or an amount that is not material.

Redemption or Sale of Senior Notes

Generally, any redemption (including the payment of the principal on the Senior Notes) or sale of the Senior Notes by a holder will result in taxable gain or loss equal to the difference between the sum of the amount of cash and the fair market value of the other property received (except to the extent

attributable to accrued but previously untaxed interest) and the holder's adjusted tax basis in the Senior Notes.

Except to the extent attributable to accrued but previously untaxed interest, such gain or loss (if any) will generally be long-term capital gain or loss if the holder's holding period for the Senior Notes exceeds twelve months and if the Senior Note is held as a capital asset by the holder.

Backup Withholding

United States Federal Income Tax Backup Withholding. Under the United States federal income tax backup withholding rules, 28% of the gross proceeds payable to a stockholder or other payee pursuant to the Note Offer must be withheld and remitted to the IRS, unless the stockholder or other payee provides his or her taxpayer identification number (employer identification number or social security number) to the exchange agent (as payor) and certifies under penalties of perjury that the number is correct or unless another exemption applies. Therefore, each tendering stockholder should complete and sign the Substitute Form W-9 included as part of the letter of transmittal so as to provide the information and certification necessary to avoid backup withholding unless the stockholder otherwise establishes to the satisfaction of the exchange agent that the stockholder is not subject to backup withholding. If the exchange agent is not provided with the correct taxpayer identification number, a United States Holder may be subject to penalties imposed by the IRS. If backup withholding results in an overpayment of taxes, a refund may be obtained. Certain "exempt recipients" (including, among others, all corporations and certain Non-United States Holders) are not subject to these backup withholding and information reporting requirements. In order for a Non-United States Holder to qualify as an exempt recipient, that stockholder must submit the appropriate and applicable version of an IRS Form W-8, signed under penalties of perjury, attesting to that stockholder's exempt status. These statements can be obtained from the exchange agent.

To prevent United States Federal Income Tax backup withholding equal to 28% of the gross payments made to stockholders for Shares exchanged pursuant to the Note Offer, each stockholder who does not otherwise establish an exemption from the backup withholding must provide the exchange agent with the stockholder's correct taxpayer identification number and provide other information by completing the substitute Form W-9 included as part of the letter of transmittal. Non-United States Holders are urged to consult their tax advisors regarding the application of United States Federal Income Tax withholding, including eligibility for a withholding tax reduction or exemption, and the refund procedure.

Certain Federal Income Tax Consequences to Prospective Non-United States Holders of Senior Notes

If the exchange of shares for Senior Notes (and any cash received in lieu of a fractional interest in a Senior Note) by a Non-United States Holder in the Note Offer is characterized as a sale (as opposed to a dividend), the holder generally will not be subject to United States federal income tax and, therefore, may be entitled to a refund of the tax withheld by the exchange agent on any gain with respect to the exchange unless:

- the gain is effectively connected with a trade or business of the Non-United States Holder in the United States and, if certain tax treaties apply, is attributable to a permanent establishment in the United States maintained by such holder; or
- in the case of a non-resident alien individual who holds the shares as a capital asset, the individual is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

If the exchange of shares for Senior Notes (and any cash received in lieu of fractional interests in a Senior Note) by a Non-United States Holder is characterized as a distribution (as opposed to a sale), then the

holder could potentially be subject to dividend withholding at the rate of 30% on the amount of any dividends which the holder is deemed to receive. However, we do not believe that we will have accumulated or current "earnings and profits" for United States federal income tax purposes through the end of 2004. Accordingly, we do not believe any part of the exchange could give rise to a taxable dividend that would subject any Non-United States Holder to dividend withholding. However, if the distribution exceeds the Non-United States Holder's tax basis, then the excess will be treated as gain from the sale of such holder's stock and the discussion in the preceding paragraph will apply. (In addition, a Non-United States Holder may be subject to backup withholding (see "—Information Reporting and Backup Withholding" below), even if such holder is not subject to dividend withholding.)

Payment of Interest

The 30% United States federal withholding tax will not apply to any payment to a Non-United States Holder of interest (including OID) on a Senior Note provided that:

- such holder does not actually or constructively own 10% or more of the total combined voting power of all classes of Dynex Capital's stock that are entitled to vote within the meaning of section 871(h)(3) of the Code;
- such holder is not a controlled foreign corporation that is related to Dynex Capital through stock ownership;
- such holder is not a bank whose receipt of interest on a Senior Note is described in section 881(c)(3)(A) of the Code; and
- (a) such holder provides its name and address, and certifies, under penalties of perjury, that such holder is not a United States person (which certification may be made on an IRS Form W-8BEN) or (b) a securities clearing organization, bank, or other financial institution that holds customers' securities in the ordinary course of its business holds the Senior Note on such holder's behalf and certifies, under penalties of perjury, that it has received IRS Form W-8BEN from the holder or from another qualifying financial institution intermediary, and provides a copy of the IRS Form W-8BEN. If the Senior Notes are held by or through certain foreign intermediaries or certain foreign partnerships, such foreign intermediaries or partnerships must also satisfy the certification requirements of applicable Treasury Regulations.

If a Non-United States Holder cannot satisfy the requirements described above, payments of interest (including OID) will be subject to the 30% United States federal withholding tax, unless such holder provides Dynex Capital with a properly executed (1) IRS Form W-8BEN claiming an exemption from or reduction in withholding under the benefit of an applicable tax treaty or (2) IRS Form W-8ECI stating that interest paid on the Senior Note is not subject to withholding tax because it is effectively connected with such holder's conduct of a trade or business in the United States.

If a Non-United States Holder is engaged in a trade or business in the United States and interest on a Senior Note is effectively connected with the conduct of that trade or business, such holder will be required to pay United States federal income tax on that interest (including OID) on a net income basis (although exempt from the 30% withholding tax provided the certification requirement described above is met) in the same manner as if such holder were a United States person as defined under the Internal Revenue Code, except as otherwise provided by an applicable tax treaty. In addition, if such holder is a foreign corporation, such holder may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of the holder's earnings and profits for the taxable year, subject to adjustments, that are effectively connected with such holder's conduct of a trade or business in the United States. For this purpose, interest will be included in the earnings and profits of such foreign corporation.

Sale, Exchange or Other Taxable Disposition of Senior Notes

Any gain realized upon the sale, exchange or other taxable disposition of a Senior Note (except with respect to accrued and unpaid interest (including OID), which would be taxable) generally will not be subject to United States federal income tax unless:

- that gain is effectively connected with a Non-United States Holder's conduct of a trade or business in the United States;
- the Non-United States Holder is an individual who is present in the United States for 183 days or more in the taxable year of that disposition, and certain other conditions are met; or
- the Non-United States Holder is subject to Code provisions applicable to certain United States expatriates.

A holder described in the first bullet point above will be required to pay United States federal income tax on the net gain derived from the sale, except as otherwise required by an applicable tax treaty, and if such holder is a foreign corporation, it may also be required to pay a branch profits tax. A holder described in the second bullet point above will be subject to United States federal income tax on the gain derived from the sale, which may be offset by United States source capital losses, even though the holder is not considered a resident of the United States.

Information Reporting and Backup Withholding

The amount of interest paid to a Non-United States Holder on the Senior Note and the amount of tax withheld, if any, will generally be reported to such holder and the IRS. A Non-United States Holder will generally not be subject to backup withholding with respect to payments that Dynex Capital makes to such holder provided that such holder has made appropriate certifications as to the holder's foreign status, or such holder otherwise establish an exemption.

Non-United States Holders will generally not be subject to backup withholding or information reporting with respect to any payment of the proceeds of the sale of a Senior Note effected outside the United States by a foreign office of a foreign "broker" (as defined in applicable Treasury Regulation), provided that such broker:

- derives less than 50% of its gross income for certain periods from the conduct of a trade or business in the United States,
- is not a controlled foreign corporation for United States federal income tax purposes, and
- is not a foreign partnership that, at any time during its taxable year, has 50% or more of its income or capital interests owned by United States persons or is engaged in the conduct of a United States trade or business.

Non-United States Holders will be subject to information reporting, but not backup withholding, with respect to any payment of the proceeds of a sale of a note effected outside the United States by a foreign office of any other broker unless such broker has documentary evidence in its records that such holder is not a United States person and certain other conditions are met, or such holder otherwise establishes an exemption. Non-United States Holders will be subject to backup withholding and information reporting with respect to any payment of the proceeds of a sale of a Senior Note effected by the United States office of a broker unless such holder properly certifies under penalties of perjury as to such holder's foreign status and certain other conditions are met or such holder otherwise establishes an exemption.

Currently applicable Treasury Regulations establish reliance standards with regard to the certification requirements described above.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a Non-United States Holder's United States federal income tax liability provided the required information is properly furnished to the IRS on a timely basis.

The tax discussion set forth above is included for general information only. We urge you to consult with your tax advisor to determine the particular tax consequences to you of the Note Offer, including the applicability and effect of state, local and foreign laws.

Tax Consequences to Dynex Capital

Dynex Capital will recognize no gain or loss in connection with the acquisition of shares in exchange for Senior Notes.

WHERE YOU CAN FIND MORE INFORMATION

Information About the Note Offer

MacKenzie Partners, Inc. will act as information agent in connection with the Note Offer. For further assistance or additional copies of documents call the information agent at (212) 929-5500 (call collect) or (800) 322-2885 (toll free) or write to the information agent at: MacKenzie Partners, Inc., 105 Madison Avenue, New York, New York 10016. See "The Note Offer—Information Agent" and the information set forth on the back cover of this offering circular. Any questions, requests for assistance, or requests for additional copies of this Note Offer, the letter of transmittal or the Notice of Guaranteed Delivery should be directed to the information agent.

You may also contact your broker, dealer, commercial bank or trust company or any other nominee for assistance concerning this Note Offer.

Historical Financial Data

The information appearing under the headings "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and "Quantitative and Qualitative Disclosure about Market Risk;" Dynex Capital's Consolidated Balance Sheets as of December 31, 2002 and December 31, 2001 and Consolidated Statements of Operations and Consolidated Statements of Shareholders' Equity for each of the fiscal years ended December 31, 2002, 2001 and 2000; and the independent auditors report on such consolidated financial statements contained in Dynex Capital's annual report on Form 10-K/A for the fiscal year ended December 31, 2002 are incorporated by reference herein. In addition, Dynex Capital's Consolidated Balance Sheets as of September 30, 2003 and December 31, 2002, and Consolidated Statements of Operations and related per share data and Consolidated Statements of Cash Flows for each of the quarters ended September 30, 2003 and 2002, contained in the quarterly report on Form 10-Q for the quarter ended September 30, 2003 are incorporated by reference herein. See "—Incorporation by Reference."

Schedule TO

In connection with Rule 13e-4 under the Exchange Act, Dynex Capital has filed with the SEC an Issuer Tender Offer Statement on Schedule TO, which contains additional information relating to the

Note Offer. The Schedule TO, including the exhibits and any amendments thereto, may be examined, and copies may be obtained, at the same places and in the same manner described below under "—Additional Information" with respect to information concerning Dynex Capital.

Additional Information

Dynex Capital is subject to the informational requirements of the Exchange Act, and files annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any reports, proxy statements and other information Dynex Capital files at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. You may also access filed documents at the SEC's web site at www.sec.gov.

Incorporation by Reference

Dynex hereby incorporates by reference into this offering circular the following:

- Dynex Capital's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2002 filed with the SEC on December 24, 2003;
- Dynex Capital's Quarterly Report on Form 10-Q/A for the quarter ended March 31, 2003 filed with the SEC on December 24, 2003;
- Dynex Capital's Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2003 filed with the SEC on December 24, 2003; and
- Dynex Capital's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 filed with the SEC on November 25, 2003.

In addition to the foregoing, all reports and other documents that Dynex Capital files pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this offering circular and prior to the expiration date of the Note Offer shall be deemed to be incorporated by reference into this offering circular and to be a part hereof from the dates of filing of such reports and documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this offering circular to the extent that a statement contained herein, or in any other subsequently filed document which also is incorporated or deemed to be incorporated by reference herein, modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this offering circular.

Copies of these materials may be received without charge upon request from Dynex Capital at the following address:

Dynex Capital, Inc.
4551 Cox Road, Suite 300
Glen Allen, Virginia 23060

The exchange agent for the Note Offer is:

WACHOVIA BANK, N.A.

By overnight delivery or express mail to:
Wachovia Bank, N.A.
c/o Alpine Fiduciary Services
Corporate Actions Department
P.O. Box 2065
South Hackensack, NJ 07606-9974

By mail to:

Wachovia Bank, N.A.
c/o Alpine Fiduciary Services
Corporate Actions Department
P.O. Box 2065
South Hackensack, NJ 07606-9974

Telephone Number: (888) 422-8979
Facsimile Number: (704) 590-7628

Any questions, requests for assistance, or requests for additional copies of this Note Offer, the letter of transmittal or the Notice of Guaranteed Delivery should be directed to the information agent at the following address and telephone numbers:

The information agent for the Note Offer is:

MACKENZIE PARTNERS, INC.

105 Madison Avenue
New York, New York 10016
(212) 929-5500 (Call Collect)
or
Call Toll-Free (800) 322-2885

Email: proxy@mackenziepartners.com

DYNEX CAPITAL, INC.

Issuer

AND

WACHOVIA BANK NATIONAL ASSOCIATION

Trustee

INDENTURE

Dated as of _____, 2004

9.50 % Senior Notes Due 2007

CROSS-REFERENCE TABLE*

Trust Indenture Act Section		Indenture Section
310	(a)(1)	7.10
	(a)(2)	7.10
	(a)(3)	N.A.
	(a)(4)	N.A.
	(a)(5)	7.10
	(b)	7.9
	(c)	N.A.
311	(a)	7.14
	(b)	7.14
	(c)	N.A.
312	(a)2.5(a)	5.1
	(b)	13.2
	(c)	13.2
313	(a)	7.2
	(b)(1)	N.A.
	(b)(2)	7.2
	(c)	7.2
	(d)	7.2
314	(a)4.7(a)	5.2
	(b)	N.A.
	(c)(1)	13.4
	(c)(2)	13.4
	(c)(3)	N.A.
	(d)	N.A.
	(e)	13.4
	(f)	N.A.
315	(a)	7.1(b)
	(b)	6.8
	(c)	7.1(a)
	(d)	7.1(c)
	(e)	6.9
316	(a) (last sentence)	8.4
	(a)(1)(A)	6.7
	(a)(1)(B)	6.7
	(a)(2)	N.A.
	(b)	6.4
	(c)	8.1
317	(a)	6.2
	(b)	4.4
318	(a)	13.7; 13.8

N.A. means “not applicable”.

* This Cross-Reference Table is not part of the Indenture.

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INDENTURE, dated as of _____, 2004, by and between DYNEX CAPITAL, INC., a Virginia corporation (the "Company"), and Wachovia Bank National Association, a national banking corporation (the "Trustee").

