



**IMPORTANT TAX INFORMATION REGARDING 2004  
DIVIDENDS FROM DYNEX CAPITAL, INC.  
ON SERIES D PREFERRED STOCK**

We are providing this information to assist you in your tax reporting requirements relating to your dividends received from Dynex Capital, Inc. Dividends paid during 2004 were in part a return of capital and in part ordinary income as a result of “excess inclusion” income earned by the Company during 2004. No portion of the dividends paid in 2004 were attributable to capital gains. The detail between ordinary income and return of capital on the Series D Preferred stock is as follows (all on a per share basis):

<b>Payment Date</b>	<b>Dividends per share</b>	<b>Ordinary income</b>	<b>Return of capital</b>
July 30, 2004	\$0.2243	\$0.1172	\$0.1071
October 29, 2004	\$0.2375	\$0.1240	\$0.1135

***What is “excess inclusion”?*** During 2004, Dynex Capital owned certain REMIC residual investments for which a portion of the income received from these investments is classified as “excess inclusion” income by the IRS. You should consult your tax advisor, but generally, excess inclusion is defined as income which cannot be eliminated or reduced when filing your taxes through the use of deductions from other sources or exemptions. A portion of the dividends paid to shareholders in 2004 represented this excess inclusion income, and the IRS requires taxpayers to report it when filing income taxes.

***If you have any additional questions, please consult your tax advisor.***