

A dark blue-tinted photograph of a sailboat on the water, with a large, stylized 'X' logo overlaid on the right side of the image. The sailboat's sail has the number '5683' and '3883' visible.

Fourth Quarter 2018
Earnings Presentation

February 7, 2019



Safe Harbor Statement

NOTE:

This presentation contains certain statements that are not historical facts and that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this presentation addressing expectations, assumptions, beliefs, projections, estimates, future plans, strategies, and events, developments that we expect or anticipate will occur in the future, and future operating results or financial condition are forward-looking statements. Forward-looking statements in this presentation may include, but are not limited to, statements regarding future interest rates, our views on expected characteristics of future investment environments and expected economic trends, prepayment rates on our investment portfolio and risks posed by our investment portfolio, our future investment strategies, our future leverage levels and financing strategies, the use of specific financing and hedging instruments and the future impacts of these strategies, future actions by the Federal Reserve and other central banks, and the expected performance of our investments. The words “will,” “believe,” “expect,” “forecast,” “anticipate,” “intend,” “estimate,” “assume,” “project,” “plan,” “continue,” and similar expressions also identify forward-looking statements. These forward-looking statements reflect our current beliefs, assumptions and expectations based on information currently available to us, and are applicable only as of the date of this presentation. Forward-looking statements are inherently subject to risks, uncertainties, and other factors, some of which cannot be predicted or quantified and any of which could cause the Company’s actual results and timing of certain events to differ materially from those projected in or contemplated by these forward-looking statements. Not all of these risks, uncertainties and other factors are known to us. New risks and uncertainties arise over time, and it is not possible to predict those risks or uncertainties or how they may affect us. The projections, assumptions, expectations or beliefs upon which the forward-looking statements are based can also change as a result of these risks and uncertainties or other factors. If such a risk, uncertainty, or other factor materializes in future periods, our business, financial condition, liquidity and results of operations may differ materially from those expressed or implied in our forward-looking statements.

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 our forward-looking statements, or that may cause our projections, assumptions, expectations or beliefs to change, include the risks and uncertainties referenced in our Annual Report on Form 10-K for the year ended December 31, 2017 and subsequent filings with the Securities and Exchange Commission, particularly those set forth under the caption “Risk Factors”.

Key Takeaways

- We continue to generate solid cash flow in spite of a 100 basis point rise in financing costs in 2018. We came into the fourth quarter with a strong liquidity position that allowed us to take advantage of wider spreads. We are seeing improved risk-adjusted return opportunities, we raised capital to deploy at these returns and expect these opportunities to develop more frequently.
- We are in a low return environment characterized by interest rates that spend more time in a narrower range than in recent history. This is occurring at a time when global risks are intensifying.
 - In our view, it is probable that increasing global debt, demographic trends, technology advances and human conflict could keep the 10yr Treasury below 3.5% and within a range of 2-4% for a substantial period into the future. Furthermore, there are multiple global factors that could rapidly force interest rates to and below the low end of this narrower interest rate range.
 - Negative side effects of monetary policy tightening are already developing in the global economy and impacting global capital markets limiting the most recent rise in interest rates.
 - The amount of debt globally trading at negative interest rates is trending higher again.
 - In the context of this view, the investment returns that we are currently seeing can offer compelling opportunities for our shareholders.
- Long-term factors continue to favor our business model:
 - Demographics support a growing demand for cash yield as the world's population ages. This global demand for yield supports the long-term valuations of mortgage REITs. Securitized mortgage assets supported by the U. S. government are among the safest investments to generate yield in an uncertain global environment.
 - There is a need for private capital in the US housing finance system as the Federal Reserve attempts to reduce its investment in Agency RMBS and GSE reform may create new investment opportunities. Furthermore, demographics also support the need for more housing in the United States.
- Dynex brings significant experience and expertise in managing securitized real estate assets through multiple economic cycles.

2018 Highlights

Fourth Quarter 2018

- Comprehensive loss of \$(0.52) per common share and net loss of \$(1.34) per common share
- Core net operating income⁽¹⁾ of \$0.18 per common share for the quarter
- Book value per common share declined \$(0.73) per share, or (10.8)%, to \$6.02 at December 31, 2018 compared to \$6.75 at September 30, 2018
- Leverage⁽²⁾ including TBA dollar roll positions of 8.0x shareholders' equity at December 31, 2018 compared to 6.7x at September 30, 2018
- Net interest spread and adjusted net interest spread of 0.93% and 1.24%, respectively, for the fourth quarter of 2018 compared to 1.08% and 1.41%, respectively, for the third quarter of 2018

Full Year 2018

- Comprehensive loss of \$(0.55) per common share and net loss of \$(0.08) per common share
- Core net operating income⁽¹⁾, a non-GAAP measure, of \$0.73 per common share
- Dividends declared of \$0.72 per common share

(1) Reconciliations for non-GAAP measures are presented on slide 29.

(2) Equals sum of (i) total liabilities and (ii) amortized cost basis of TBA dollar roll positions (if settled) divided by total shareholders' equity.

