



**IMPORTANT TAX INFORMATION REGARDING 2006
DIVIDENDS FROM DYNEX CAPITAL, INC.
ON SERIES D PREFERRED STOCK**

Updated and Final March 15, 2007

We are providing this information to assist you in your tax reporting requirements relating to your dividends received from Dynex Capital, Inc. As detailed below, 100% of the Series D preferred stock dividends paid in 2006 are being reported as ordinary income. All Series D preferred stock dividends are also being reported as non-qualifying dividends.

The table below provides a summary of the tax information for the Series D Preferred Stock dividends paid during 2006:

Payment Date	Dividends per share	Ordinary income	Estimated Excess Inclusion Income
January 31, 2006	\$0.2375	\$0.2375	\$0.1277
May 1, 2006	0.2375	0.2375	0.1277
August 1, 2006	0.2375	0.2375	0.1278
October 30, 2006	0.2375	0.2375	0.1278
Totals	\$0.9500	\$0.9500	\$0.5110

Excess Inclusion Income

We have excess inclusion income with respect to its ownership of certain residual interests. The Internal Revenue Service requires us to report excess inclusion income to assist tax-exempt and non-U.S. corporations or residents in the preparation of their tax returns. In addition, for U.S. shareholders, excess inclusion income represents income that cannot be eliminated or reduced through the use of deductions from other sources or exemptions. Our Series D Preferred Stock dividend payments during 2006 included estimated excess inclusion income of approximately \$0.5110, or 53.8%.

Amounts Apportioned Under I.R.C. Section 59(d)

The use of tax net operating loss carryforward to offset taxable income in 2006 may result in certain alternative minimum tax preference amounts for our common shareholders as amounts apportioned under I.R.C. Section 59(d). We estimate that such preference amount for 2006 was approximately \$0.018 per common share.

Tax Disclaimer

The tax and excess inclusion income information above should not be construed as tax advice and is not a substitute for careful tax planning and analysis. You should consult your own tax advisor regarding the specific federal, state, local, foreign and other tax consequences to you regarding your ownership of shares of the Series D Preferred Stock.