

DYNEX CAPITAL INC
Form 424B3
April 19, 2011
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-172981

PROSPECTUS

Dynex Capital, Inc.
DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN
5,000,000 Shares of Common Stock

The Dividend Reinvestment and Share Purchase Plan, or the Plan, is designed to provide current holders of our common stock, par value \$0.01 per share, and other interested investors with a convenient and economical method to invest funds and reinvest dividends in shares of our common stock.

By participating in the Plan, you may purchase additional shares of our common stock by reinvesting some or all of the cash dividends that you receive on your shares of our common stock. If you elect to participate in the Plan, you may also make optional cash purchases of shares of our common stock of between \$100 and \$10,000 per transaction at prevailing market prices as determined under the Plan and, with our prior approval, in excess of \$10,000 per transaction. Shares of our common stock purchased directly from us under the Plan in excess of \$10,000 or through the reinvestment of cash dividends may be acquired at discounts from the prevailing market price as determined by us from time to time in our sole discretion. The Plan highlights include:

Any holder of shares of our common stock may elect to participate in the Plan.

Interested new investors who are not currently holders of our common stock may make their initial purchase through the Plan.

Full or partial dividend reinvestment options.

Up to a 3% discount, in our sole discretion, on purchases of shares through the reinvestment of cash dividends purchased directly from us under the Plan.

Up to a 3% discount, in our sole discretion, on optional cash purchases of shares in excess of \$10,000 per transaction purchased directly from us under the Plan.

Optional cash purchases of between \$100 and \$10,000 per transaction and, with our prior approval, optional cash purchases in excess of \$10,000 per transaction.

Shares purchased will be maintained in your name in book-entry form at no charge to you.

Detailed recordkeeping and reporting will be provided at no charge to you.

Optional automatic investment withdrawals from your bank account.

This prospectus relates to the offer and sale of up to 5,000,000 authorized but unissued shares of our common stock under the Plan. Participants should retain this prospectus for future reference.

The New York Stock Exchange, or NYSE, lists our common stock under the symbol DX. On March 18, 2011, the closing price of our common stock was \$10.39 per share.

To assist us in qualifying as a real estate investment trust, or REIT, for federal income tax purposes, no person may own more than 9.8% by value or number of shares, whichever is more restrictive, of our outstanding shares of common stock, unless our board of directors waives this limitation.

Our principal office is located at 4991 Lake Brook Drive, Suite 100, Glen Allen, VA 23060. Our telephone number is (804) 217-5800.

Investing in our securities involves risk. You should carefully consider the information referred to under the heading Risk Factors, beginning on page 5, before you invest.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is April 18, 2011.

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IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement on Form S-3 that we filed with the Securities and Exchange Commission, or Commission. This prospectus does not contain all of the information set forth in the registration statement, portions of which we have omitted as permitted by the rules and regulations of the Commission. Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete. If the Commission's rules and regulations require that a contract or document be filed as an exhibit to the registration statement, we refer you to the copy of the contract or document filed as an exhibit to the registration statement for a complete description. You should rely only on the information in our prospectus and the documents that are incorporated by reference. We have not authorized anyone else to provide you with different information. We are not offering these securities in any state where the offer is prohibited by law. You should not assume that the information in our prospectus or any incorporated document is accurate as of any date other than the date of the document.

When used in this prospectus, the terms Dynex, company, issuer, we, our, and us refer to Dynex Capital, Inc. and its consolidated subsidiaries unless otherwise specified.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain written statements we make in this prospectus, and in our other filings with the Securities and Exchange Commission, or SEC, that are incorporated herein by reference, that are not historical facts constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are those that predict or describe future events or trends and that do not relate solely to historical matters. All statements contained or incorporated by reference in this prospectus addressing our future results of operations and operating performance, events, or developments that we expect or anticipate will occur in the future, including, but not limited to, statements relating to investment strategies, changes in net interest income growth, investment performance, earnings or earnings per share growth, the future interest rate environment, future capital raising strategies and activities, economic conditions and outlook, expected impact of hedging transactions, and market share, as well as statements expressing optimism or pessimism about future operating results, are forward-looking statements. You can generally identify forward-looking statements as statements containing the words will, believe, expect, anticipate, intend, estimate, assume, plan, continue, should, may or could, or similar expressions. Forward-looking statements are based on our current beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements, which may be based on assumptions and expectations that do not materialize.

We make forward-looking statements in this prospectus, or in our other filings with the SEC that are incorporated herein by reference, regarding:

Our business and investment strategy including our ability to generate acceptable risk-adjusted returns;

Our financing and hedging strategy;

Our investment portfolio composition and target investments;

Our investment portfolio performance, including the value and yields of our investment portfolio;

Our liquidity and ability to access financing, and the anticipated availability and cost of financing;

Our use of our tax net operating loss carryforward;

Market, industry and economic trends; and

Interest rates.