W I T N E S S E T H:

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the issuance of its 9.50% Senior Notes Due 2007 (the "Notes"), in an aggregate principal amount not to exceed $40,000,000 and to provide the terms and conditions upon which the Notes are to be authenticated, issued and delivered, the Company has duly authorized the execution and delivery of this Indenture; and

WHEREAS, the Notes will be originally issued solely in global form, and in the event that the Company issues Notes in definitive form, such issuance will be accompanied by a supplement to this Indenture including the form of definitive Notes; and

WHEREAS, the Notes, the certificate of authentication to be borne by the Notes, a form of assignment, a form of option to require repurchase by the Company upon a Change of Control (as hereinafter defined), and a certificate of transfer to be borne by the Notes are to be substantially in the forms hereinafter provided for; and

WHEREAS, all acts and things necessary to make the Notes, when executed by the Company and authenticated and delivered by the Trustee or a duly authorized authenticating agent, as in this Indenture provided, the valid, binding and legal obligations of the Company, and to constitute these presents a valid agreement according to its terms, have been done and performed, and the execution of this Indenture and the issuance hereunder of the Notes have in all respects been duly authorized.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That in order to declare the terms and conditions upon which the Notes are, and are to be, authenticated, issued and delivered, and in consideration of the premises and of the purchase and acceptance of the Notes by the holders thereof, the Company covenants and agrees with the Trustee for the equal and proportionate benefit of the respective holders from time to time of the Notes (except as otherwise provided below) as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Definitions.

The terms defined in this Section 1.1 (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section 1.1. All other terms used in this Indenture that are defined in the Trust Indenture Act (as hereinafter defined) or

that are by reference defined in the Securities Act (as hereinafter defined), except as herein otherwise expressly provided for or unless the context otherwise requires, shall have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force on the date of this Indenture. The words "herein," "hereof," "hereunder" and words of similar import refer to this Indenture as a whole and not to any particular Article or Section.

"Affiliate". An "Affiliate" of any specified person shall mean an "affiliate" as defined in Rule 144(a) as promulgated under the Securities Act.

"Board of Directors". The term "Board of Directors" shall mean the Board of Directors of the Company or a committee of such Board of Directors duly authorized to act for it.

"Board Resolution". The term "Board Resolution" shall mean a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification.

"Business Day". The term "Business Day" shall mean a day, other than a Saturday, a Sunday or a day on which the banking institutions in the State and City of New York are authorized or obligated by law or executive order to close or a day that is declared a national or New York state holiday.

"Capital Stock". The term "Capital Stock" of any person shall mean any and all shares, interests, participations or other equivalents (however designated) of such person's corporate stock or any and all equivalent ownership interests in a person (other than a corporation) whether now outstanding or issued after the date hereof.

"Cede". The term "Cede" shall mean Cede & Co., a nominee of the Depository.

"Change of Control". The term "Change of Control" shall have the meaning specified in Section 3.4(d).

"Change of Control Purchase Price". The term "Change of Control Purchase Price" shall have the meaning specified in Section 3.4(a).

"Change of Control Purchase Date". The term "Change of Control Purchase Date" shall have the meaning specified in Section 3.4(a).

"Change of Control Offer". The term "Change of Control Offer" shall have the meaning specified in Section 3.4(a).

"Commission". The term "Commission" shall mean the United States Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, the body performing such duties at such time.

"Company". The term "Company" shall mean Dynex Capital, Inc., a Virginia corporation, and subject to the provisions of Article X, shall include its successors and assigns.

"Corporate Trust Office of the Trustee". The term "Corporate Trust Office of the Trustee," or other similar term, shall mean the office of the Trustee at which at any particular time its corporate trust business shall be principally administered, from its office which is, located at 1021 East Cary Street, 3rd Floor (Corporate Trust-VA), Richmond, Virginia 23219.

"Covenant Defeasance". The term "covenant defeasance" shall have the meaning specified in Section 11.1(c).

"Custodian". The term "Custodian" shall mean the Trustee, as custodian for Cede pursuant to Section 2.5 with respect to the Notes in global form, or any successor entity thereto.

"Default". The term "default" shall mean any event that is, or after notice or passage of time, or both, would be, an Event of Default.

"Defaulted Interest". The term "Defaulted Interest" shall have the meaning specified in Section 2.3.

"Definitive Notes; In Definitive Form". The term "Definitive Notes" shall mean the Notes in definitive form. Any reference to Notes "in definitive form" shall mean definitive Notes.

"Depository". The term "Depository" shall mean, with respect to the Notes issuable or issued in whole or in part in global form, the person specified in Section 2.5(b) as the Depository with respect to the Notes, until a successor shall have been appointed and become such pursuant to the applicable provisions of this Indenture, and thereafter, "Depository" shall mean or include such successor.

"Disqualified Stock". The term "Disqualified Stock" means, with respect to any Person, any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is exchangeable for indebtedness, or is redeemable at the option of the holder thereof, in whole or in part on or prior to the stated maturity.

"Event of Default". The term "Event of Default" shall mean any event specified in Section 6.1(a) through (g).

"Exchange Act". The term "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Global Note". The term "Global Note" shall mean the note in global form as specified in Exhibit A.

"Indenture". The term "Indenture" shall mean this instrument as originally executed or, if amended or supplemented as herein provided, as so amended or supplemented.

"Legal Defeasance". The term "Legal Defeasance" shall have the meaning specified in Section 11.1(b).

"Note or Notes". The terms "Note" or "Notes" shall mean any one or more, as the case may be, of the 9.50% Senior Notes Due 2007 authenticated and delivered under this Indenture.

"Noteholder; Holder". The term "Noteholder" or "holder" as applied to any Note, or other similar term (but excluding the term "beneficial holder"), shall mean any person in whose name at the time a particular Note is registered on the Note Registrar's books.

"Note Register". The term "Note Register" shall have the meaning specified in Section 2.5(a).

"Note Registrar". The term "Note Registrar" shall have the meaning specified in Section 2.5(a).

"Officers' Certificate". The term "Officers' Certificate," when used with respect to the Company, shall mean a certificate signed by two authorized officers which shall include (a) any of the President, the Chief Executive Officer, the Chief Operating Officer or the Chief Financial Officer and (b) any Treasurer or Secretary or any Assistant Secretary of the Company, that is delivered to the Trustee. Each such certificate shall include the statements provided for in Section 13.4 if and to the extent required by the provisions of such Section.

"Opinion of Counsel". The term "Opinion of Counsel" shall mean an opinion in writing signed by legal counsel, who may be an employee of or counsel to the Company or other counsel acceptable to the Trustee, that is delivered to the Trustee. Each such opinion shall include the statements provided for in Section 13.4 if and to the extent required by the provisions of such Section.

"Outstanding". The term "Outstanding" with reference to Notes as of any particular time shall mean, subject to the provisions of Section 8.4, all Notes authenticated and delivered by the Trustee under this Indenture, except

(a) Notes theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(b) Notes, or portions thereof, for which monies in the necessary amount shall have been deposited in trust with the Trustee for payment, redemption or repurchase; provided that if such Notes are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given pursuant to Article III or provision satisfactory to the Trustee shall have been made for giving such notice; and

(c) Notes paid or exchanged pursuant to Section 2.5 hereof or Notes in lieu of or in substitution for which other Notes shall have been authenticated and delivered pursuant to the terms of Section 2.6 unless proof satisfactory to the Trustee is presented that any such Notes are held by bona fide holders in due course shall not be deemed outstanding.

"Payment Date". The term "Payment Date" shall mean each March 31 and September 30.

"Payment Default". The term "Payment Default" shall have the meaning specified in Section 6.1(d).

"Person". The term "person" shall mean a corporation, an association, a partnership, an individual, a joint venture, a joint stock company, a trust, an unincorporated organization or a government or an agency or a political subdivision thereof.

"Predecessor Note". The term "Predecessor Note" of any particular Note shall mean every previous Note evidencing all or a portion of the same debt as that evidenced by such particular Note; and, for the purposes of this definition, any Note authenticated and delivered under Section 2.6 in lieu of a lost, destroyed or stolen Note shall be deemed to evidence the same debt as the lost, destroyed or stolen Note.

"Record Date". The term "record date" with respect to any Payment Date shall have the meaning set forth in Section 2.3 hereof.

"Responsible Officer". The term "Responsible Officer" with respect to the Trustee, shall mean an officer of the Trustee assigned and duly authorized by the Trustee to administer its corporate trust matters.

"Restricted Payment". The term "Restricted Payment" means any of the following: (i) the declaration or payment of any dividend or any other distribution on Capital Stock of the Company or any payment made to the direct or indirect holders (in all their capacities as such) of Capital Stock of the Company (other than dividends or distributions payable solely in Capital Stock (other than Disqualified Stock) or in options, warrants or other rights to purchase Capital Stock (other than Disqualified Stock); (ii) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company or (iii) the making of any principal payment on, or the purchase, defeasance, repurchase, redemption or other acquisition or retirement for value, prior to any scheduled maturity, scheduled repayment or scheduled sinking fund payment, of any indebtedness existing on the Issue Date which is subordinated in right of payment to the Notes (other than indebtedness acquired in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition and other than calls and resecuritizations of non-recourse obligations.)

"Securities Act". The term "Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Subsidiary". The term "Subsidiary" of any specified person shall mean (i) a corporation, a majority of whose Capital Stock with voting power under ordinary circumstances to elect directors is at the time directly or indirectly owned by such person or (ii) any other person (other than a corporation) in which such person or such person and a Subsidiary or Subsidiaries of such person or a Subsidiary or Subsidiaries of such person directly or indirectly, at the date of determination thereof, has at least majority ownership.

"Successor Company". The term "Successor Company" shall have the meaning specified in Section 10.1.

"Trust Indenture Act". The term "Trust Indenture Act" shall mean the Trust Indenture Act of 1939, as amended, as it was in force at the date of execution of this Indenture, except as provided in Sections 9.3 and 13.8; provided that in the event said Trust Indenture Act of 1939 is amended after the date hereof, the term "Trust Indenture Act" shall mean, to the extent required by such amendment, said Trust Indenture Act of 1939 as so amended.

"Trustee". The term "Trustee" shall mean Wachovia Bank National Association, its successors and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at the time serving as successor trustee hereunder.

"U.S. Government Obligations". The term "U.S. Government Obligations" shall mean securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a person controlled or supervised by, and acting as an agency or instrumentality of, the United States of America the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any such U.S. Government Obligation or a specific payment of principal or interest on any such U.S. Government Obligation held by such custodian for the account of the holder of such depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by such custodian in respect of the U.S. Government Obligation or the specific payment of principal of or interest on the U.S. Government Obligation evidenced by such depository receipt.

"Voting Stock". The term "Voting Stock" shall have the meaning set forth in Section 3.5(e) hereof.

Section 1.2 Incorporation by Reference of Trust Indenture Act.

Whenever this Indenture refers to a provision of the Trust Indenture Act, the provision is incorporated by reference in and made a part of this Indenture.

The following Trust Indenture Act terms used in this Indenture have the following meanings:

"Indenture Securities" means the Notes;

"Indenture Security Holder" means a holder of Notes;

"Indenture To Be Qualified" means this Indenture;

"Indenture Trustee" or "Institutional Trustee" means the Trustee;

"Obligor" on the Notes means the Company and any successor obligor under the Trust Indenture Act.

All other terms used in this Indenture that are defined by the Trust Indenture Act, defined by Trust Indenture Act reference to another statute or defined by Commission rule under the Trust Indenture Act have the meanings so assigned to them.

Section 1.3 Rules of Construction.

Unless the context otherwise requires:

(1) a term has the meaning assigned to it;

(2) an accounting term not otherwise defined has the meaning assigned to it in accordance with generally accepted accounting principles;

(3) "or" is not exclusive;

(4) words in the singular include the plural, and in the plural include the singular; and

(5) provisions apply to successive events and transactions.

ARTICLE II

ISSUE, DESCRIPTION, EXECUTION, REGISTRATION AND EXCHANGE OF NOTES

Section 2.1 Designation, Amount and Issue of Notes.

The Notes shall be designated as "9.50% Senior Notes Due 2007." Notes not to exceed the aggregate principal amount of $40,000,000 upon the execution of this Indenture, or from time to time thereafter, may be executed by the Company and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and make available for delivery said Notes upon the written order of the Company, signed by its (a) Chief Executive Officer, President, Chief Operating Officer or Chief Financial Officer, and (b) any Treasurer or Secretary or any Assistant Secretary, without any further action by the Company hereunder. The Global Note shall be exchangeable only as provided in Section 2.5.

Section 2.2 Form of Notes.

The Global Note shall represent all of the Outstanding Notes and shall not be exchangeable for definitive Notes except as herein expressly provided. Payment of principal of and interest and premium, if any, on the Global Note shall be made in accordance with the provisions of Section 2.3 hereof.

The terms and provisions contained in the form of Global Note attached as Exhibit A hereto shall constitute, and are hereby expressly made, a part of this Indenture and to the extent applicable, the Company and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby.

Section 2.3 Date and Denomination of Notes; Payments of Principal and Interest.

The Notes shall be issuable in registered form only without coupons in denominations of $1,000 principal amount and integral multiples thereof. Every Note shall be dated the date of its authentication, shall be repaid in semiannual installments of interest, with the entire outstanding principal balance of the Notes together with all accrued but unpaid interest thereon due and payable in full on _____, 2007 (the "Maturity Date"). The Notes shall bear interest on the outstanding principal balance from the earlier of April 7, 2004 or the date of issue of the Notes, as provided in the Global Note. Interest shall be first payable on September 30, 2004, and then semiannually on each March 31 and September 30 (each a "Payment Date"), as specified on the face of the form of Global Note, attached as Exhibit A hereto.

The person in whose name any Note (or its Predecessor Note) is registered at the close of business on any record date with respect to any Payment Date (including any Note that is transferred or exchanged after the record date and on or before the Payment Date) shall be entitled to receive the interest payable on Payment Date and the principal payable on the Maturity Date notwithstanding the cancellation of such Note upon any transfer or exchange subsequent to the record date and prior to such Payment Date. Principal and interest may, at the option of the Company, be paid by check mailed to the address of such person as it appears on

the Note Register; provided that, with respect to any holder of Notes with an aggregate principal amount equal to or in excess of $5,000,000, at the request (such request to include appropriate wire instructions) of such holder in writing to the Trustee on or before the record date preceding any Payment Date, principal and interest on such holder's Notes shall be paid by wire transfer in immediately available funds. The term "record date" with respect to any Payment Date (except as otherwise provided herein for Defaulted Interest) shall mean the 15th day of the month in which such Payment Date occurs.

None of the Company, the Trustee or any paying agent shall have any responsibility or liability for any aspect of the records relating to or payment made on account of beneficial ownership interests in the Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Interest on the Notes shall be computed on the basis of a 360-day year composed of twelve 30-day months.

Any interest on any Note that is payable, but is not punctually paid or duly provided for, on any said March 31, or September 30 (herein called "Defaulted Interest") shall forthwith cease to be payable to the Noteholder on the relevant record date by virtue of his having been such Noteholder; and such Defaulted Interest shall be paid by the Company, at its election in each case, as provided in clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest to be paid on each Note and the date of the payment (which shall be not less than 25 days after the receipt by the Trustee of such notice, unless the Trustee shall consent to an earlier date), and at the same time, the Company shall deposit with the Trustee an amount of money equal to the aggregate amount to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest as in this clause provided. Thereupon, the Trustee shall fix a special record date for the payment of such Defaulted Interest, which shall be not more than 15 days and not less than 10 days prior to the date of the payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such special record date and, in the name and at the expense of the Company, shall cause notice of the payment of such Defaulted Interest and the special record date therefor to be mailed, first-class postage prepaid, to each Noteholder at his address as it appears in the Note Register, not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Interest and the special record date therefor having been so mailed, such Defaulted Interest shall be paid to the persons in whose names the Notes (or their respective Predecessor Notes) were registered at the close of business on such special record date and shall no longer be payable pursuant to the following clause (2).