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While it is not possible to identify all factors, some of the factors that may cause actual results to differ from historical results or from any results expressed or implied by forward-looking statements, or that may cause our projections, assumptions, expectations or beliefs to change, include the following:

The risks and uncertainties referenced in this prospectus, or in our other filings with the SEC that are incorporated herein by reference, particularly those set forth under the heading "Risk Factors" herein and in our Annual Report on Form 10-K under Item 1A, "Risk Factors";

Our ability to find suitable reinvestment opportunities;

Changes in economic conditions;

Changes in interest rates and interest rate spreads;

Our investment portfolio performance particularly as it relates to cash flow, prepayment rates and credit performance;

The cost and availability of financing;

The cost and availability of new equity capital;

Changes in our use of leverage;

The quality of performance of third-party servicer providers of our loans and loans underlying our securities;

The level of defaults by borrowers on loans we have securitized;

Changes in our industry;

Increased competition;

Changes in government regulations affecting our business;

Government-sponsored entity reform or other government policies and actions; and

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An ownership shift under Section 382 of the Internal Revenue Code of 1986, as amended, that impacts the use of our tax net operating loss carryforward.

These and other risks, uncertainties and factors, including those described in the annual, quarterly and current reports that we file with the SEC, could cause our actual results to differ materially from those projected in any forward-looking statements we make. All forward-looking statements speak only as of the date on which they are made. New risks and uncertainties arise over time and it is not possible to predict those events or how they may affect us. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

We are including this cautionary statement in this prospectus to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by us or on our behalf. Any forward-looking statements should be considered in context with the various disclosures made by us about our businesses in our public filings with the SEC, including without limitation the risk factors described above and those described in **Risk Factors** beginning on page 5.

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DYNEX CAPITAL, INC.

We are an internally-managed real estate investment trust, or REIT, which invests in mortgage assets on a leveraged basis. Our objective is to provide attractive risk-adjusted returns to our shareholders over the long term that are reflective of a leveraged, high quality fixed income portfolio with a focus on capital preservation. We seek to provide returns to our shareholders through regularly quarterly dividends and through capital appreciation. Our stock is listed on the New York Stock Exchange under the symbol **DX**.

We were formed in 1987 and commenced operations in 1988. Beginning with our inception through 2000, our operations largely consisted of originating and securitizing various types of loans, principally single-family and commercial mortgage loans and manufactured housing loans. Since 2000, we have been an investor in MBS (**MBS**), and we are no longer originating or securitizing mortgage loans.

Our primary source of income is net interest income, which is the excess of the interest income earned on our investments over the cost of financing these investments. Our investment strategy as approved by our Board of Directors is a hybrid-investment strategy that targets higher credit quality, shorter duration investments in Agency MBS and non-Agency MBS. Investments considered to be of higher credit quality have less or limited exposure to loss of principal while investments which have shorter durations have less exposure to changes in interest rates.

Agency MBS consist of residential MBS (**RMBS**) and commercial MBS (**CMBS**), which come with a guaranty of payment by the U.S. government or a U.S. government-sponsored entity such as Fannie Mae and Freddie Mac. Non-Agency MBS (also consisting of RMBS and CMBS) have no such guaranty of payment. We currently target an overall investment portfolio composition of 50%-70% in Agency MBS with the balance in non-Agency MBS and securitized mortgage loans. Securitized mortgage loans are loans which were originated and securitized by us during the 1990s.

We finance our investments through a combination of short-term repurchase agreements and non-recourse collateralized financing such as securitization financing and TALF financing. Repurchase agreement financing generally has maturities of 30-90 days and is uncommitted financing. Securitization financing is generally term financing and is repaid from the cash flow received on the securitized mortgage loans. Our TALF financing, which had an initial maturity of three years, is recourse only to the assets which it is funding.

Our address and telephone number are 4991 Lake Brook Drive, Suite 100, Glen Allen, Virginia 23060 and (804) 217-5800.

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SUMMARY OF DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

The Plan provides holders of record of our common stock an opportunity to automatically reinvest all or a portion of their cash dividends received on common stock in additional shares of our common stock as well as to make optional cash payments to purchase shares of our common stock. Persons who are not already shareholders may also make their initial purchase of our common stock under the Plan through initial cash payments. The Administrator (as defined below) will buy, at our option, newly issued common stock directly from us or common stock in the open market or in negotiated transactions with third parties. Our common stock purchased directly from us under the Plan may be priced at prevailing market value, as determined under the Plan, or, in connection with the reinvestment of dividends or optional cash purchases in excess of \$10,000, may be priced at a discount from market prices at the time of the investment (determined in accordance with the Plan) ranging from 0% to 3% as determined by us from time to time in our sole discretion. We refer to the date on which the Administrator purchases whole and fractional shares with your cash dividend, or initial and subsequent optional cash purchases, as being the Investment Date. Any discount established by us for any Investment Date may be adjusted or suspended for any subsequent Investment Date. Please see Description of the Plan beginning on page 6 of this prospectus.

The Plan will be administered by the Administrator, which will be The Bank of New York Mellon, or any successor bank or trust company that we may from time to time designate. Certain of the administrative support to the Administrator may be performed by its designated affiliates. Inquiries regarding the Plan may be directed to the Administrator as indicated below (for additional information about contacting the Administrator, see Question 23 below):

Internet: www.bnymellon.com/shareowner/isd
Telephone: 1-866-280-0407 (for calls within the U.S. and Canada)
1-201-680-6578 (for international calls)
Writing: The Bank of New York Mellon
Shareowner Services
P.O. Box 358035
Pittsburgh, PA 15252-8035

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RISK FACTORS

Investing in our common stock involves risks. You should carefully consider the risks described below and under **Risk Factors** in our most recent Annual Report on Form 10-K (which descriptions are incorporated by reference herein), as well as the other information contained or incorporated by reference in this prospectus before making a decision to invest in our common stock. See **Where You Can Find More Information**, below. Please also see Question 25, *What other risks will I face through my participation in the Plan?*

Risks Related to our Common Stock

The market price and trading volume of our common stock may be volatile.

The market price of our common stock may become highly volatile and subject to wide fluctuations. In addition, trading volume in our common stock may fluctuate and cause significant price variations to occur. Some of the factors that could result in fluctuations in the price or trading volume of our common stock include, among other things: actual or anticipated changes in our current or future financial performance; changes in market interest rates and general market and economic conditions. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly.

We have not established a minimum dividend payment level for our common stockholders and there are no assurances of our ability to pay dividends to them in the future.

We intend to pay dividends and to make distributions to our common stockholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments including adjustments for tax loss carryforwards, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the Internal Revenue Code of 1986, as amended. We have not established a minimum dividend payment level for our common stockholders. Further, our ability to pay dividends may be harmed by the risk factors described herein and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010. All distributions to our common stockholders will be made at the discretion of our board of directors and will depend on our earnings, our financial condition, maintenance of our REIT status and such other factors as our board of directors may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future.

Future offerings of debt securities, which would rank senior to our common stock upon our liquidation, and future offerings of equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidating distributions, may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by making offerings of debt or additional offerings of equity securities, including commercial paper, medium-term notes, senior or subordinated notes and classes of preferred stock or common stock. Upon liquidation, holders of our debt securities and lenders with respect to our other borrowings will receive a distribution of our available assets prior to the holders of our common stock. In addition, upon liquidation, holders of shares of our preferred stock will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Moreover, any future issuance of preferred stock by us may have a preference on liquidating distributions and on dividend payments that could limit our ability to make a dividend distribution to the holders of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

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Future sales of our common stock could have an adverse effect on our stock price.

We cannot predict the effect, if any, of future sales of common stock, or the availability of shares for future sales, on the market price of our common stock. Sales of substantial amounts of common stock, or the perception that such sales could occur, may adversely affect prevailing market prices for our common stock.

USE OF PROCEEDS

We intend to primarily use the net proceeds from the sale of the common stock offered by this prospectus for the purchase of Agency and non-Agency RMBS and CMBS. In addition, we may also use the net proceeds to repay outstanding debt and for general corporate purposes. We have no basis for estimating the number of shares of common stock that will ultimately be purchased from us under the Plan, if any, the prices at which such shares will be acquired or the total net proceeds that we will receive.

DESCRIPTION OF THE PLAN

The Plan offers a variety of convenient, low-cost services to make it easier for you to invest in our common stock. The Plan, which is described in this section, has various features and you can choose the Plan features that meet your investment needs. The Plan is designed for long-term investors who wish to invest and build their share ownership over time. Unlike an individual stock brokerage account, the timing of purchases and sales is subject to the provisions of the Plan, as discussed below. In addition, the Plan will provide us with a means of raising additional capital through the sale of common stock under the Plan.

You can participate in the Plan if you are a registered holder of our common stock. If you do not own our common stock, you can become a participant by making your initial purchase directly through the Plan. The Plan offers you the opportunity to reinvest dividends and provides an alternative to traditional methods of buying, holding and selling our common stock. The Administrator administers the Plan and certain administrative support will be provided by its designated affiliate.

Key Features of the Plan

Anyone can participate

If you currently own our common stock registered in your name you may participate in the Plan. If you do not own any of our common stock, you can participate in the Plan by making your initial investment in common stock through the Plan with an initial investment of at least \$1,000 and, unless we approve a Request for Waiver, not more than \$10,000. We may change these minimum and maximum amounts at any time in our sole discretion.

Automatic dividend reinvestment

You can reinvest your dividends in additional shares of our common stock. Your dividends will be used to buy additional shares of our common stock at the prevailing market price on the dividend reinvestment date. The discount, if any, on purchases through reinvestment of cash dividends will range from 0% to 3% and will be established from time to time at our sole discretion, along with any other terms, after a review of current market conditions, the level of participation and our current and projected capital needs. As of the date of this prospectus, there is no discount set for purchases through reinvestment of cash dividends.

Optional cash purchases up to \$10,000

You can make monthly investments of as little as \$100 or, in the case of an initial investment, from \$1,000 to as much as \$10,000, and you can pay either by check or by automatic deduction from your bank account. We may change these minimum and maximum amounts at any time in our sole discretion.

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Optional cash purchases in excess of \$10,000

Optional cash purchases in excess of \$10,000 per transaction may be made, with our prior approval, pursuant to a written request and are not subject to a predetermined maximum limit on the amount of the investment. The discount, if any, on optional cash purchases in excess of \$10,000 made pursuant to such requests will range from 0% to 3% and will be established from time to time at our sole discretion, along with any other terms, after a review of current market conditions, the level of participation and our current and projected capital needs.

Convenient share sales

You can sell our common stock acquired through the Plan through the Administrator and pay fees that may be lower than those typically charged by stockbrokers for small transactions.

Full investment

Full investment of your funds is possible because you will be credited with both whole shares and fractional shares. Dividends will be paid not only on whole shares but also proportionately on fractional shares.

Share safekeeping

You can deposit your common stock certificates with the Administrator for safekeeping, at no cost to you. You can request withdrawal of any or all of your whole shares of our common stock. A certificate for those shares will be sent to you, free of charge.

Gifts and other share transfers

You can make gifts to others of our common stock in your Plan account.