(2) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Section 2.4 Execution of Notes.

The Notes shall be signed in the name and on behalf of the Company by the signature of its Chief Executive Officer, President, Chief Operating Officer or Chief Financial Officer and attested by the signature of its Treasurer, Secretary or any of its Assistant Secretaries (any of which signatures may be printed, engraved or otherwise reproduced thereon, by facsimile or otherwise). Only such Notes as shall bear thereon a certificate of authentication substantially in the form set forth on the form of Note attached as Exhibit A hereto, manually executed by the Trustee (or an authenticating agent appointed by the Trustee as provided by Section 13.11), shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee (or such an authenticating agent) upon any Note executed by the Company shall be conclusive evidence that the Note so authenticated has been duly authenticated and delivered hereunder and that the holder is entitled to the benefits of this Indenture.

In case any officer of the Company who shall have signed any of the Notes shall cease to be such officer before the Notes so signed shall have been authenticated and delivered by the Trustee, or disposed of by the Company, such Notes nevertheless may be authenticated and delivered or disposed of as though the person who signed such Notes had not ceased to be such officer of the Company; and any Note may be signed on behalf of the Company by such persons as, at the actual date of the execution of such Note, shall be the proper officers of the Company, although at the date of the execution of this Indenture any such person was not such an officer.

Section 2.5 Exchange and Transfer of Notes; Restrictions on Transfer; Depository.

Any exchange or transfer of all or a part of the Global Note for definitive Notes pursuant to this Section 2.5 must be accompanied by a supplemental indenture that shall include the form of such definitive Notes. Except as otherwise expressly provided herein, the Global Note may not be exchanged for definitive Notes.

(a) The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency of the Company designated pursuant to Section 4.2 being herein sometimes collectively referred to as the "Note Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the transfers of Notes. Such Note Register shall be in written form or in any form capable of being converted into written form within a reasonable period of time. The Trustee is hereby appointed "Note Registrar" for the purpose of transfers of Notes as herein provided. The Company may appoint one or more co-registrars. The Global Note shall be registered in the name of Cede & Co. Inc. as designee of the Depository unless exchanged as expressly provided for herein.

Subject to the first paragraph of Section 2.5:

upon surrender for registration of transfer of any Note to the Note Registrar or any co-registrar and satisfaction of the requirements for such transfer set forth in this Section 2.5, the Company shall execute, and the Trustee shall authenticate and make available for delivery, in the name of the designated transferee or transferees, one or more new Notes of any authorized denominations and of a like aggregate principal amount as may be required by Section 2.5(b).

notes may be exchanged for other Notes of any authorized denominations and of a like aggregate principal amount, upon surrender of the Notes to be exchanged at any such office or agency. Whenever any Notes are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and make available for delivery, the Notes that the Noteholder making the exchange is entitled to receive bearing certificate numbers not contemporaneously outstanding.

all Notes presented or surrendered for registration of transfer or for exchange shall (if so required by the Company, the Trustee, the Note Registrar or any co-registrar) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company, executed by the Noteholder thereof or his attorney duly authorized in writing.

no service charge shall be charged to the Noteholder for any exchange or registration of transfer of Notes, but the Company may require payment of a sum sufficient to cover any tax, assessments or other governmental charges that may be imposed in connection therewith.

none of the Company, the Trustee or the Depository, the Note Registrar or any co-registrar shall be required to exchange or register a transfer of (a) any Notes for a period of 15 days next preceding the mailing of a notice of redemption, (b) any Notes called for redemption or, if a portion of any Note is selected or called for redemption, such portion thereof selected or called for redemption, or (c) any Notes surrendered for repurchase pursuant to Section 3.4 or, if a portion of any Note is surrendered for repurchase pursuant to Section 3.4, such portion thereof surrendered for repurchase pursuant to Section 3.4.

all Notes issued upon any transfer or exchange of Notes shall be the valid obligations of the Company, evidencing the same debt and entitled to the same benefits under this Indenture as the Notes surrendered upon such registration of transfer or exchange. All Notes, the transfer and/or exchange of which is effectuated by the Trustee pursuant to this Section 2.5, shall be accompanied by an Officers' Certificate of the Company certifying that such transfer, exchange and/or registration is authorized by the Company and permitted hereunder.

any transfer of a definitive Note or Notes must be effected by the delivery to the transferee (or its nominee) of a definitive Note or Notes registered in the name of the

transferee (or its nominee) on the books maintained by the Trustee. With respect to any such transfer, the Company shall execute and the Trustee shall authenticate and make available for delivery to the transferee (or such transferee's nominee, as the case may be), a definitive Note or Notes in the appropriate aggregate principal amount in the name of such transferee (or its nominee) and bearing such restrictive legends as may be required by this Indenture.

(b) Notwithstanding any other provisions of this Indenture (other than the provisions set forth in this Section 2.5(b)), the Global Note may not be transferred as a whole except by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such successor Depository.

The Depository shall be a clearing agency registered under the Exchange Act. The Company initially appoints the Depository Trust Company to act as Depository with respect to the Global Note. The Global Note shall be issued to the Depository, registered in the name of Cede, as the nominee of the Depository, and shall not be exchanged or transferred except as expressly provided for herein and shall be deposited with the Trustee as Custodian for Cede.

Neither the Company nor the Trustee (or any registrar, paying agent or conversion agent under this Indenture) shall have responsibility for the performance by the Depository or its participants or indirect participants of its respective obligations under the rules and procedures governing its operations. The Depository will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account with the Depository interests in the Global Note are credited, and only in respect of the principal amount of the Notes represented by the Global Note as to which such participant or participants has or have given such direction.

If at any time the Depository for the Global Note notifies the Company that it is unwilling or unable to continue as Depository for such Notes, the Company may appoint a successor Depository with respect to such Notes. If a successor Depository for the Notes is not appointed by the Company within 90 days after the Company receives such notice, the Company shall execute, and the Trustee, upon receipt of an Officers' Certificate for the authentication and delivery of Notes, shall authenticate and make available for delivery, Notes in definitive form, in an aggregate principal amount equal to the principal amount of the Global Note in exchange for the Global Note.

Definitive Notes issued in exchange for all or a part of the Global Note pursuant to this Section 2.5(b) shall be registered in such names and in such authorized denominations as the Depository, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. Upon execution and authentication, the Trustee shall make available for delivery such definitive Notes to the persons in whose names such definitive Notes are so registered.

At such time as all interest in the principal, premium, if any, and interest of the Global Note has been paid, redeemed, repurchased or canceled, the Global Note shall be, upon receipt thereof, canceled by the Trustee in accordance with standing procedures and instructions existing between the Depository and the Custodian. At any time prior to such cancellation, if any interest in the principal, premium, if any, and interest of the Global Note is paid, exchanged for definitive Notes, redeemed, repurchased, converted, canceled or transferred to a transferee who receives definitive Notes therefor or any definitive Note is exchanged or transferred for part of the Global Note, the principal amount of the Global Note shall, in accordance with the standing procedures and instructions existing between the Depository and the Custodian, be reduced or increased, as the case may be, and an endorsement shall be made on the Global Note by the Trustee or the Custodian, at the direction of the Trustee, to reflect such reduction or increase.

The Company and the Trustee may for all purposes, including the making of payments due on the Notes, deal with the Depository as the authorized representative of the Noteholders for the purposes of exercising the rights of Noteholders hereunder. The rights of the owner of any beneficial interest in the Global Note shall be limited to those established by law and agreements between such owners and depository participants; provided that no such agreement shall give any rights to any person against the Company or the Trustee without the written consent of the parties so affected. Multiple requests or directions from and votes of the Depository, as holder of notes in book-entry form with respect to any particular matter, shall not be deemed inconsistent to the extent they do not represent an amount of notes in excess of those held in the name of the Depository or its nominee.

(c) Each holder or former holder of a Note agrees to indemnify the Company and the Trustee against any liability that may result from the transfer, exchange or assignment of such holder's or former holder's Note in violation of any provision of this Indenture and/or applicable U.S. federal or state securities law.

Section 2.6 Mutilated, Destroyed, Lost or Stolen Notes.

In case any Note shall become mutilated or be destroyed, lost or stolen, the Company in its discretion may execute, and upon its request, the Trustee or an authenticating agent appointed by the Trustee shall authenticate and make available for delivery a new Note bearing a number not contemporaneously outstanding in exchange and substitution for the mutilated Note or in lieu of and in substitution for the Note so destroyed, lost or stolen. The Company may charge such applicant for the expenses of the Company in replacing a Note. In every case the applicant for a substituted Note shall furnish to the Company, to the Trustee and, if applicable, to such authenticating agent such security or indemnity as may be required by them to save each of them harmless from any loss, liability, cost or expense caused by or connected with such substitution, and in every case of destruction, loss or theft, the applicant shall also furnish to the Company, to the Trustee and, if applicable, to such authenticating agent evidence to their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof.

The Trustee or such authenticating agent may authenticate any such substituted Note and deliver the same upon the receipt of such security or indemnity as the Trustee, the Company and, if applicable, such authenticating agent may require. Upon the issuance of any substituted Note,

the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses connected therewith. In case any Note that has matured or is about to mature or has been called for redemption or is about to be repurchased shall become mutilated or be destroyed, lost or stolen, the Company may, instead of issuing a substitute Note, pay or authorize the payment of the same (without surrender thereof, except in the case of a mutilated Note), as the case may be, if the applicant for such payment shall furnish to the Company, to the Trustee and, if applicable, to such authenticating agent such security or indemnity as may be required by them to save each of them harmless from any loss, liability, cost or expense caused by or connected with such substitution, and in case of destruction, loss or theft, evidence satisfactory to the Company, the Trustee and, if applicable, any paying agent of the destruction, loss or theft of such Note and of the ownership thereof.

Every substitute Note issued pursuant to the provisions of this Section 2.6 in lieu of any Note that is destroyed, lost or stolen shall constitute an additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be enforceable by anyone, and shall be entitled to all the benefits of (but shall be subject to all the limitations set forth in) this Indenture equally and proportionately with any and all other Notes duly issued hereunder. To the extent permitted by law, all Notes shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement or payment or conversion of mutilated, destroyed, lost or stolen Notes and shall preclude any and all other rights or remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement or payment or conversion of negotiable instruments or other securities without their surrender.

Section 2.7 Temporary Notes.

If definitive Notes are to be issued as provided herein, pending the preparation of such definitive Notes, the Company may execute and the Trustee or an authenticating agent appointed by the Trustee shall, upon written request of the Company, authenticate and make available for delivery temporary Notes (printed or lithographed). Temporary Notes shall be issuable in any authorized denomination and shall be substantially in the form of the definitive Notes but with such omissions, insertions and variations as may be appropriate for temporary Notes, all as may be determined by the Company. Every such temporary Note shall be executed by the Company and authenticated by the Trustee or such authenticating agent upon the same conditions and in substantially the same manner, and with the same effect, as the definitive Notes. Without unreasonable delay the Company shall execute and deliver to the Trustee or such authenticating agent definitive Notes (other than in the case of Notes in global form) and thereupon any or all temporary Notes (other than the Global Note) may be surrendered in exchange therefor, at each office or agency maintained by the Company pursuant to Section 4.2 and the Trustee or such authenticating agent shall authenticate and make available for delivery in exchange for such temporary Notes an equal aggregate principal amount of definitive Notes. Such exchange shall be made by the Company at its own expense and without any charge therefor. Until so exchanged, the temporary Notes shall in all respects be entitled to the same benefits and subject to the same limitations under this Indenture as definitive Notes authenticated and delivered hereunder.

Section 2.8 Cancellation of Notes Paid, Etc.

All Notes surrendered for the purpose of payment, redemption, repurchase, exchange or registration of transfer shall, if surrendered to the Company or any paying agent or any Note Registrar or any conversion agent, be surrendered to the Trustee and promptly canceled by it or, if surrendered to the Trustee, shall be promptly canceled by it and no Notes shall be issued in lieu thereof except as expressly permitted by any of the provisions of this Indenture. If required by the Company, the Trustee shall return canceled Notes to the Company. If the Company shall acquire any of the Notes, such acquisition shall not operate as a redemption or satisfaction of the indebtedness represented by such Notes unless and until the same are delivered to the Trustee for cancellation.

Section 2.9 Cusip Numbers.

The Company in issuing the Notes may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use CUSIP numbers in notices of redemption as a convenience to holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Notes, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company shall promptly notify the Trustee of any change in the CUSIP numbers.

Section 2.10 Ranking.

The Notes will be the Company's senior unsecured and unsubordinated obligation, will rank equally under the Company's other senior unsecured indebtedness, if any, and will be subordinated to the Company's secured debt, if any. While its obligations pursuant to the Notes are outstanding, the Trustee is authorized to take such actions as it deems necessary to subordinate the Company's obligations under the Notes to any future issuance of secured debt by the Company. While its obligations pursuant to the Notes are outstanding, the Company will not issue unsecured debt senior in ranking to the unsecured debt evidenced by the Notes.

ARTICLE III

REDEMPTION AND REPURCHASE OF NOTES

Section 3.1 Redemption Prices.

The Notes are redeemable by the Company at any time at the Company's option, upon notice as set forth in Section 3.2, in whole at any time or in part from time to time, at the redemption price of 100% of the principal amount of the Notes plus accrued and unpaid interest.

Section 3.2 Notice of Redemption; Selection of Notes.

In case the Company shall desire to exercise the right to redeem all or, as the case may be, any part of the Notes pursuant to Section 3.1, it shall fix a date for redemption and, in the case of any redemption pursuant to Section 3.1, it or, at its written request accompanied by the proposed form of notice of redemption (which must be received by the Trustee at least 45 days or, if the Note is issued solely as a Global Note, at least 20 days prior to the date fixed for redemption, unless a shorter period is agreed to by the Trustee or as otherwise required by the Depository), the Trustee in the name of and at the expense of the Company, shall mail or cause to be mailed a notice of such redemption at least 30 and not more than 60 days or, if the Note is issued solely as a Global Note, at least 10 and not more than 15 days or as otherwise required by the Depository or law, prior to the date fixed for redemption to the holders of Notes so to be redeemed as a whole or in part at their last addresses as the same appear on the Note Register, provided that subject to the approval of the form of notice by the Trustee if the Company shall give such notice, it shall also give such notice, and notice of the Notes to be redeemed, to the Trustee. Any such notice shall reflect that the Company has agreed to deposit with the Trustee on or prior to the date fixed for redemption an amount sufficient to redeem the principal amount of the Notes called for redemption and all interest accrued thereon up to the date fixed for redemption. Such mailing shall be by first class mail. The notice, if mailed in the manner herein provided, shall be conclusively presumed to have been duly given, whether or not the holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the holder of any Note designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Note.

Each such notice of redemption shall identify the Notes to be redeemed (including CUSIP numbers), specify the aggregate principal amount of Notes to be redeemed, the date fixed for redemption, the redemption price at which Notes are to be redeemed, the place or places of payment, that payment shall be made upon presentation and surrender of such Notes, that interest accrued to the date fixed for redemption shall be paid as specified in said notice and that on and after said date, interest thereon or on the portion thereof to be redeemed shall cease to accrue. If fewer than all the Notes are to be redeemed, the notice of redemption shall identify the Notes to be redeemed. In case any Note is to be redeemed in part only, the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of such Note, a new Note or Notes in principal amount equal to the unredeemed portion thereof shall be issued.

On or prior to the Business Day prior to the redemption date specified in the notice of redemption given as provided in this Section 3.2, the Company shall deposit by 11:00 A.M. Eastern Time with the Trustee or with one or more paying agents (or, if the Company is acting as its own paying agent, set aside, segregate and hold in trust as provided in Section 4.4) an amount of money sufficient to redeem on the redemption date all the Notes so called for redemption at the appropriate redemption price, together with accrued interest to the date fixed for redemption. If fewer than all the Notes are to be redeemed, the Company shall give the Trustee written notice in the form of an Officers' Certificate not fewer than 15 days (or such shorter period of time as may be acceptable to the Trustee) prior to the redemption date as to the aggregate principal amount of Notes to be redeemed.

If fewer than all the Notes are to be redeemed, the Trustee shall select the Notes or portions thereof to be redeemed (in principal amounts of $1,000 or integral multiples thereof), by lot or, in its discretion, on a pro rata basis; provided, however, that as long as the Notes are issued in global form, such Notes shall be redeemed in accordance with the procedures established by the Depository. The Notes (or portions thereof) so selected shall be deemed duly selected for redemption for all purposes hereof.

Section 3.3 Payment of Notes Called for Redemption.

If notice of redemption has been given as above provided, the Notes or portion of Notes with respect to which such notice has been given shall become due and payable on the date and at the place or places stated in such notice at the applicable redemption price, together with interest thereon accrued to the date fixed for redemption subject to the provision in the last sentence of this paragraph, and on and after said date (unless the Company shall default in the payment of such Notes at the redemption price, together with interest thereon accrued to said date), interest on the Notes or portion of Notes so called for redemption shall cease to accrue, and, except as provided in Sections 7.6 and 11.3, to be entitled to any benefit or security under this Indenture, and the holders thereof shall have no right in respect of such Notes except the right to receive the redemption price thereof and unpaid interest thereon to the date fixed for redemption. On presentation and surrender of such Notes at a place of payment in said notice specified, the said Notes or the specified portions thereof shall be paid and redeemed by the Company at the applicable redemption price, together with interest accrued thereon to the date fixed for redemption; provided that any semiannual payment of interest becoming due on the date fixed for redemption shall be payable to the holders of such Notes registered as such on the relevant record date subject to the terms and provisions of Section 2.3 hereof.

Upon presentation of any Note redeemed in part only, the Company shall execute and the Trustee shall authenticate and make available for delivery to the holder thereof, at the expense of the Company, a new Note or Notes, of authorized denominations, in principal amount equal to the unredeemed portion of the Notes so presented.

If any Note called for redemption shall not be so paid upon surrender thereof for redemption, such Note shall be deemed to remain Outstanding and the principal and premium, if any, shall, until paid or duly provided for, bear interest from the date fixed for redemption at the rate borne by the Note until the principal, interest and premium, if any, shall have been paid or duly provided for.

Section 3.4 Repurchase of Notes upon a Change of Control.

(a) If a Change of Control shall occur at any time, then each holder of Notes shall have the right to require that the Company repurchase such holder's Notes in whole or in part in integral multiples of $1,000 at a purchase price (the "Change of Control Purchase Price") in cash in an amount equal to 101% of the remaining outstanding principal balance of such Notes, plus accrued and unpaid interest thereon, if any, to the purchase date (the "Change of Control Purchase Date") pursuant to the offer described below (the "Change of Control Offer") and in accordance with the other procedures set forth in this Indenture.

(b) Within 30 days following any Change of Control, the Company shall publish a notice in the Wall Street Journal, notify the Trustee thereof and give written notice of such Change of Control to each holder of Notes, by first-class mail, postage prepaid, at the Noteholder's address appearing in the Note Register, stating, among other things, (i) that a Change of Control has occurred, (ii) the Change of Control Purchase Price, (iii) the Change of Control Purchase Date (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is mailed, or such later date as is necessary to comply with requirements under the Exchange Act), (iv) that any Note not tendered shall continue to accrue interest and to have all of the benefits of this Indenture, (v) that, unless the Company defaults in the payment of the Change of Control Purchase Price, any Notes accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Change of Control Purchase Date, (vi) that Noteholders electing to have any Notes purchased pursuant to a Change of Control Offer shall be required to surrender the Notes, with the form entitled "Option of Noteholder to Elect Purchase" on the reverse of the Notes completed, to the Company at the address specified in the notice prior to the close of business on the third Business Day preceding the Change of Control Purchase Date, (vii) that Noteholders shall be entitled to withdraw their election if the Company receives, not later than the close of business on the second Business Day preceding the Change of Control Purchase Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Noteholder, the principal amount of Notes delivered for purchase, and a statement that such Noteholder is withdrawing his election to have such Notes purchased, and (viii) that Noteholders whose Notes are being purchased only in part shall be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered, which unpurchased portion must be equal to $1,000 in principal amount or an integral multiple thereof. The Company shall comply with the requirements of Rule 13e-4 and 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the Notes in connection with a Change of Control.

(c) On the Change of Control Purchase Date, the Company shall, to the extent lawful, (i) accept for payment Notes or portions thereof tendered pursuant to the Change of Control Offer, (ii) deposit with the Trustee in immediately available funds by 11:00 A.M. Eastern Time an amount equal to the Change of Control Purchase Price in respect of all Notes or portions thereof so tendered and (iii) deliver or cause to be delivered to the Trustee the Notes so accepted

together with an Officers' Certificate stating the Notes or portions thereof tendered to the Company. The Trustee shall promptly mail to each Noteholder of Notes so accepted payment in an amount equal to the purchase price of such Notes, and the Trustee shall promptly authenticate and mail to each Noteholder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; provided that each such new Note shall be in a principal amount of $1,000 or an integral multiple thereof. The Company shall publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

(d) The term "Change in Control" shall mean an event or series of events in which (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) acquires "beneficial ownership" (as determined in accordance with Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 50% of the total Voting Stock of the Company whether by purchase tender, merger or otherwise; provided, however, that any such person or group shall not be deemed to be the beneficial owner of, or to beneficially own, any Voting Stock tendered in a tender offer until such tendered Voting Stock is accepted for purchase under the tender offer; or all or substantially all of the assets of the Company are sold, exchanged or otherwise is transferred to such person or group (other than any pledges or transfers made in connection with the securitization of the Company's assets.)

(e) "Voting Stock" means stock of the class or classes pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of a corporation (irrespective whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

ARTICLE IV

PARTICULAR COVENANTS OF THE COMPANY

Section 4.1 Payment of Principal, Premium and Interest.

The Company covenants and agrees that it shall duly and punctually pay or cause to be paid the principal of and premium, if any, and interest on each of the Notes at the places, at the respective times and in the manner provided herein and in the Notes. Any amounts of cash to be given to the Trustee or paying agent shall be deposited with the Trustee or paying agent in immediately available funds by 11:00 A.M. Eastern Time. Each payment of interest on the Notes due on any semiannual Payment Date and the principal payable on the Maturity Date may be paid by mailing checks for the amounts payable to or upon the written order of the holders of Notes entitled thereto as they shall appear on the Note Register; provided that, with respect to any holder of Notes with an aggregate principal amount equal to or in excess of $5,000,000, at the request (such request to include appropriate wire instructions) of such holder in writing to the Trustee, principal and interest on such holder's Notes shall be paid by wire transfer in immediately available funds. Payments of principal or interest shall be considered paid on the date due if the Trustee or paying agent (other than the Company, a Subsidiary of the Company or any Affiliate of any of them) holds on that date money designated for and sufficient to pay the principal or interest and is not prohibited from paying such money to the holders of the Notes pursuant to the terms of this Indenture.

Section 4.2 Maintenance of Office or Agency.

The Company shall maintain in Richmond, Virginia, an office or agency, which may be an office or agency of the Trustees where the Notes may be surrendered for registration of transfer or exchange or for presentation for payment or for redemption or repurchase and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company shall give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee.

The Company may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations. The Company shall give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

The Company hereby initially designates the Trustee as paying agent, Note Registrar and the Corporate Trust Office of the Trustee, as offices or agencies of the Company for the purposes set forth in the first paragraph of this Section 4.2.

So long as the Trustee is the Note Registrar, the Trustee agrees to mail, or cause to be mailed, the notices set forth in Section 7.11(a).

Section 4.3 Appointments to Fill Vacancies in Trustee's Office.

The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, shall appoint, in the manner provided in Section 7.11, a Trustee, so that there shall at all times be a Trustee hereunder.

Section 4.4 Provisions as to Paying Agent.

(a) If the Company shall appoint a paying agent other than the Trustee, or if the Trustee shall appoint such a paying agent, the Company or the Trustee, as the case may be, shall cause such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section 4.4:

(1) that it shall hold all sums held by it as such agent for the payment of the principal of, premium, if any, or interest on the Notes (whether such sums have been paid to it by the Company or by any other Obligor on the Notes) in trust for the benefit of the holders of the Notes;

(2) that it shall give the Trustee written notice of any failure by the Company (or by any other Obligor on the Notes) to make any payment of the principal of, premium, if any, or interest on the Notes when the same shall be due and payable; and

(3) that at any time during the continuance of an Event of Default, upon request of the Trustee, it shall forthwith pay to the Trustee all sums so held in trust.

The Company shall, before each due date of the principal of, premium, if any, or interest on the Notes, deposit with the paying agent a sum sufficient to pay such principal, premium, if any, or interest, and (unless such paying agent is the Trustee) the Company shall promptly notify the Trustee of any failure to take such action.

(b) If the Company shall act as its own paying agent, it shall, on or before each due date of the principal of, premium, if any, or interest on the Notes, set aside, segregate and hold in trust for the benefit of the holders of the Notes a sum sufficient to pay such principal, premium, if any, or interest so becoming due and shall notify the Trustee of any failure to take such action and of any failure by the Company (or any other Obligor on the Notes) to make any payment of the principal of, premium, if any, or interest on the Notes when the same shall become due and payable.

(c) Anything in this Section 4.4 to the contrary notwithstanding, the Company may, at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture, or for any other reason, pay or cause to be paid to the Trustee all sums held in trust by the Company or any paying agent hereunder as required by this Section 4.4, such sums to be held by the Trustee upon the trusts herein contained and upon such payment by the Company or any paying agent to the Trustee, the Company or such paying agent shall be released from all further liability with respect to such sums.

(d) Anything in this Section 4.4 to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section 4.4 is subject to Sections 11.3 and 11.4.

Section 4.5 Corporate Existence.

Subject to Article X, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect (i) its corporate existence, and the corporate, partnership or other existence of any Subsidiary of the Company, in accordance with the respective organizational documents (as the same may be amended from time to time) of the Company or any such Subsidiary and (ii) the rights (charter and statutory), licenses and franchises of the Company and its Subsidiaries; provided that the Company shall not be required to preserve any such right, license or franchise, or the corporate, partnership or other existence of any of its Subsidiaries if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Subsidiaries, taken as a whole, and that the loss thereof is not materially adverse to the holders of the Notes.

Section 4.6 Stay, Extension and Usury Laws.

The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law that would prohibit or forgive the Company from paying all or any portion of the principal of or interest on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, or that may affect the covenants or the performance of this Indenture; and the Company (to the extent it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it shall not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law has been enacted.

Section 4.7 Compliance Statement; Notice of Defaults.

(a) The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company an Officers' Certificate stating whether or not, to the best knowledge of the signers thereof, the Company is in compliance (without regard to periods of grace or notice requirements) with all conditions and covenants under this Indenture, and if the Company shall not be in compliance, specifying such non-compliance and the nature and status thereof of which such signer may have knowledge.

(b) The Company shall file with the Trustee written notice of the occurrence of any default or Event of Default within ten days of its becoming aware of any such default or Event of Default.

Section 4.8 Limitation on Dividend and Other Payment Restrictions Affecting Subsidiaries.

The Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction on the ability of any Subsidiary to (i) pay dividends or make any other distribution on its Capital Stock or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to, the Company or a Subsidiary of the Company, (ii) make loans or advances to the Company or any Subsidiary of the Company, or (iii) transfer any of its properties or assets to the Company other than any Subsidiary other than in each case any encumbrance or restriction relating to the securitization of the assets of the Company or Subsidiary consistent with past practice.

Section 4.9 Taxes.

The Company shall pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all taxes, assessments and governmental charges (including withholding taxes and any penalties, interest and additions to taxes) levied or imposed upon the Company or its Subsidiaries or upon the income, profits or property of the Company or any such Subsidiary and (ii) all lawful claims for labor, materials and supplies that, if unpaid, might by

law become a lien upon the property of the Company or any such Subsidiary; provided that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which disputed amounts adequate reserves have been made.

Section 4.10 Insurance.

The Company shall provide, or cause to be provided, for itself and its Subsidiaries, insurance (including appropriate self-insurance) against loss or damage of the kinds customarily insured against by corporations similarly situated and owning like properties, including, but not limited to, products liability insurance and public liability insurance, with reputable insurers or with the government of the United States of America or an agency or instrumentality thereof, in such amounts with such deductibles and by such methods as shall be determined in good faith by the Board of Directors to be appropriate.

Section 4.11 Limitation on Restricted Payments.

The Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, make any Restricted Payment, unless no Default or Event of Default shall have occurred and be continuing at the time of or after giving effect to such Restricted Payment. The provisions of this covenant shall not prohibit any distribution by the Company which is necessary to maintain the Company's status as a real estate investment trust under the Code.

Section 4.12 Limitations on Transactions with Affiliates.

The Company shall not, and shall not permit any of its Subsidiaries to, conduct any business or enter into any transactions or series of transactions with or for the benefit of any of its Affiliates (each, an "Affiliate Transaction"), except in good faith and on terms that are, in the aggregate, no less favorable to the Company or such Subsidiary, as the case may be, than those that could have been obtained in a comparable transaction on an arm's-length basis from a Person who is not such an Affiliate. All Affiliate Transactions (and each series of related Affiliate Transactions which are a part of a common plan) involving aggregate payments or other market value in excess of $6,000,000 shall be approved unanimously by the Board of Directors of the Company, such approval to be evidenced by a board resolution stating that such directors have, in good faith, determined that such transactions or related transactions comply with the foregoing provision; and if the Company or any Subsidiary of the Company enters into an Affiliate Transaction (or a series of related Affiliate Transactions which are part of a common plan) involving aggregate payments or market value in excess of $10,000,000 the Company or such Subsidiary shall, prior to the consummation thereof, obtain a favorable opinion as to the fairness of such transaction or related transactions from an independent financial advisor and file the same with the Trustee; provided that this sentence shall not be applicable with respect to sales or purchases of products or services by the Company or from its Affiliates in the ordinary course of business on terms similar to those that could have been obtained in a comparable transaction on an arms-length basis from a Person who is not such an Affiliate. Notwithstanding the foregoing, the restrictions set forth in this covenant shall not apply to (i) customary directors' fees and (ii) customary fees or transactions by and among the Company and its wholly owned Subsidiaries.