Transaction reporting

You will receive a notice after each transaction showing the details and the share balance in your Plan account.

Questions and Answers Describing Terms and Conditions of the Plan

1. Can I participate in the Plan?

If you already own our common stock and the shares are registered in your name, you may participate immediately. If your shares are held for you in a brokerage account, you may make arrangements with your stockbroker to have some or all of the shares of our common stock registered directly in your name. Please note that participation will only apply to the number of shares registered in your name. If you do not currently own any of our common stock, you can participate by making an initial investment in our common stock through the Plan. Please see Question 8 for details regarding an initial investment. If you live outside the United States, you should first determine if there are any laws or governmental regulations that would prohibit your participation in the Plan. We reserve the right to terminate participation of any shareholder if we deem it advisable under any domestic or foreign laws or regulations then in effect.

2. How do I get started?

Enrollment is available on-line through Investor ServiceDirect® (see Question number 23 for information on how to access Investor ServiceDirect®). Alternatively, you can get started in the Plan by completing an enrollment form and mailing it to the Administrator. Your participation will begin promptly after your authorization is received. Once you have enrolled, your participation continues automatically, until you notify us otherwise.

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3. *How do I reinvest dividends?*

You can choose to reinvest all or a portion of the cash dividends paid on shares of our common stock you own in additional shares of our common stock. To be effective with respect to a particular dividend, notice of your election must be received on or before the record date for that dividend. A record date for a dividend normally precedes the payment of the dividend by approximately four weeks. You may change your election at any time by notifying the Administrator. To be effective with respect to a particular dividend, any such change must be received by the Administrator on or before the record date for that dividend. If you elect to reinvest your dividends, you must choose one of the following options:

Full dividend reinvestment. You may purchase additional shares of our common stock by reinvesting all of your cash dividends.

Partial dividend reinvestment. You may purchase additional shares of our common stock by reinvesting some of your dividends. If you select this option, a portion of your cash dividends will be paid to you in cash, and the remaining portion of your dividends will be automatically reinvested to purchase additional shares of our common stock. If you choose partial reinvestment, you must specify on the enrollment form the number of whole shares on which you wish to continue to receive cash dividends by check or to have directly deposited into your designated bank account. The remaining dividends will be automatically reinvested.

If you do not choose to reinvest any cash dividends paid on shares of our common stock, you will receive cash dividends by check or direct deposit into your designated bank account.

4. *When are dividends reinvested?*

If you have chosen the dividend reinvestment feature and notice of such change has been received by the Administrator on or before the record date for that dividend, the Administrator will generally invest dividends in additional shares of our common stock purchased on the open market or directly from us on the dividend payment date. If the dividend payment date falls on a day that is not a NYSE trading day, then the Investment Date will be the next trading day. If the Administrator acquires shares from parties other than us through open market transactions, such purchases will occur during a period beginning on the dividend payment date, and continue on any succeeding trading days necessary to complete the order. In the unlikely event that, due to unusual market conditions, the Administrator is unable to invest the funds within 30 days, the Administrator will remit the funds to you by check. No interest will be paid on funds held by the Administrator pending investment.

5. *What is the source of shares to be purchased under the Plan?*

All dividends reinvested through the Plan and all optional cash purchases will be used to purchase, in our sole discretion, either newly-issued shares directly from us or shares on the open market or a combination thereof. Shares purchased directly from us will consist of authorized but unissued shares of common stock.

6. *At what price will shares be purchased?*

The purchase price of shares purchased through the reinvestment of cash dividends will be determined as follows:

If the shares are purchased in the open market, the purchase price will be the average purchase price per share of the shares of our common stock purchased by the Administrator. We will pay all trading fees in connection with open market purchases.

If the shares are purchased from us, the purchase price will be the unsolicited volume weighted average price, rounded to four decimal places, of our common stock as reported by the NYSE only, obtained from Bloomberg, LP for the trading hours from 9:30 a.m. to 4:00 p.m., Eastern time (including the last trade on the NYSE even if reported after 4:00 p.m.) on the Investment Date. The purchase price may be reduced by the Dividend Reinvestment Discount (defined below), if any, that we have provided, in our sole

discretion, for reinvested dividends on a particular Investment Date.

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Dividend Reinvestment Discount. At least 5 calendar days prior to the applicable Investment Date, we may, in our sole discretion, establish a discount from the market price applicable to reinvestments of cash dividends. These discounts, or the Dividend Reinvestment Discounts, may be between 0% and 3% of the purchase price, and may vary for each Investment Date. However, no Dividend Reinvestment Discounts will be available for common stock purchased in the open market or in privately negotiated transactions. As of the date of this prospectus, there is no Dividend Reinvestment Discount.

The Dividend Reinvestment Discounts will be established at our sole discretion after a review of current market conditions, the level of participation in the Plan, the attractiveness of obtaining such additional funds through the sale of common stock as compared to other sources of funds and current and projected capital needs. Dividend Reinvestment Discounts, if any, will be established by our Board of Directors and will be posted to our website at www.dynexcapi.com at least one week prior to the dividend record date.

Setting a Dividend Reinvestment Discount for a particular Investment Date shall not affect the setting of Dividend Reinvestment Discounts for any subsequent Investment Date. The Dividend Reinvestment Discounts will apply only to purchases through the reinvestment of cash dividends. The setting of Waiver Discounts (defined below), if any, shall not affect the setting of Dividend Reinvestment Discounts, if any, and Waiver Discounts and Dividend Reinvestment Discounts may be different percentages at any given time, at our sole discretion.