ARTICLE V

NOTEHOLDERS' LISTS AND REPORTS BY THE COMPANY

Section 5.1 Noteholders' Lists.

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of holders of Notes, the Company and the Trustee, and shall otherwise comply with Trust Indenture Act Section 312(a). If the Trustee is not the Notes registrar, the Company shall furnish to the Trustee on or before at least seven Business Days preceding each interest payment date and at such other times as the Trustee may request in writing a list in such form and as of such date as the Trustee reasonably may require of the names and addresses of holders of Notes, and the Company shall otherwise comply with Trust Indenture Act Section 312(a).

Section 5.2 Reports by Company.

The Company shall deliver to the Trustee within 15 days after it files the same with the Commission, copies of all reports and information (or copies of such portions of any of the foregoing as the Commission may by its rules and regulations prescribe), if any, which the Company is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act or pursuant to the immediately following sentence. So long as the Notes remain listed on the New York Stock Exchange, the Company shall file with the Commission such reports as may be required pursuant to Section 13 of the Exchange Act in respect of a security registered pursuant to Section 12 of the Exchange Act, regardless of whether the Company is otherwise required to file such reports. If the Company is not subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act (or otherwise required to file reports pursuant to the immediately preceding sentence) and so long as at least Three Million Dollars ($3,000,000) in aggregate principal amount of Notes remain Outstanding, the Company shall deliver to the Trustee, within 15 days after it would have been required to file such information with the Commission were it required to do so, annual and quarterly financial statements, including any notes thereto (and, in the case of a fiscal year end, an auditors' report by an independent certified public accounting firm of established national reputation), and a "Management's Discussion and Analysis of Financial Condition and Results of Operations," in each case substantially equivalent to that which it would have been required to include in such quarterly or annual reports, information, documents or other reports if it had been subject to the requirements of Section 13 or 15(d) of the Exchange Act. The Company shall provide copies of the foregoing materials to the Noteholders to the extent required by the Trust Indenture Act once this Indenture has been qualified. The Company shall also comply with the other provisions of the Trust Indenture Act Section 314(a).

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any

information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

ARTICLE VI

DEFAULTS AND REMEDIES

Section 6.1 Events of Default.

In case one or more of the following Events of Default (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) shall have occurred and be continuing:

(a) default in the payment of the principal of or premium, if any, on the Notes when due at maturity, upon a payment date or upon redemption or otherwise, including failure by the Company to purchase the Notes when required under Section 3.4; or

(b) default in the payment of any installment of interest on the Notes as and when the same shall become due and payable and continuance of such default for a period of 30 days; or

(c) a failure on the part of the Company to duly observe or perform any other covenants or agreements on the part of the Company in this Indenture (other than a default in the performance or breach of a covenant or agreement that is specifically dealt with elsewhere in this Section 6.1) that continues for a period of 90 days after the date on which written notice of such failure, requiring the Company to remedy the same, shall have been given to the Company by the Trustee, or to the Company and a Responsible Officer of the Trustee, by the holders of at least 25% in aggregate principal amount of the Notes at the time Outstanding determined in accordance with Section 8.4; or

(d) an event of default occurs under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness for money borrowed by the Company or any of its Subsidiaries (or the payment of which is guaranteed by the Company or any of its Subsidiaries), other than any non-recourse indebtedness, whether such indebtedness or guarantee now exists or shall be created after the date hereof, which default (i) is caused by a failure to pay principal or interest on such indebtedness prior to the expiration of the grace period provided in such indebtedness (a "Payment Default") or (ii) results in the acceleration of such indebtedness prior to its expressed maturity and, in each case, the principal amount of such indebtedness, together with the principal amount of any other such indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $25,000,000 or more;

(e) final judgments or decrees shall be entered by a court of competent jurisdiction against the Company or any Subsidiary involving liabilities of $40,000,000 or more (singly or in the aggregate) (after deducting the portion of such liabilities accepted by a reputable insurance company) and such final judgments or decrees shall not have been vacated, discharged, satisfied or stayed pending appeal within 60 days from the entry thereof;

(f) the Company shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect, or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it or shall make a general assignment for the benefit of creditors or shall fail generally to pay its debts as they become due; or

(g) an involuntary case or other proceeding shall be commenced against the Company seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 consecutive days;

then, and in each and every such case (other than an Event of Default specified in Section 6.1(f) or (g)), unless the principal of all of the Notes shall have already become due and payable, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Notes then Outstanding hereunder determined in accordance with Section 8.4, by notice in writing to the Company (and to the Trustee if given by Noteholders), may declare the principal of, premium, if any, on the Notes and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in this Indenture or in the Notes contained to the contrary notwithstanding. If an Event of Default specified in Section 6.1(f) or (g) occurs and is continuing, the principal of all the Notes and the interest accrued thereon shall be immediately due and payable. The foregoing provision is subject to the conditions that if, at any time after the principal of the Notes shall have been so declared due and payable, and before any judgment or decree for the payment of the monies due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient to pay all matured installments of interest upon all Notes and the principal of and premium, if any, on any and all Notes that shall have become due otherwise than by acceleration (with interest on overdue installments of interest (to the extent that payment of such interest is enforceable under applicable law) and on such principal and premium, if any, at the rate borne by the Notes, to the date of such payment or deposit) and amounts due to the Trustee pursuant to Section 7.7, and if any and all defaults under this Indenture, other than the nonpayment of principal of, premium, if any, and accrued interest on Notes that shall have become due by acceleration, shall have been cured or waived pursuant to Section 6.7, then and in every such case the holders of a majority in aggregate principal amount of the Notes then Outstanding, by written notice to the Company and to the Trustee, may waive all defaults or Events of Default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or Event of Default, or shall impair any right consequent thereto. The Company shall notify a Responsible Officer of the Trustee, promptly upon becoming aware thereof, of any Event of Default.

In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of such waiver or rescission and annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company, the holders of Notes and the Trustee shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company, the holders of Notes and the Trustee shall continue as though no such proceeding had been taken.

Section 6.2 Payments of Notes on Default; Suit Therefor.

The Company covenants that (a) in case a default shall be made in the payment of any installment of interest upon any of the Notes as and when the same shall become due and payable, and such default shall have continued for a period of 30 days, or (b) in case default shall be made in the payment of the principal of or premium, if any, on any of the Notes as and when the same shall have become due and payable, whether upon a Payment Date, at maturity of the Notes or in connection with any redemption or repurchase, by declaration or otherwise, then, upon demand of the Trustee, the Company shall pay to the Trustee, for the benefit of the holders of the Notes, the whole amount that then shall have become due and payable on all such Notes for principal of, premium, if any, or interest, or both, as the case may be, with interest upon the overdue principal, premium, if any, and (to the extent that payment of such interest is enforceable under applicable law) upon the overdue installments of interest at the rate borne by the Notes; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any expenses or liabilities incurred by the Trustee hereunder other than through its negligence or willful misconduct. Until such demand by the Trustee, the Company may pay the principal of and premium, if any, and interest on the Notes to the registered holders, whether or not the Notes are overdue.

In case the Company shall fail forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company or any other Obligor on the Notes and collect in the manner provided by law out of the property of the Company or any other Obligor on the Notes wherever situated the monies adjudged or decreed to be payable.

In case there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other Obligor on the Notes under Title 11 of the United States Code or any other applicable law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Company or such other obligor, the property of the Company or such other obligor, or in the case of any other judicial proceedings relative to the Company or such other Obligor on the Notes, or to the creditors or property of the Company or such other obligor, the Trustee,

irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 6.2, shall be entitled and empowered, by intervention in such proceedings or otherwise, subject to the rights of the Trustee under Section 7.3 and 7.7 hereof, to file and prove a claim or claims for the whole amount of principal, premium, if any, and interest owing and unpaid in respect of the Notes and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and of the Noteholders allowed in such judicial proceedings relative to the Company or any other Obligor on the Notes, its or their creditors, or its or their property and to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same after the deduction of any amounts due the Trustee under Section 7.7; and any receiver, assignee or trustee in bankruptcy or reorganization, liquidator, custodian or similar official is hereby authorized by each of the Noteholders to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Noteholders, to pay to the Trustee any amount due it for reasonable compensation, expenses, advances and disbursements, including counsel fees incurred by it up to the date of such distribution. To the extent that such payment of reasonable compensation, expenses, advances and disbursements out of the estate in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, monies, securities and other property that the holders of the Notes may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or adopt on behalf of any Noteholder any plan of reorganization or arrangement affecting the Notes or the rights of any Noteholder, or to authorize the Trustee to vote in respect of the claim of any Noteholder in any such proceeding.

All rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Trustee without the possession of any of the Notes or the production thereof on any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the holders of the Notes.

In any proceedings brought by the Trustee pursuant to this Indenture or any supplement hereto (and in any proceedings involving the interpretation of any provision of this Indenture to which the Trustee shall be a party), the Trustee shall be held to represent all the holders of the Notes, and it shall not be necessary to make any holders of the Notes parties to any such proceedings.

Section 6.3 Application of Monies Collected by Trustee.

Any monies collected by the Trustee pursuant to this Article VI shall be applied in the order following, at the date or dates fixed by the Trustee for the distribution of such monies, upon presentation of the several Notes and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First: To the payment of all amounts due the Trustee under Section 7.7;

Second: In case the principal of the Outstanding Notes shall not have become due and be unpaid, to the payment of interest on the Notes in default in the order of the maturity of the installments of such interest, with interest (to the extent that such interest has been collected by the Trustee) upon the overdue installments of interest at the rate borne by the Notes, such payments to be made ratably to the persons entitled thereto; and

Third: In case the principal of the Outstanding Notes shall have become due, by declaration or otherwise, and be unpaid, to the payment of the whole amount then due and unpaid upon the Notes for principal, premium, if any, and interest, with interest on the overdue principal and premium, if any, and (to the extent that such interest has been collected by the Trustee) upon overdue installments of interest at the rate borne by the Notes; and in case such monies shall be insufficient to pay in full the whole amounts so due and unpaid upon the Notes, then to the payment of such principal, premium, if any, and interest without preference or priority of principal and premium, if any, over interest, or of interest over principal and premium, if any, or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably to the aggregate of such principal and premium, if any, and accrued and unpaid interest.

Section 6.4 Proceedings by Noteholder.

No holder of any Note shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture, or for the appointment of a receiver, trustee, liquidator, custodian or other similar official, or for any other remedy hereunder, unless such holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof, as hereinbefore provided, and unless also the holders of not less than 25% in aggregate principal amount of the Notes then Outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee for 60 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding, and no direction inconsistent with such written request shall have been given to the Trustee pursuant to Section 6.7; it being understood and intended, and being expressly covenanted by the taker and holder of every Note with every other taker and holder and the Trustee, that no one or more holders of Notes shall have any right in any manner whatever by virtue of or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of any other holder of Notes, to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Notes (except as otherwise provided herein). For the protection and enforcement of this Section 6.4, each and every Noteholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

Notwithstanding any other provision of this Indenture and any provision of any Note, the right of any holder of any Note to receive payment of the principal of, premium, if any, and interest on such Note, on or after the respective due dates expressed in such Note, or to institute suit for the enforcement of any such payment on or after such respective dates against the Company shall not be impaired or affected without the consent of such holder except as otherwise set forth herein.

Section 6.5 Proceedings by Trustee.

In case of an Event of Default and subject to the provisions of Section 7.7 hereof, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

Section 6.6 Remedies Cumulative and Continuing.

Except as provided in Section 2.6, all powers and remedies given by this Article VI to the Trustee or to the Noteholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of such powers and remedies or of any other powers and remedies available to the Trustee or the holders of the Notes, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture, and no delay or omission of the Trustee or of any holder of any of the Notes to exercise any right or power accruing upon any default or Event of Default occurring and continuing as aforesaid shall impair any such right or power or shall be construed to be a waiver of any such default or any acquiescence therein; and, subject to the provisions of Section 6.4, every power and remedy given by this Article VI or by law to the Trustee or to the Noteholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Noteholders.

Section 6.7 Direction of Proceedings and Waiver of Defaults by Majority of Noteholders.

The holders of a majority in aggregate principal amount of the Notes at the time Outstanding (determined in accordance with Section 8.4) shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee; provided that (a) such direction shall not be in conflict with any rule of law or with this Indenture and (b) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. The holders of a majority in aggregate principal amount of the Notes at the time Outstanding (determined in accordance with Section 8.4) may on behalf of the holders of all of the Notes waive any past

default or Event of Default hereunder and its consequences except (i) a default in the payment of interest or premium, if any, on, or the principal of, the Notes or (ii) a default in respect of a covenant or provisions hereof that under Article IX cannot be modified or amended without the consent of the holders of all Notes then Outstanding. Whenever any default or Event of Default hereunder shall have been waived as permitted by this Section 6.7, said default or Event of Default shall for all purposes of the Notes and this Indenture be deemed to have been cured and to be not continuing and the Company, the Trustee and the holders of the Notes shall as reasonably possible be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other default or Event of Default or impair any right consequent thereon.

Section 6.8 Notice of Defaults.

The Trustee shall, within 90 days after the occurrence of a default, mail to all Noteholders, as the names and addresses of such holders appear upon the Note Register, notice of all defaults of which a Responsible Officer has actual knowledge, unless such defaults shall have been cured or waived before the giving of such notice; provided that, except in the case of default in the payment of the principal of, premium, if any, or interest on any of the Notes, the Trustee shall be protected in withholding such notice if and so long as a Responsible Officer of the Trustee in good faith determines that the withholding of such notice is in the interests of the Noteholders.

Section 6.9 Undertaking to Pay Costs.

All parties to this Indenture agree, and each holder of any Note by his acceptance thereof shall be deemed to have agreed, that any court may, in its discretion, require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; provided that the provisions of this Section 6.9 shall not apply to any suit instituted by the Trustee, to any suit instituted by any Noteholder or group of Noteholders holding in the aggregate more than 10% in principal amount of the Indenture Securities Outstanding, or to any suit instituted by any Noteholder for the enforcement of the payment of the principal of, premium, if any, or interest on any Note on or after the due date expressed in such Note.

ARTICLE VII

CONCERNING THE TRUSTEE

Section 7.1 Duties and Responsibilities of Trustee.

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default:

(i) the Trustee need perform only those duties that are specifically set forth in this Indenture and no others; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; provided that in the case of any such certificates or opinions that by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

(c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(i) this paragraph (c) does not limit the effect of paragraph (b) of this Section 7.1;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer of the Trustee unless it is proved that the Trustee was negligent in ascertaining the pertinent facts reasonably available to the Trustee; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.7.

(d) Every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), (c) and (e) of this Section 7.1.