The purchase price of shares for optional cash purchases not exceeding \$10,000 will be determined as follows:

If the shares are purchased in the open market, the purchase price will be the average purchase price per share of the shares of our common stock purchased by the Administrator. We will pay all trading fees in connection with open market purchases.

If the shares are purchased from us, the purchase price will be the unsolicited volume weighted average price, rounded to four decimal places, of our common stock as reported by the NYSE only, obtained from Bloomberg, LP for the trading hours from 9:30 a.m. to 4:00 p.m., Eastern time (including the last trade on the NYSE even if reported after 4:00 p.m.) on the Investment Date.

Please see Question 10 for information about the purchase price for optional cash purchases in excess of \$10,000.

7. When will shares be purchased under the plan?

The Investment Date is the date or dates on which the Administrator purchases shares of our common stock for the Plan, as described below.

Dividend Reinvestments. If the Administrator acquires shares directly from us, it will combine the dividend funds of all Plan participants whose dividends are automatically reinvested and will generally invest such dividend funds on the dividend payment date. If the dividend payment date falls on a day that is not a NYSE trading day, then the Investment Date will be the next trading day. If the Administrator acquires shares from parties other than us through open market transactions, such purchases will occur during a period beginning on the dividend payment date, and continue on any succeeding trading days necessary to complete the order.

Initial and Optional Cash Purchases up to \$10,000. If the Administrator acquires shares directly from us, then the Investment Date for optional cash purchases up to \$10,000 will be on the last business day of each month. If the Administrator acquires shares from third parties other than us through open market transactions, it will attempt to buy our common stock in the open market through a registered broker-dealer. Such purchases will begin on the last business day of each month, and will be completed no later than thirty days following such date, except where completion at a later date is necessary or advisable under any applicable federal or state securities laws or regulations.

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For automatic optional monthly purchases, the amounts you have authorized will be withdrawn from your bank account on the twenty-fifth day of each month, or on the next succeeding business day if the twenty-fifth falls on a weekend or a holiday, and shares will be purchased in the manner described immediately above.

In the unlikely event that, due to unusual market conditions, the Administrator is unable to invest the funds within thirty days, the Administrator will return the funds to you by check. No interest will be paid on funds held by the Administrator pending investment.

To be effective with respect to a particular Investment Date, initial investments and optional cash purchases must be received by the Administrator prior to the applicable Investment Date.

Initial and Optional Cash Purchases in Excess of \$10,000. The Investment Dates for optional cash purchases in excess of \$10,000 are discussed in response to Question 10.

8. How do I make an initial investment?

If you do not own our common stock in a Plan account, you can make an initial cash purchase for as little as \$1,000, but your initial cash purchase cannot exceed \$10,000 unless we approve a Request for Waiver as discussed in response to Question 10. Your initial cash purchase can be made:

Via on-line enrollment by:

Authorizing a one time deduction (minimum of \$1,000) from your bank account; or
Using the Enrollment Form and:

Making one payment (minimum of \$1,000) by check payable to Dynex Capital, Inc./BNY Mellon.
We may change the minimum and maximum amounts at any time in our sole discretion. In addition, in certain instances, we may permit optional cash purchases in excess of the maximum amount established by us.

All Plan accounts that we believe to be under common control or management or to have common ultimate beneficial ownership may be aggregated for purposes of determining compliance with the maximum purchase requirement limit. Unless we have determined that reinvestment of dividends and optional cash purchases for each such account would be consistent with the purposes of the Plan, we will have the right to aggregate all such accounts and to return, without interest, within thirty days of receipt, any amounts in excess of the investment limitations applicable to a single account received in respect of all such accounts.

9. How do I make optional cash purchases of less than \$10,000?

If you already own our common stock and are enrolled in the Plan and want to make additional purchases, you can authorize an individual deduction from your bank account through Investor ServiceDirect® or send a check to the Administrator for each purchase. If you choose to submit a check, please be sure to include the contribution form from your Plan statement and mail it to the address specified on the statement. Or, if you wish to make regular monthly purchases, you may authorize automatic monthly deductions from your bank account. This feature enables you to make ongoing investments in an amount that is comfortable for you, without having to write a check. Additional cash purchases are subject to a minimum purchase requirement of \$100 per investment and a transaction maximum of \$10,000.

10. How do I make optional cash purchases in excess of \$10,000?

You may ascertain whether we are accepting requests to make optional cash purchases in excess of \$10,000 by telephoning the Administrator at 1-201-680-5300.

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Request for Waiver. If you wish to make an optional cash purchase in excess of \$10,000 (or other maximum amount established by us), you must obtain our prior written approval and a copy of such written approval must accompany any such optional cash purchase. We refer to such a request as being a Request for Waiver. We have sole discretion to grant any approval for optional cash purchases in excess of the current allowable \$10,000 maximum amount. Unless you have complied with these procedures, any amount you submit for investment over \$10,000 will be returned to you without interest.

You may make a Request for Waiver by contacting the Administrator at 1-201-680-5300. Completed Request for Waiver forms should be submitted to the Administrator via facsimile at (201) 680-4638 no later than two business days prior to the applicable Pricing Period (as defined below).