(e) The Trustee may refuse to perform any duty or exercise any right or power or extend or risk its own funds or otherwise incur any financial liability unless it receives indemnity satisfactory to it against any loss, liability or expense.

Section 7.2 Reports by Trustee to Holders.

Within 60 days after each April 1 commencing with the April 1 following the date of this Indenture, the Trustee shall, if required by the Trust Indenture Act, mail to each Noteholder a brief report dated as of such April 1 that complies with Trust Indenture Act Section 313(a). The Trustee also shall comply with Trust Indenture Act Sections 313(b) and 313(c).

The Company shall promptly notify the Trustee in writing if the Notes become listed or delisted on any stock exchange or automatic quotation system.

A copy of each report at the time of its mailing to Noteholders shall be mailed to the Company and, to the extent required by Section 5.2 hereof and of the Trust Indenture Act Section 313(d), filed with the Commission and each stock exchange, if any, on which the Notes are listed.

Section 7.3 Reliance on Documents, Opinions, etc.

Except as otherwise provided in Section 7.1:

(a) The Trustee may rely and shall be protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, coupon or other paper or document believed by it in good faith to be genuine and to have been signed or presented by the proper party or parties;

(b) Any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed or required by the Trust Indenture Act); and any resolution of the Board of Directors may be evidenced to the Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of the Company;

(c) The Trustee may consult with counsel of its selection and any advice or opinion of counsel shall be full and complete authorization and protection in respect of any action taken or omitted by it hereunder in good faith and in accordance with such advice or opinion of counsel;

(d) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys, and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed by it with due care hereunder; no Depository, Custodian or paying agent who is not the Trustee shall be deemed an agent of the Trustee, and the Trustee (in its capacity as Trustee) shall not be responsible for any act or omission by any such Depository, Custodian or paying agent;

(e) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the holders pursuant to this Indenture unless such holders have offered the Trustee reasonable security or indemnity against the costs, expenses and liabilities that would be incurred by it in compliance with such request or direction.

(f) Subject to the provisions of Section 7.1(c), the Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers;

(g) In connection with any request to transfer or exchange any Note, the Trustee may request a direction (in the form of an Officers' Certificate) from the Company and an Opinion of Counsel with respect to compliance with any restrictions on transfer or exchange imposed by this

Indenture, the Securities Act, other applicable law or the rules and regulations of any exchange on which the Notes may be traded, and the Trustee may rely and shall be protected in acting upon such direction and in accordance with such Officers' Certificate and Opinion of Counsel;

(h) The Trustee shall not be deemed to have knowledge of any Event of Default or other fact or event upon the occurrence of which it may be required to take action hereunder unless one of its Responsible Officers has actual knowledge thereof obtained by a written statement.

Section 7.4 No Responsibility for Recitals, etc.

The recitals contained herein and in the Notes (except in the Trustee's certificate of authentication) shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Notes. The Trustee shall not be accountable for the use or application by the Company of any Notes or the proceeds of any Notes authenticated and delivered by the Trustee in conformity with the provisions of this Indenture.

Section 7.5 Trustee, Paying Agents or Registrar May Own Notes.

The Trustee, any paying agent or any Note Registrar, in its individual or any other capacity, may become the owner or pledgee of Notes with the same rights it would have if it were not Trustee, paying agent or Note Registrar.

Section 7.6 Monies to be Held in Trust.

Subject to the provisions of Section 11.5, all monies received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received. Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as may be agreed to in writing from time to time by the Company and the Trustee.

Section 7.7 Compensation and Expenses of Trustee.

The Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, such compensation as the Company and the Trustee shall from time to time agree in writing, for all services rendered by it hereunder in any capacity (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust), and the Company shall pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or willful misconduct. The Company also covenants to indemnify each of the Trustee or any predecessor Trustee in any capacity under this Indenture and its agents and any authenticating agent for, and to hold them

harmless against, any and all loss, liability, damage, claim or expense, including taxes (other than taxes based on the income of the Trustee) incurred without negligence or willful misconduct on the part of the Trustee or such agent or authenticating agent, as the case may be, and arising out of or in connection with the acceptance or administration of this trust or in any other capacity hereunder, including the costs and expenses of defending themselves against any claim of liability in the premises. The obligations of the Company under this Section 7.7 to compensate or indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall be secured by a lien prior to that of the Notes upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Notes. The obligation of the Company under this Section shall survive the satisfaction and discharge of this Indenture.

Section 7.8 Officers' Certificate as Evidence.

Except as otherwise provided in Section 7.1, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such Officers' Certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken or omitted by it under the provisions of this Indenture upon the faith thereof.

Section 7.9 Conflicting Interests of Trustee.

In the event that the Trust Indenture Act is applicable hereto, and if the Trustee has or shall acquire a conflicting interest within the meaning of Trust Indenture Act Section 310(b) and there exists an Event of Default hereunder (exclusive of any period of grace or requirement of notice), the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture.

Section 7.10 Eligibility of Trustee.

There shall at all times be a Trustee hereunder that shall be a person that satisfies the requirements of Trust Indenture Act Section 310(a)(1) and Section 310(a)(5) and that has a combined capital and surplus of at least $50,000,000. If such person publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article VII.

Section 7.11 Resignation or Removal of Trustee.

(a) The Trustee may at any time resign by giving written notice of such resignation to the Company; and the Company shall mail, or cause to be mailed, notice thereof to the holders of Notes at their addresses as they shall appear on the Note Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee.

(b) In case at any time any of the following shall occur:

(i) the Trustee shall fail to comply with Section 7.9 after written request therefor by the Company or by any Noteholder who has been a bona fide holder of a Note or Notes for at least six months; or

(ii) the Trustee shall cease to be eligible in accordance with the provisions of Section 7.10 and shall fail to resign after written request therefor by the Company or by any such Noteholder; or

(iii) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, the Company may remove the Trustee and appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or any Noteholder who has been a bona fide holder of a Note or Notes for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Notes at the time Outstanding may at any time remove the Trustee and nominate a successor trustee, which shall be deemed appointed as successor trustee unless within ten days after notice to the Company of such nomination the Company objects thereto, in which case the Trustee so removed or any Noteholder, upon the terms and conditions and otherwise as provided in the next paragraph, may petition any court of competent jurisdiction for an appointment of a successor trustee.

If no successor trustee shall have been so appointed and have accepted appointment within 60 days after removal or the mailing of such notice of resignation to the Noteholders, the Trustee resigning or being removed may petition any court of competent jurisdiction for the appointment of a successor trustee, or, in the case of either resignation or removal, any Noteholder who has been a bona fide holder of a Note or Notes for at least six months may, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 7.11 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 7.12.

Section 7.12 Acceptance by Successor Trustee.

Any successor trustee appointed as provided in Section 7.11 shall execute, acknowledge and deliver to the Company and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon, the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as trustee herein; but on the written request of the Company or of the successor trustee, the Trustee ceasing to act shall, upon payment of any amounts then due it pursuant to the provisions of Section 7.7, execute and deliver an instrument transferring to such successor trustee all the rights and powers of the Trustee so ceasing to act. Upon request of any such successor trustee, the Company shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any Trustee ceasing to act shall, nevertheless, retain a lien upon all property and funds held or collected by such trustee as such, except for funds held in trust for the benefit of holders of particular Notes, to secure any amounts then due it pursuant to the provisions of Section 7.7.

No successor trustee shall accept appointment as provided in this Section 7.12 unless at the time of such acceptance such successor trustee shall be qualified under the provisions of Section 7.9 and eligible under the provisions of Section 7.10.

Upon acceptance of appointment by a successor trustee as provided in this Section 7.12, the Company shall mail or cause to be mailed notice of the succession of such Trustee hereunder to the holders of Notes at their addresses as they shall appear on the Note Register. If the Company fails to mail such notice within ten days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Company.

Section 7.13 Successor, by Merger, etc.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor to the Trustee hereunder, provided such corporation shall be qualified under the provisions of Section 7.9 and eligible under the provisions of Section 7.10 without the execution or filing of any paper or any further act on the part of any of the parties hereto.

Section 7.14 Limitation on Rights of Trustee as Creditor.

If and when the Trustee shall be or become a creditor of the Company (or any other Obligor on the Notes) and the Trust Indenture Act is applicable hereto, the Trustee shall be subject to the provisions of Trust Indenture Act Section 311(a) or, if applicable, Trust Indenture Act Section 311(b) regarding the collection of the claims against the Company (or any such other obligor).

ARTICLE VIII

CONCERNING THE NOTEHOLDERS

Section 8.1 Action by Noteholders.

Whenever in this Indenture it is provided that the holders of a specified percentage in aggregate principal amount of the Notes may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action, the holders of such specified percentage have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by Noteholders in person or by agent or proxy appointed in writing, or (b) by a combination of such instrument or instruments and any such record of such a meeting of Noteholders. Whenever the Company or the Trustee solicits the taking of any action by the holders of the Notes, the Company or the Trustee may fix in advance of such solicitation, a date as the record date for determining holders entitled to take such action. The record date shall be not more than 15 days prior to the date of commencement of solicitation of such action.

Section 8.2 Proof of Execution by Noteholders.

Subject to the provisions of Sections 7.1 and 7.2, proof of the execution of any instrument by a Noteholder or by agent or proxy shall be sufficient if made in accordance with Section 7.3 hereof. The holding of Notes shall be proved by the Note Register or by a certificate of the Note Registrar.

Section 8.3 Who are Deemed Absolute Owners.

The Company, the Trustee, any paying agent and any Note Registrar may deem the person in whose name such Note shall be registered upon the books of the Company to be, and may treat such person as, the absolute owner of such Note (whether or not such Note shall be overdue and notwithstanding any notation of ownership or other writing thereon) for the purpose of receiving payment of or on account of the principal of, premium, if any, and interest on such Note and for all other purposes; and neither the Company nor the Trustee nor any paying agent nor any Note Registrar shall be affected by any notice to the contrary. All such payments so made to any holder for the time being, or upon order of such holder, shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for monies payable upon any such Note.

The Depository shall be deemed to be the owner of the Global Note for all purposes, including receipt of notices to Noteholders and payment of principal of, premium, if any, and interest on the Notes. None of the Company, the Trustee (in its capacity as Trustee), any paying agent or the Note Registrar (or co-registrar) shall have any responsibility for any aspect of the records relating to or payments made on account of beneficial interests of the Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Section 8.4 Company-Owned Notes Disregarded.

In determining whether the holders of the requisite aggregate principal amount of Notes have concurred in any direction, consent, waiver or other action under this Indenture, Notes that are owned by the Company or any other Obligor on the Notes or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any other Obligor on the Notes shall be disregarded and deemed not to be Outstanding for the purpose of any such determination; provided that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, consent, waiver or other action, only Notes that a Responsible Officer of the Trustee actually knows are so owned shall be so disregarded.

Notes so owned that have been pledged in good faith may be regarded as Outstanding for the purposes of this Section 8.4 if the pledgee shall establish to the satisfaction of the Trustee the pledger's right to vote such Notes and that the pledgee is not the Company, any other Obligor on the Notes or a person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any such other obligor.

In the case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the Company shall furnish to the Trustee promptly an Officers' Certificate listing and identifying all Notes, if any, known by the Company to be owned or held by or for the account of any of the above described persons; and subject to Section 7.1, the Trustee shall be entitled to accept such Officers' Certificate as conclusive evidence of the facts therein set forth and of the fact that all Notes not listed therein are Outstanding for the purpose of any such determination.

Section 8.5 Revocation of Consents, Future Holders Bound.

At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 8.1, of the taking of any action by the holders of the percentage in aggregate principal amount of the Notes specified in this Indenture in connection with such action, any holder of a Note that is shown by the evidence to be included in the Notes the holders of which have consented to such action may, by filing written notice with the Trustee at its Corporate Trust Office and upon proof of holding as provided in Section 8.2, revoke such action so far as concerns such Note. Except as aforesaid, any such action taken by the holder of any Note shall be conclusive and binding upon such holder and upon all future holders and owners of such Note and of any Notes issued in exchange or substitution therefor, irrespective of whether any notation in regard thereto is made upon such Note or any Note issued in exchange or substitution therefor.

ARTICLE IX

SUPPLEMENTAL INDENTURES

Section 9.1 Supplemental Indentures Without Consent of Noteholders.

The Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental hereto for one or more of the following purposes:

(a) to convey, transfer, assign, mortgage or pledge to the Trustee as security for the Notes, any property or assets;

(b) to evidence the succession of another person to the Company, or successive successions, and the assumption by the Successor Company of the covenants, agreements and obligations of the Company pursuant to Article X;

(c) to add to the covenants of the Company such further covenants, restrictions or conditions as the Board of Directors and the Trustee shall consider to be for the benefit of the holders of Notes and to make the occurrence, or the occurrence and continuance, of a default in any such additional covenants, restrictions or conditions a default or an Event of Default permitting the enforcement of all or any of the several remedies provided in this Indenture as herein set forth; provided that in respect of any such additional covenant, restriction or condition, such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default;

(d) to provide for the exchange of the Global Note for Notes to be issued in definitive form and to provide for exchangeability of such Notes with the Notes issued hereunder in fully registered form and to make all appropriate changes for such purpose;

(e) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture that may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture that shall not adversely affect the interests of the holders of the Notes;

(f) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Notes; or

(g) to modify, eliminate or add to the provisions of this Indenture to such extent necessary to effect the qualification of this Indenture under the Trust Indenture Act (if applicable), or under any similar federal statute hereafter enacted (if applicable).

The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, to make any further appropriate agreements and stipulations that may be therein contained and to accept the conveyance, transfer and assignment of any property thereunder, but the Trustee shall not be obligated to, but may in its discretion, enter into any supplemental indenture that affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section 9.1 may be executed by the Company and the Trustee without the consent of the holders of any of the Notes at the time Outstanding, notwithstanding any of the provisions of Section 9.2.

Section 9.2 Supplemental Indentures With Consent of Noteholders.

With the consent (evidenced as provided in Article VIII) of the holders of not less than a majority in aggregate principal amount of the Notes at the time Outstanding, the Company, when authorized by a Board Resolution and the Trustee, may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or any supplemental indenture or of modifying in any manner the rights of the holders of the Notes; provided that no such supplemental indenture shall (i) without the consent of the holders of each Note so affected, extend the fixed maturity of any Note or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof or premium, if any, thereon or reduce any amount payable on redemption or repurchase thereof, alter the obligation of the Company to repurchase the Notes at the option of the holder upon the occurrence of a Change of Control or impair or affect the right of any Noteholder to institute suit for the payment thereof or make the principal thereof or interest or premium, if any, thereon payable in any coin or currency other than that provided in the Notes, or (ii) without the consent of the holders of all the Notes then Outstanding, reduce the aforesaid percentage of Notes, the holders of which are required to consent to any such supplemental indenture.

Upon the request of the Company, accompanied by a copy of a Board Resolution certified by its Secretary or Assistant Secretary authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Noteholders as aforesaid, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

It shall not be necessary for the consent of the Noteholders under this Section 9.2 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

Section 9.3 Effect of Supplemental Indentures.

Any supplemental indenture executed pursuant to the provisions of this Article IX shall comply with the Trust Indenture Act, as then in effect, if such supplemental indenture is then

required to so comply. Upon the execution of any supplemental indenture pursuant to the provisions of this Article IX, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitation of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the holders of Notes shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.4 Notation on Notes.