The Administrator will notify you as to whether your Request for Waiver has been granted or denied, either in whole or in part, within one business day of the receipt of your request. If your full Request for Waiver is granted in part, the Administrator will advise you of the maximum amount that will be accepted from you in connection with your purchase. If your request is approved, the Administrator must receive the funds for your purchase prior to or on the applicable date specified by the Administrator for the relevant Pricing Period (which typically will be one business day prior to the applicable Pricing Period). If you do not receive a response from the Administrator in connection with your Request for Waiver, you should assume that we have denied your request.

We may alter, amend, supplement or waive, in our sole discretion, the time periods and/or other parameters relating to optional cash purchases in excess of \$10,000 made by one or more participants in the Plan or new investors, at any time and from time to time, prior to the granting of any Request for Waiver. For more information regarding a particular Pricing Period (including applicable Pricing Period start dates), please contact the Administrator at 1-201-680-5300.

Purchase Price of Shares for Optional Cash Purchases in Excess of \$10,000. Shares purchased pursuant to an approved Request for Waiver will be purchased directly from us as described herein, including the establishment of a *Threshold Price* as more fully described below. The purchase price may be reduced by the Waiver Discounts, if any, that we have provided on each Investment Date. If we grant your request to purchase shares pursuant to a Request for Waiver, we, in our sole discretion, will establish a Pricing Period, which will generally consist of one to fourteen separate days during which trading of our common stock is reported on the NYSE during the applicable Pricing Period. Each of these separate days will be an Investment Date, and an equal proportion of your optional cash purchase will be invested on each trading day during such Pricing Period, subject to the qualifications listed below. The purchase price for shares acquired on a particular Investment Date will be equal to 100% (subject to change as provided below) of the unsolicited volume weighted average price, rounded to four decimal places, of our common stock as reported by the NYSE only, obtained from Bloomberg, LP for the trading hours from 9:30 a.m. to 4:00 p.m., Eastern time, for that Investment Date (including the last trade on the NYSE even if reported after 4:00 p.m.). With respect to optional cash purchases in excess of \$10,000, we will not set an Investment Date to be the same date as a dividend payment date.

The Administrator will apply all optional cash purchases made pursuant to a Request for Waiver for which good funds are received on or before the first business day before the Pricing Period to the purchase of shares of our common stock on each Investment Date of the applicable Pricing Period.

Threshold Price. We may establish for a Pricing Period a minimum price (or the *Threshold Price*) applicable to optional cash purchases made pursuant to a Request for Waiver. At least one business day prior to the first day of the applicable Pricing Period, we will determine whether to establish a *Threshold Price*, and if the *Threshold Price* is established, its amount, and will so notify the Administrator. This determination will be made by us in our discretion after a review of current market conditions, the level of participation in the Plan, and current and projected capital needs.

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If established for any Pricing Period, the Threshold Price will be stated as a dollar amount that the unsolicited volume weighted average price, rounded to four decimal places, of our common stock as reported on the NYSE, obtained from Bloomberg, LP for the trading hours from 9:30 a.m. to 4:00 p.m., Eastern time, for each trading day of such Pricing Period (not adjusted for discounts, if any) must equal or exceed. Except as provided below, we will exclude from the Pricing Period any trading day that the unsolicited volume weighted average price is less than the Threshold Price. We also will exclude from the Pricing Period and from the determination of the purchase price any day in which no trades of common stock are made on the NYSE. For example, if the Threshold Price is not met for two of the trading days in a 10 day Pricing Period, then we will return 20% of the funds you submitted in connection with your Request for Waiver unless we have activated the pricing period extension feature for the Pricing Period which is described below.

Pricing Period Extension Feature. We may elect to activate for any particular Pricing Period the pricing period extension feature which will provide that the initial Pricing Period will be extended by the number of days that the Threshold Price is not satisfied, or on which there are no trades of our common stock reported by the NYSE, subject to a maximum of five trading days. If we elect to activate the pricing period extension feature and the Threshold Price is satisfied for any additional day that has been added to the initial Pricing Period, that day will be included as one of the trading days for the Pricing Period in lieu of the day on which the Threshold Price was not met or trades of our common stock were not reported. For example, if the determined Pricing Period is 10 days, and the Threshold Price is not satisfied for three out of those 10 days in the initial Pricing Period, and we had previously announced at the time of the Request for Waiver acceptance that the pricing period extension feature was activated, then the Pricing Period will automatically be extended, and if the Threshold Price is satisfied on the next three trading days (or a subset thereof), then those three days (or a subset thereof) will become Investment Days in lieu of the three days on which the Threshold Price was not met. As a result, because there were 10 trading days during the initial and extended Pricing Period on which the Threshold Price was satisfied, all of the optional cash purchase will be invested.

Return of Unsubscribed Funds. We will return a portion of each optional cash purchase in excess of \$10,000 for each trading day of a Pricing Period or extended Pricing Period, if applicable, for which the Threshold Price is not met or for each day in which no trades of common stock are reported on the NYSE, referred to as the Unsubscribed Funds. Any Unsubscribed Funds will be returned within five business days after the last day of the Pricing Period or, if applicable, the extended Pricing Period, without interest. The amount returned will be based on the number of days during which the Threshold Price was not met with compared to the number of days in the Pricing Period or extended Pricing Period. For example, the returned amount in a 10 day Pricing Period will equal one-tenth (1/10) of the total amount of such optional cash purchase (not just the amount exceeding \$10,000) for each trading day that the Threshold Price is not met or for each trading day in which sales are not reported.

The establishment of the Threshold Price and the possible return of a portion of the investment applies only to optional cash purchases in excess of \$10,000. Setting a Threshold Price for a Pricing Period will not affect the setting of a Threshold Price for any other Pricing Period. We may waive our right to set a Threshold Price for any particular Pricing Period. Neither we nor the Administrator is required to give you notice of the Threshold Price for any Pricing Period.

Waiver Discount. At least one business day prior to the first day of the applicable Pricing Period, the same time the Threshold Price is determined, we may, in our sole discretion, establish discounts from the market price applicable to optional cash purchases made pursuant to a Request for Waiver. These discounts (or the Waiver Discounts) may be between 0% and 3% of the purchase price, and may vary for each Pricing Period and, within a given Pricing Period, for each purchaser. However, no Waiver Discounts will be available for common stock purchased in the open market or in privately negotiated transactions.

The Waiver Discounts will be established at our sole discretion after a review of current market conditions, the level of participation in the Plan, the attractiveness of obtaining such additional funds through the sale of

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common stock as compared to other sources of funds and current and projected capital needs. You may inquire as to the Waiver Discounts, if any, applicable to the next Pricing Period by contacting the Administrator at 1-201-680-5300.

Setting Waiver Discounts for a particular Pricing Period or for a particular purchaser shall not affect the setting of Waiver Discounts for any subsequent Pricing Period or for any other purchaser. The Waiver Discounts will apply only to optional cash purchases of more than \$10,000 (or other applicable maximum transaction amount). The Waiver Discounts will apply to the entire optional cash purchase and not just the portion of the optional cash purchase that exceeds \$10,000. The setting of Dividend Reinvestment Discounts, if any, shall not affect the setting of Waiver Discounts, if any, and Waiver Discounts and Dividend Reinvestment Discounts may be different percentages at any given time, at our sole discretion.

Settlement. Newly issued shares purchased pursuant to a Request for Waiver will be posted to your account within three business days following the end of the applicable Pricing Period. Alternatively, we may elect, in our sole discretion, to activate the continuous settlement feature, pursuant to which shares will be posted to your account within three business days of each separate Investment Date beginning on the first Investment Date in the relevant Pricing Period and ending on the final Investment Date in the relevant Pricing Period, with an equal amount being invested on each day, subject to the qualifications set forth above. Anytime we propose to grant Requests for Waiver for one or more investments, we may elect to activate the continuous settlement feature for such investments by announcing in the bid-waiver form that we will be doing so. Under the continuous settlement feature, we would have a separate settlement of each Investment Dates purchases, each based on the unsolicited volume weighted average price for the trading day (as described above) relating to each of the Investment Dates during the Pricing Period.

11. Will I automatically receive certificates for shares purchased?

No, because the Plan provides for share safekeeping. For your convenience, the Administrator will maintain shares purchased under the Plan in your name in non-certificated form. You may, however, request a stock certificate from the Administrator at any time, free of charge. Please see Question 13 for information about how to request a stock certificate.

12. What is safekeeping?

Shares of our common stock that you buy under the Plan will be maintained in your Plan account in non-certificated form for safekeeping, unless you request a stock certificate as described in Question 13. Safekeeping protects your shares against loss, theft or accidental destruction and also provides a convenient way for you to keep track of your shares. Only shares held in safekeeping may be sold through the Plan.

If you own our common stock in certificate form, you may deposit your certificates for those shares with the Administrator, free of charge. The Administrator will provide mail loss insurance coverage for certificates with a value not exceeding \$100,000 in any one shipping package that is mailed to its address at 500 Ross Street, Room 0675, Pittsburgh, PA 15262 by USPS registered mail or by any overnight courier.

Note: Mail loss insurance covers only the replacement of shares of stock and in no way protects against any loss resulting from fluctuations in the value of such shares.

13. Can I get stock certificates if I want them?

Yes. If you should ever want a stock certificate for all or a portion of the whole shares of our common stock in your Plan account, the Administrator will send one to you, upon your request, within two days of the receipt of your instructions. Once the Administrator sends you a stock certificate, you cannot sell the shares of stock represented by such certificate through the Plan's sale feature unless you deposit the certificate with the Administrator for safekeeping.

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14. How can I transfer or give gifts of shares?

You may transfer or give gifts of our common stock to anyone you choose by contacting the Administrator and requesting a Gift/Transfer Form. After the transfer or purchase is completed, upon your request, the Administrator will send you a non-negotiable gift announcement, which you can present to the recipient. A notice indicating the deposit of our common stock into a Plan account in the recipient's name will be forwarded to the recipient.

15. How do I sell shares?

You can sell your uncertificated Plan shares held via share safekeeping at any time by contacting the Administrator. Your sale request will be processed and your shares will, subject to market conditions and other factors, generally be sold within one trading day of receipt of your request. Please note that the Administrator cannot and does not guarantee the actual sale date or price, nor can it stop or cancel any outstanding sales or issuance requests. All requests for sales are final. The Administrator will mail a check to you (less any applicable sales fees and any required tax withholdings) on settlement date, which is three business days after your shares have been sold. If the Administrator sends you a stock certificate at your request, you cannot sell the shares of stock represented by such certificate through the Plan's sale feature unless you deposit the certificate with the Administrator for safekeeping.

Alternatively, you may choose to sell your shares through a stockbroker of your choice, in which case you would have to request that the Administrator deliver to your stockbroker by electronic book-entry means the number of shares you propose to sell, or a stock certificate for delivery to your stockbroker prior to settlement of such sale.