Notes authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article IX may bear a notation in form approved by the Company as to any matter provided for in such supplemental indenture, but they need not do so. After notice to the Trustee, if the Company shall determine to add such a notation, new Notes so modified as to conform, in the opinion of the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may, at the Company's expense, be prepared and executed by the Company, authenticated by the Trustee (or an authenticating agent duly appointed by the Trustee pursuant to Section 13.11) and delivered in exchange for the Notes then Outstanding, upon surrender of such Notes then Outstanding.

Section 9.5 Evidence of Compliance of Supplemental Indenture to be Furnished to the Trustee.

The Trustee shall be furnished with and, subject to the provisions of Sections 7.1 and 7.2, may rely conclusively upon an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article IX.

ARTICLE X

CONSOLIDATION, MERGER, SALE, CONVEYANCE, TRANSFER AND LEASE

Section 10.1 Company may Consolidate, etc. on Certain Terms.

The Company shall not consolidate with or merge with or into, or convey, transfer or lease all or substantially all of its assets (determined on a consolidated basis) to any person unless: (i) either the Company is the resulting, surviving or transferee person (the "Successor Company") or the Successor Company is a person organized and existing under the laws of the United States or any State thereof or the District of Columbia, and the Successor Company (if not the Company) expressly assumes by a supplemental indenture, executed and delivered to the Trustee, in form satisfactory to the Trustee, all the obligations of the Company under this Indenture and the Notes, (ii) immediately after giving effect to such transaction, no Event of Default has happened and is continuing and (iii) the Company delivers to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with this Indenture.

Section 10.2 Successor Company to be Substituted.

In case of any such consolidation, merger, sale, conveyance, transfer or lease and upon the assumption by the Successor Company, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of, premium, if any, and interest on all of the Notes and the due and punctual performance of all of the covenants and conditions of this Indenture to be performed by the Company, such Successor Company shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the party hereto. When a Successor Company duly assumes all the obligations of the Company pursuant to this Indenture and the Notes, the predecessor shall be released from all such obligations.

Section 10.3 Opinion of Counsel to be Given to Trustee.

The Trustee, subject to Sections 7.1 and 7.2, shall receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, conveyance, transfer or lease and any such assumption complies with the provisions of this Article X.

ARTICLE XI

SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONEYS

Section 11.1 Legal Defeasance And Covenant Defeasance Of The Notes.

(a) The Company may, at its option by Board Resolution, at any time, with respect to the Notes, elect to have either paragraph (b) or paragraph (c) below be applied to the Outstanding Notes upon compliance with the conditions set forth in paragraph (d).

(b) Upon the Company's exercise under paragraph (a) of the option applicable to this paragraph (b), the Company shall be deemed to have been released and discharged from its obligations with respect to the Outstanding Notes on the date the conditions set forth in paragraph (d) below are satisfied (hereinafter, "Legal Defeasance"). For this purpose, such Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the Outstanding Notes, which shall thereafter be deemed to be "Outstanding" only for the purposes of the Sections of and matters under this Indenture referred to in clauses (i) and (ii) below and to have satisfied all its other obligations under such Notes and this Indenture insofar as such Notes are concerned, except for the following, which shall survive until otherwise terminated or discharged hereunder: (i) the rights of holders of Outstanding Notes to receive solely from the trust fund described in paragraph (d) below and as more fully set forth in such paragraph, payments in respect of the principal of, premium, if any, and interest on such Notes when such payments are due and (ii) obligations listed in Section 11.3.

(c) Upon the Company's exercise under paragraph (a) of the option applicable to this paragraph (c), the Company shall be released and discharged from its obligations under any

covenant contained in Article IV, Article X and Section 3.4 with respect to the Outstanding Notes on and after the date the conditions set forth in paragraph (d) are satisfied (hereinafter, "covenant defeasance"), and the Notes shall thereafter be deemed to be not "Outstanding" for the purpose of any direction, waiver, consent or declaration or act of holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "Outstanding" for all other purposes hereunder. For this purpose, such covenant defeasance means that, with respect to the Outstanding Notes, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document, and such omission to comply shall not constitute a Default or an Event of Default under Section 6.1, but, except as specified above, the remainder of this Indenture and such Notes shall be unaffected thereby.

(d) The following shall be the conditions to application of either paragraph (b) or paragraph (c) above to the Outstanding Notes:

(i) The Company shall have irrevocably deposited in trust with the Trustee, pursuant to an irrevocable trust and security agreement in form and substance satisfactory to the Trustee, cash or non-callable U.S. Government Obligations maturing as to principal and interest at such times, or a combination thereof, in such amounts as are sufficient, without consideration of the reinvestment of such interest and after payment of all federal, state and local taxes or other charges or assessments in respect thereof payable by the Trustee, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof (in form and substance reasonably satisfactory to the Trustee) delivered to the Trustee, to pay the principal of, premium, if any, and interest on the Outstanding Notes on the dates on which any such payments are due and payable in accordance with the terms of this Indenture and of the Notes as well as all other sums payable hereunder by the Company;

(ii) (A) No Event of Default shall have occurred or be continuing on the date of such deposit, and (B) no Default or Event of Default under Section 6.1(f) or 6.1(g) shall occur on or before the 123rd day after the date of such deposit;

(iii) Such deposit shall not result in a Default under this Indenture or a breach or violation of, or constitute a default under, any other instrument or agreement to which the Company is a party or by which it or its property is bound;

(iv) In the case of a Legal Defeasance under paragraph (b) above, the Company shall have delivered to the Trustee an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee stating that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling applicable to such a defeasance or (B) since the date of this Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion shall confirm that, the holders of the Notes shall not recognize income, gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge and shall be subject to federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such

deposit, defeasance and discharge had not occurred; and, in the case of a covenant defeasance under paragraph (c) above, the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, in form and substance reasonably satisfactory to the Trustee, to the effect that holders of the Notes shall not recognize income, gain or loss for federal income tax purposes as a result of such deposit and defeasance and shall be subject to federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred;

(v) The holders shall have a perfected security interest under applicable law in the cash or U.S. Government Obligations deposited pursuant to Section 11.1(d)(i) above;

(vi) The Company shall have delivered to the Trustee an Opinion of Counsel, in form and substance reasonably satisfactory to the Trustee, to the effect that, after the passage of 123 days following the deposit, the trust funds shall not be subject to any applicable bankruptcy, insolvency, reorganization or similar law affecting creditors' rights generally;

(vii) Such defeasance shall not cause the Trustee to have a conflicting interest with respect to any securities of the Company; and

(viii) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee, each stating that all conditions precedent specified herein relating to the defeasance contemplated by this Section 11.1 have been complied with; provided, that no deposit under clause (i) shall be effective to terminate the obligations of the Company under the Notes or this Indenture prior to the passage of 123 days following such deposit.

Section 11.2 Termination of Obligations upon Cancellation of the Notes.

In addition to the Company's rights under Section 11.1, the Company may terminate all of its obligations under this Indenture (subject to Section 11.3) when:

(a)(i) all Notes theretofore authenticated and delivered (other than Notes that have been destroyed, lost or stolen and that have been replaced or paid as provided in Section 2.6) have been delivered to the Trustee for cancellation; and

(ii) the Company has paid or caused to be paid all other sums payable hereunder and under the Notes by the Company; or

(b)(i) the Notes not previously delivered to the Trustee for cancellation shall have become due and payable or are by their terms to become due and payable within one year or are to be called for redemption under arrangements satisfactory to the Trustee upon delivery of notice, (ii) the Company shall have irrevocably deposited with the Trustee, as trust funds, cash, in an amount sufficient to pay principal of premium, if any, and interest on the Outstanding Notes, to maturity or redemption, as the case may be, (iii) such deposit shall not result in a breach or violation of, or constitute a default under, any agreement or instrument pursuant to which the Company is a party or by which it or its property is bound and (iv) the Company has

delivered to the Trustee an Officers' Certificate and an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee, each stating that all conditions related to such defeasance have been complied with.

Section 11.3 Survival of Certain Obligations.

Notwithstanding the satisfaction and discharge of this Indenture and of the Notes referred to in Section 11.1 or 11.2, the respective obligations of the Company and the Trustee under Sections 2.3, 2.4, 2.5, 2.6, 3.1, 4.2, 5.1, 6.4, 6.9, 7.6, 7.11, 11.5, 11.6 and 11.7 shall survive until the Notes are no longer Outstanding, and thereafter, the obligations of the Company and the Trustee under Sections 6.9, 7.6, 11.5, 11.6 and 11.7 shall survive. Nothing contained in this Article XI shall abrogate any of the rights, obligations or duties of the Trustee under this Indenture.

Section 11.4 Acknowledgment of Discharge by Trustee.

Subject to Section 11.7, after (i) the conditions of Section 11.1 or 11.2 have been satisfied, (ii) the Company has paid or caused to be paid all other sums payable hereunder by the Company and (iii) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent referred to in clause (i) above relating to the satisfaction and discharge of this Indenture have been complied with, the Trustee upon written request shall acknowledge in writing the discharge of the Company's obligations under this Indenture except for those surviving obligations specified in Section 11.3.

Section 11.5 Application of Trust Assets.

The Trustee shall hold any cash or U.S. Government Obligations deposited with it in the irrevocable trust established pursuant to Section 11.1 or 11.2, as the case may be. The Trustee shall apply the deposited cash or the U.S. Government Obligations, together with earnings thereon in accordance with this Indenture and the terms of the irrevocable trust agreement established pursuant to Section 11.1 or 11.2, as the case may be, to the payment of principal of, premium, if any, and interest on the Notes. The cash or U.S. Government Obligations so held in trust and deposited with the Trustee in compliance with Section 11.1 or 11.2, as the case may be, shall not be part of the trust estate under this Indenture, but shall constitute a separate trust fund for the benefit of all holders entitled thereto. Except as specifically provided herein, the Trustee shall not be requested to invest any amounts held by it for the benefit of the holders or pay interest on uninvested amounts to any holder.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 11.1 hereof or Section 11.2 hereof or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the holders of Outstanding Notes.

Section 11.6 Repayment to the Company; Unclaimed Money.

Subject to applicable laws governing escheat of such property, and upon termination of the trust established pursuant to Section 11.1 hereof or 11.2 hereof, as the case may be, the Trustee shall promptly pay to the Company upon written request any excess cash or U.S. Government Obligations held by them. Additionally, if amounts for the payment of principal, premium, if any, or interest remains unclaimed for two years, the Trustee shall, upon written request, pay such amounts back to the Company forthwith. Thereafter, all liability of the Trustee with respect to such amounts shall cease. After payment to the Company, holders entitled to such payment must look to the Company for such payment as general creditors unless an applicable abandoned property law designates another person.

Section 11.7 Reinstatement.

If the Trustee is unable to apply any cash or U.S. Government Obligations in accordance with Section 11.1 or 11.2 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 11.1 or 11.2 until such time as the Trustee is permitted to apply all such cash or U.S. Government Obligations in accordance with Section 11.1 or 11.2, as the case may be; provided that if the Company makes any payment of principal of, premium, if any, or interest on any Notes following the reinstatement of its obligations, the Company shall be subrogated to the rights of the holders of such Notes to receive such payment from the amounts held by the Trustee.

ARTICLE XII

IMMUNITY OF INCORPORATORS, SHAREHOLDERS, OFFICERS AND DIRECTORS

Section 12.1 Indenture and Notes Solely Corporate Obligations.

No recourse for the payment of the principal of, or premium, if any, or interest on any Note, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company in this Indenture or in any supplemental indenture or in any Note, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, shareholder, officer or director, as such, past, present or future, of the Company or of any successor entity, either directly or through the Company or any successor entity, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issuance of the Notes.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

Section 13.1 Addresses for Notices, etc.

Any notice or demand that by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Notes on the Company shall be deemed to have been sufficiently given or made, for all purposes if given or served by being sent by prepaid overnight delivery or being deposited postage prepaid by registered or certified mail in a post office letter box addressed (until another address is filed by the Company with the Trustee) to Dynex Capital, Inc., 4551 Cox Road, Suite 300, Glen Allen, Virginia 23060, Attention: Chief Financial Officer with a copy to James J. Wheaton, Esq., Troutman Sanders LLP, 222 Central Park Ave, Suite 2000, Virginia Beach, Virginia, 23462. Any notice, direction, request or demand hereunder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or served by being sent by prepaid overnight delivery or being deposited postage prepaid by registered or certified mail in a post office letter box addressed to the Trustee, which office is, at the date as of which this Indenture is dated, located at 1021 East Cary Street, 3rd Floor (Corporate Trust-VA) Richmond, Virginia 23219. Attention: Chief Financial Officer.

The Trustee, by notice to the Company, may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Noteholder shall be mailed to him by first class mail, postage prepaid, at the address of such Noteholder as it appears on the Note Register and shall be sufficiently given to such Noteholder if so mailed within the time prescribed.

Failure to mail a notice or communication to a Noteholder or any defect in it shall not affect its sufficiency with respect to other Noteholders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

Section 13.2 Communications by Holders with Other Holders.

Noteholders may communicate pursuant to Trust Indenture Act Section 312(b) with other Noteholders with respect to their rights under this Indenture or the Notes. The Company, the Trustee, the Note Registrar and any other person shall have the protection of Trust Indenture Act Section 312(c).

Section 13.3 Governing Law.

This Indenture shall be deemed to be a contract made under the substantive laws of the Commonwealth of Virginia and for all purposes shall be construed in accordance with the substantive laws of the Commonwealth of Virginia without regard to conflicts of laws principles thereof.

Section 13.4 Evidence of Compliance with Conditions Precedent; Certificates to Trustee.

Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, including those actions set forth in Trust Indenture Act Section 314(c), the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with, and an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant provided for in this Indenture shall include: (1) a statement that the person making such certificate or opinion has read such covenant or condition, (2) a brief statement as to the nature and scope of the examination or investigation upon which the statement or opinion contained in such certificate or opinion is based, (3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with and (4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

Section 13.5 Legal Holidays.

In any case where any payment date, date fixed for redemption, stated maturity or Change of Control Purchase Date of any Note shall not be a Business Day, then (notwithstanding any other provision of this Indenture or of the Notes) payment of interest or principal (and premium, if any) need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the payment date, date fixed for redemption, Change of Control Purchase Date, or at the stated maturity; provided, that no interest shall accrue for the period from and after such payment date, date fixed for redemption, Change of Control Purchase Date or stated maturity, as the case may be.

Section 13.6 No Security Interest Created.

Nothing in this Indenture or in the Notes, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or similar legislation, as now or hereafter enacted and in effect, in any jurisdiction where property of the Company or its Subsidiaries is located.

Section 13.7 Trust Indenture Act.

This Indenture is hereby made subject to, and shall be governed by, the provisions of the Trust Indenture Act required to be part of and to govern indentures qualified under the Trust Indenture Act.

Section 13.8 Trust Indenture Act Controls.

If any provision of this Indenture limits, qualifies, or conflicts with the duties imposed by operation of the Trust Indenture Act, the imposed duties, upon qualification of this Indenture under the Trust Indenture Act, shall control.

Section 13.9 Benefits of Indenture.

Nothing in this Indenture or in the Notes, expressed or implied, shall give to any person, other than the parties hereto, any paying agent, any authenticating agent, any conversion agent, any Note Registrar and their successors hereunder and the holders of Notes, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 13.10 Table of Contents, Headings etc.

The table of contents and the titles and headings of the articles and sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

Section 13.11 Authenticating Agent.

The Trustee may appoint an authenticating agent that shall be authorized to act on its behalf and subject to its direction in the authentication and delivery of Notes in connection with the original issuance thereof and transfers and exchanges of Notes hereunder, including under Sections 2.4, 2.5, 2.6, 2.7 and 3.3, as fully to all intents and purposes as though the authenticating agent had been expressly authorized by this Indenture and those Sections to authenticate and deliver Notes. For all purposes of this Indenture, the authentication and delivery of Notes by the authenticating agent shall be deemed to be authentication and delivery of such Notes "by the Trustee" and a certificate of authentication executed on behalf of the Trustee by an authenticating agent shall be deemed to satisfy any requirement hereunder or in the Notes for the Trustee's certificate of authentication. Such authenticating agent shall at all times be a person eligible to serve as Trustee hereunder pursuant to Section 7.10.

Any corporation into which any authenticating agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation or conversion to which any authenticating agent shall be a party, or any corporation succeeding to the corporate trust business of any authenticating agent, shall be the successor of the authenticating agent hereunder, if such successor company is otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the parties hereto or the authenticating agent or such successor company.

Any authenticating agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time terminate the agency of any authenticating agent by giving written notice of termination to such authenticating agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any authenticating agent shall cease to be eligible under this Section, the Trustee

shall promptly appoint a successor authenticating agent (which may be the Trustee), shall give written notice of such appointment to the Company and shall mail notice of such appointment to all holders of Notes as the names and addresses of such holders appear on the Note Register.

The Company agrees to pay to the authenticating agent from time to time reasonable compensation for its services.

The provisions of Sections 7.3, 7.4, 7.5, 8.3 and this Section 13.11 shall be applicable to any authenticating agent.

Section 13.12 Execution in Counterparts.

This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

Wachovia Bank National Association hereby accepts the trusts in this Indenture declared and provided, upon the terms and conditions hereinabove set forth.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly signed and attested, all as of the date first written above.

DYNEX CAPITAL, INC.

By: _____

Name: Stephen J. Benedetti
Title: Chief Financial Officer and
Executive Vice President

Attest:

_____

Name:
Title: Assistant Secretary

WACHOVIA BANK NATIONAL ASSOCIATION,
as Trustee

By: _____

Name: _____

Title: _____

Attest:

_____

FORM OF GLOBAL NOTE

[FORM OF FACE OF NOTE]

_____, 2004 CUSIP

DYNEX CAPITAL, INC.

_____

9.50% Senior Notes Due 2007

DYNEX CAPITAL, INC., a corporation duly organized and validly existing under the laws of the Commonwealth of Virginia (the "Company"), which term includes any Successor Company under the Indenture referred to on the reverse hereof, for value received hereby promises to pay to the Depository Trust Company or registered assigns, the principal sum of [Forty Million Dollars ($40,000,000)] as provided herein (subject to adjustment as set forth in the fourth paragraph hereof), at the office or agency of the Company maintained for that purpose in Richmond, Virginia, or, at the option of the holder of this Global Note, at the office of the Trustee, in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, and to pay interest, semiannually, on March 31 and September 30, or if such date is not a business day, the next successive business day (each a "Payment Date"), commencing September 30, 2004, on the outstanding principal balance of this Global Note at said office or agency, in like coin or currency, at the rate per annum specified in the title of this Global Note, from the earlier of April 7, 2004 or the date of issue, or the most recent Payment Date, as the case may be, next preceding the date of this Global Note to which interest has been paid or duly provided for, unless the date hereof is a date to which interest has been paid or duly provided for, in which case from the date of this Global Note. On _____, 2007, the entire outstanding principal balance of this Global Note together with all accrued but unpaid interest hereon will be immediately due and payable in full.

Any interest on any Note that is payable, but is not punctually paid or duly provided for on said March 31 and September 30, and the continuance of such default for a period of thirty (30) days (herein called "Defaulted Interest") shall forthwith cease to be payable to the Noteholder on the relevant record date by virtue of his having been such Noteholder; and such Defaulted Interest shall be paid by the Company, at its election in each case, either (i) by notifying the Trustee of a special record date, the amount of interest to be paid on such special record date and the date of payment (not more than 25 days after receipt by the Trustee of such interest, unless the Trustee shall consent to an earlier date) and depositing with the Trustee an amount of money equal to the aggregate amount to be paid in respect of such Defaulted Interest on making arrangements satisfactory to the Trustee for such deposit or (ii) in any lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed and upon notice requested by such exchange, if, after notice to the Trustee, the Trustee deems such manner of payment to be practicable.

The interest so payable on any March 31 and September 30 will be paid to the person in whose name this Global Note (or one or more Predecessor Notes) is registered at the close of business on the record date, which shall be the March 15 and September 15 (record date)

(whether or not a Business Day) next preceding such March 15 and September 15, respectively; provided that any such interest not punctually paid or duly provided for shall be payable as provided in the Indenture. Interest shall be paid by check mailed to the registered holder at the registered address of such person unless other arrangements are made in accordance with the provisions of the Indenture.

The Company will have the right to prepay this Global Note in part or in its entirety, including all accrued Interest due thereon, at its option, anytime prior to maturity without penalty.

This Global Note shall represent all of the outstanding Notes and shall not be exchangeable for definitive Notes except as expressly provided in the Indenture. Subject to the terms of the Indenture and the execution and delivery of a supplemental indenture, the aggregate principal amount of this Global Note represented hereby may from time to time be reduced or increased to reflect exchanges of a part of this Global Note for interests in the Global Note or definitive Notes or exchanges of interests in the Global Note or definitive Notes for a part of this Global Note, redemptions or repurchases of a part of this Global Note or cancellations of a part of this Global Note or transfers of interests in the Global Note or definitive Notes in return for a part of this Global Note or transfers of a part of this Global Note effected by delivery of interests in the Global Note or definitive Notes, in each case, and in any such case, by means of notations on the Schedule of Exchanges, Redemptions, Repurchases, Cancellations and Transfers on the last page hereof. Subject to the first sentence of this paragraph, (i) exchanges of a part of this Global Note for interests in the Global Note or definitive Notes, (ii) exchanges of interests in the Global Note or definitive Notes for a part of this Global Note, (iii) redemptions or repurchases of a part of this Global Note, (iv) cancellations of a part of this Global Note, (v) transfers of interests in the Global Note or definitive Notes in return for a part of this Global Note and (vi) transfers of a part of this Global Note effected by delivery of interests in the Global Note or definitive Notes may be effected without the surrendering of this Global Note, provided that appropriate notations on the Schedule of Exchanges, Redemptions, Repurchases, Cancellations and Transfers are made by the Trustee, or the Custodian at the direction of the Trustee, to reflect the appropriate reduction or increase, as the case may be, in the aggregate principal amount of this Global Note resulting therefrom or as a consequence thereof.

Reference is made to the further provisions of this Global Note set forth on the reverse hereof. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Global Note shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been manually signed by the Trustee or a duly authorized authenticating agent under the Indenture.

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

DYNEX CAPITAL, INC.

By: _____

Name: Stephen J. Benedetti
Title: Executive Vice President
and Chief Financial Officer

Attest:

_____

Name:
Title: Assistant Secretary

CERTIFICATE OF AUTHENTICATION

Dated: _____, 2004

This is one of the Notes described in the within-named Indenture.

Wachovia Bank National Association, as Trustee

By: _____

Authorized Signatory

[FORM OF REVERSE OF NOTE]

DYNEX CAPITAL, INC.

9.50% Senior Notes Due 2007

This Global Note is one of a duly authorized issue of Notes of the Company, designated as its 9.50% Senior Notes Due 2007 (herein called the "Notes"), limited to the aggregate principal amount of $40,000,000, all issued or to be issued under and pursuant to an Indenture dated as of _____, 2004 (the "Indenture"), between the Company and Wachovia Bank National Association, as trustee (the "Trustee"), to which Indenture and all indentures supplemental thereto reference is hereby made for a complete description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders of the Notes. Each Note is subject to, and qualified by, all such terms as set forth in the Indenture, certain of which are summarized hereon, and each holder of a Note is referred to the corresponding provisions of the Indenture for a complete statement of such terms. To the extent that there is any inconsistency between the summary provisions set forth in the Notes and the Indenture, the provisions of the Indenture shall govern. Capitalized terms used but not defined in this Global Note shall have the meanings ascribed to them in the Indenture.

In case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of, premium, if any, and accrued interest on all Notes may be declared, and upon said declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the holders of not less than a majority in aggregate principal amount of the Notes at the time outstanding, evidenced as in the Indenture provided, to execute supplemental indentures adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture or modifying in any manner the rights of the holders of the Notes; provided that no such supplemental indenture shall (i) extend the fixed maturity of any Note, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof or premium, if any, thereon, or reduce any amount payable on redemption thereof, alter the obligation of the Company to repurchase the Notes at the option of the holders upon the occurrence of a Change of Control, or impair or affect the right of any Noteholder to institute suit for the payment thereof, or make the principal thereof or interest or premium, if any, thereon payable in any coin or currency other than that provided in the Notes, subject to the terms set forth in the Indenture without the consent of the holder of each Note so affected or (ii) reduce the aforesaid percentage of Notes, the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all Notes then outstanding. The Company and the Trustee may amend or supplement the Indenture without notice to or consent of any holder of Notes in certain events specified in the Indenture. It is also provided in the Indenture that, prior to any declaration accelerating the maturity of the Notes, the holders of a majority in aggregate principal amount of the Notes at the time outstanding may on behalf of the holders of all of the Notes waive any past default or Event of Default under the Indenture and its consequences except a default in the payment of interest or any premium on or

the principal of any of the Notes, or a default in respect of a covenant or provision of the Indenture that under Article IX thereof cannot be modified or amended without the consent of the holders of all Notes then outstanding. Any such consent or waiver by the holder of this Global Note (unless revoked as provided in the Indenture) shall be conclusive and binding upon such holder and upon all future holders and owners of this Global Note and any Notes that may be issued in exchange or substitution hereof, irrespective of whether or not any notation thereof is made upon this Global Note or such other Notes.

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

Interest on the Notes shall be computed on the basis of a 360-day year composed of twelve 30-day months.

Subject to the terms of the Indenture, the Notes are issuable in registered form without coupons in denominations of $1,000 principal amount and integral multiples thereof. At the office or agency of the Company referred to on the face hereof, and in the manner and subject to the limitations provided in the Indenture, without payment of any service charge but with payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration or exchange of Notes, Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations.

The Notes are redeemable at the option of the Company at any time. The Notes may be redeemed at the Company's option, upon notice as set forth in the Indenture, in whole at any time or in part from time to time, at the price of 100% of the outstanding principal amount, together with accrued interest to the date fixed for redemption; provided that if the date fixed for redemption is a date on or after the record date for the next following Payment Date and on or before the next following Payment Date, then the interest payable on such following Payment Date shall be paid to the holder on the record date for the next following Payment Date.

If a Change of Control (as defined in the Indenture) shall occur at any time, then each holder of Notes shall have the right to require that the Company repurchase such holder's Notes in whole or in part in integral multiples of $1,000, at a purchase price in cash in an amount equal to 101% of the principal amount of such Notes, plus accrued and unpaid interest, if any, to the repurchase date pursuant to an offer to be made by the Company and in accordance with the procedures set forth in the Indenture.

Upon due presentment for registration of transfer of this Global Note at the office or agency of the Company in Richmond, Virginia, or at the option of the holder of this Global Note, at the Corporate Trust Office of the Trustee, a new Note or Notes of authorized denominations for an equal aggregate principal amount will be issued to the transferee in exchange thereof, subject to the conditions and limitations provided in the Indenture, without charge except for any tax or other governmental charge imposed in connection therewith.

The Company, the Trustee, any authenticating agent, any paying agent and any Note registrar may deem and treat the registered holder hereof as the absolute owner of this Global Note (whether or not this Global Note shall be overdue and notwithstanding any notation of ownership or other writing hereon made by anyone other than the Company or any Note registrar), for the purpose of receiving payment hereof, or on account hereof, and for all other purposes, and neither the Company nor the Trustee nor any other authenticating agent nor any paying agent nor any Note registrar shall be affected by any notice to the contrary. All payments made to or upon the order of such registered holder shall, to the extent of the sum or sums paid, satisfy and discharge liability for monies payable on this Global Note.

No recourse for the payment of the principal of or any premium or interest on this Global Note, or for any claim based hereon or otherwise in respect hereof, and no recourse under or upon any obligation, covenant or agreement of the Company in the Indenture or any indenture supplemental thereto or in any Note, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, shareholder, officer or director, as such, past, present or future, of the Company or of any Successor Company, either directly or through the Company or any Successor Company, 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, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released.

[FORM OF OPTION TO ELECT REPAYMENT

UPON A CHANGE OF CONTROL]

To: Dynex Capital, Inc.

The undersigned registered owner of this Global Note hereby irrevocably acknowledges receipt of a notice from Dynex Capital, Inc. (the "Company") as to the occurrence of a Change of Control with respect to the Company and requests and instructs the Company to repay the entire principal amount of this Global Note, or the portion thereof (which is $1,000 principal amount or an integral multiple thereof) below designated, in accordance with the terms of the Indenture referred to in this Global Note, together with accrued interest to such date, to the registered holder hereof.

Dated: _____

_____

Signature(s)

_____

Social Security or Other Taxpayer
Identification Number

Principal amount to be repaid (if
less than all): $_____

NOTICE: The option to elect payment upon a Change of Control must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

[FORM OF ASSIGNMENT]

For value received _____ hereby sell(s), assign(s) and transfer(s) unto _____ (please insert social security or other identifying number of assignee) the within Note, and hereby irrevocably constitutes and appoints _____ attorney to transfer the said Note on the books of the Company, with full power of substitution in the premises.

Dated: _____

_____

_____

Signature(s)

Signature(s) must be guaranteed by an eligible Guarantor Institution (banks, stock brokers, savings and loan associations and credit unions) with membership in an approved signature guarantee program pursuant to Securities and Exchange Commission Rule 17Ad-15.

_____

Signature Guarantee

NOTICE: The assignment must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

NOTICE: Transfers are subject to the limitations set forth in the Indenture.

SCHEDULE A

SCHEDULE OF EXCHANGES,
REDEMPTIONS, REPURCHASES, CANCELLATIONS AND TRANSFERS

The initial principal amount of this Global Note is U.S. [$40,000,000.] The following additions to principal, redemptions, repurchases, exchanges of a part of this Global Note for an interest in the Global Note or definitive Notes have been made:

Principal Amount Added on Exchange of Interest in the Global Note or Definitive Notes	Principal Amount Redeemed, Repurchased Exchanged for Interest in the Global Note or Definitive Notes	Remaining Principal Amount Outstanding Following such Transaction