16. What are the costs for participation in the Plan?

The following fees apply to your participation in the Plan. The Administrator will deduct the applicable fees for the sale of shares from the proceeds from the sale. We reserve the right to amend or modify this Plan Service Fee schedule at any time and from time to time.

Enrollment Fee for New Investors:	No Charge
Reinvestment of Dividends:	No Charge
Initial Purchase of Shares:	No Charge
Purchase of Shares with Optional Cash:	
By Check	\$5.00
By Electronic Debit or Recurring Periodic Debit	\$2.00
Sale of Shares:	\$15.00 per transaction
	+ \$0.12 per share
	(plus brokerage commissions and applicable stock transfer taxes, if any)
Returned Checks or Debits for Insufficient Funds or Rejected Automatic Withdrawals	\$35.00 per item

17. How can I vote my shares?

You will receive proxy material for all whole shares in your Plan account. Fractional shares may not be voted. The proxy will be voted in accordance with your direction. The Administrator may vote your shares in certain cases if you do not return a proxy to the Administrator.

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18. If there is a rights offering related to the common stock, how will a shareholder's entitlement be computed?

Your entitlement in a rights offering related to the common stock will be based upon the number of whole shares credited to your Plan account. Rights based on a fraction of a share credited to your Plan account will be sold for that account and the net proceeds will be invested as an optional cash purchase on the next Investment Date. In the event of a rights offering, transaction processing may be curtailed or suspended by the Administrator for a short period of time following the record date for such action to permit the Administrator to calculate the rights allocable to each account.

19. How will I keep track of my investments?

The Administrator will send you a transaction notice confirming the details of each transaction you make. If you continue to participate in the Plan, but have no transactions, the Administrator will send you an annual statement after the end of the calendar year detailing the status of your holdings of our common stock in your Plan account.

20. How would I terminate my participation in the Plan?

You may discontinue the reinvestment of your dividends at any time by giving notice to the Administrator. Notice may be made by telephone, in writing or by changing your dividend election under the account management service when you access your account on-line through Investor ServiceDirect® (see Question 23 for information on how to contact the Administrator and how to access Investor ServiceDirect®). To be effective for a given dividend payment, the Administrator must receive notice on or before the record date for that dividend. The Administrator will continue to hold your shares unless you request a certificate for any full shares and a check for any fractional share (see Question 13 for information on requesting stock certificates). You may also request the sale of all or part of any such shares or have the Administrator transfer your shares to your brokerage account (see Question 15 for information on selling shares). If your Plan account balance falls below one full share, the Administrator reserves the right to liquidate the fraction and remit the proceeds, less any applicable fees, to you at your address of record.

21. Can the Plan be amended, modified, suspended or terminated?

We reserve the right to amend, modify, suspend or terminate the Plan at any time and in any manner. You will receive written notice of any such amendment, modification, suspension or termination. We and the Administrator also reserve the right to change any administrative procedures of the Plan.

22. What are the responsibilities of Dynex Capital and of the Administrator?

Neither we nor the Administrator will be liable for any act we or they do in good faith or for any good faith omission to act including, in the case of the Administrator, liability arising out of (i) failure to terminate a participant's account upon such participant's death or adjudicated incompetence, prior to the receipt of notice in writing of such death or adjudicated incompetence, (ii) the prices at which shares are purchased for the participant's account, (iii) the times when purchases are made, or (iv) fluctuations in the market value of our common stock. The payment of dividends is at the discretion of our board of directors and will depend upon future earnings, our financial condition and other factors. Our board of directors may change the amount and timing of dividends at any time without notice.

23. What if I have questions about the Plan?

Enrollment, purchase or sale of share requests and other transactions or services offered by the Plan should be directed to the Administrator through the following:

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Internet

You can enroll in the Plan, obtain information, and perform certain transactions on your Dynex Capital, Inc. account on-line via Investor ServiceDirect®. New investors will need to establish a Personal Identification Number (PIN) when setting up their account. Existing shareholders will need to use the Investor Identification Number (IID) which can be found in a bolded box on your check stub, statement, or advice to establish your PIN. In order to access your account through Investor ServiceDirect®, you will be required to complete an account activation process. This one-time authentication process will be used to validate your identity in addition to your IID and self-assigned PIN. To access Investor ServiceDirect® please visit the Administrator's website at:

www.bnymellon.com/shareowner/isd

Telephone

Telephone shareholder customer service, including sale of shares, is available toll-free within the U.S. and Canada:

1-866-280-0407

For international telephone inquiries:

1-201-680-6578

An automated voice response system is available 24 hours a day, 7 days a week. Customer Service Representatives are available from 9:00 a.m. to 7:00 p.m., Eastern time, Monday through Friday (except holidays).

In Writing

You may also write to the Administrator at the following address:

The Bank of New York Mellon

Shareowner Services

P.O. Box 358035

Pittsburgh, PA 15252-8035

Be sure to include your name, address, daytime phone number, IID and a reference to Dynex Capital, Inc. on all correspondence.

24. Will interest be paid on Plan accounts?

No. Interest will not be paid on Plan accounts or on any amounts held pending investment.

25. What other risks will I face through my participation in the Plan?

Your investment in shares purchased under the Plan is no different from any investment in shares you hold directly. Neither we nor the Administrator can assure a profit or pr