Key Macro Themes

- A key element of our macro thesis is that the global economy is fragile because growth has been driven by enormous accumulation of global debt and extraordinary central bank intervention. This is happening at a time when global risks are intensifying.
- We believe the ability for interest rates to rise rapidly and remain elevated over the long term is limited, driven by central banks, global debt and demographic trends.
 - Central banks have expressed a desire (and the Fed has attempted) to remove the extraordinary stimulus applied for the global economy to recover from the 2008 financial crisis. The Fed has been unable to continue tightening without negatively impacting growth and financial markets.
 - At Dynex we have always believed the Fed is data dependent as they have often historically been.
 - While the demographic trend of global aging is a significant headwind against growth, higher rates and inflation, it creates a sustained demand for cash yield.
- Continued central bank support of economies also supports demand for risk assets.
 - Bouts of volatility must be used to deploy capital when market dislocations create opportunity.
 - The ECB and Fed have all but reversed their course towards quantitative tightening as global growth and inflation stalled in the second half of 2018 as a result of many factors including trade and political instability. The BoJ and PBoC are firmly in the camp of adding liquidity to their respective economies to stimulate or maintain growth and inflation trajectories.
- Unpredictable government policies inject considerable uncertainty and raise the probability of surprise events that impact markets.
- The current structure of relative investment returns overwhelmingly favors high credit quality, liquid investments.

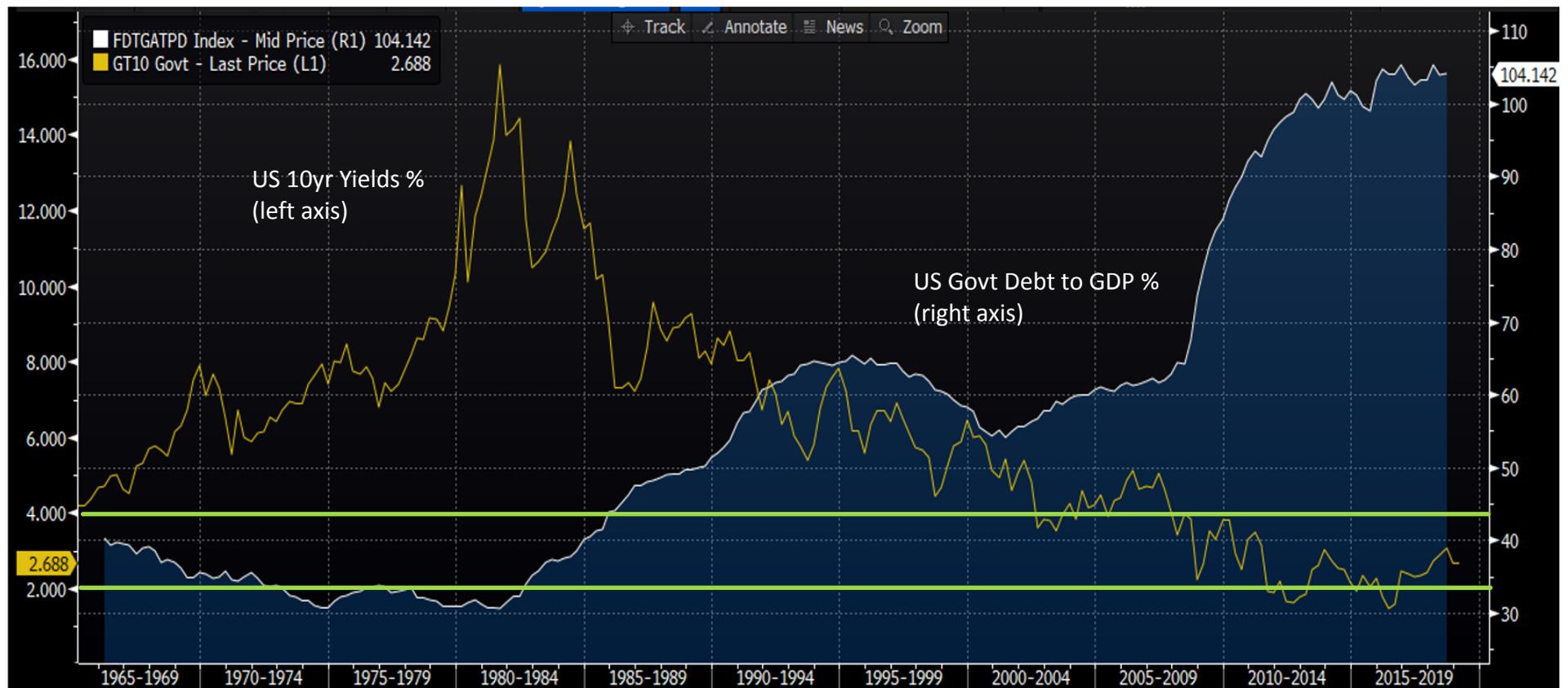
Interest Rate View - Narrower Range

More time between 2-3%

- Increasing global debt starting in the 1980's was and continues to be a driver of global growth, but it also fueled the 2008 financial crisis. Governments and central banks prevented a complete collapse of the financial system by deploying extraordinary measures. Since then the global debt burden has risen exponentially.
- Due to increased global debt levels, we believe it is very difficult for central banks to raise interest rates or tighten financial conditions for long periods of time without negatively impacting the level and pace of growth. This acts as a governor for how high interest rates can ultimately rise.
- On the other hand, increasing supply of debt acts as a governor for how low interest rates can go in the absence of a crisis. Global governments have used expansionary fiscal policies funded with debt to stabilize their economies and to manage the demographic shifts from aging populations, disinflationary impacts of technology, and human impacts from shifting cross-border labor utilization. Furthermore lower interest rates have encouraged corporations to borrow more.
- Human conflict is a consequence that governments must contend with and contributes to uncertainty in the global economic environment.
- Given all these factors, we believe the 10 year Treasury yield will spend substantial amounts of time between 2-3%.

US Government Debt vs 10 Year Treasury Yields

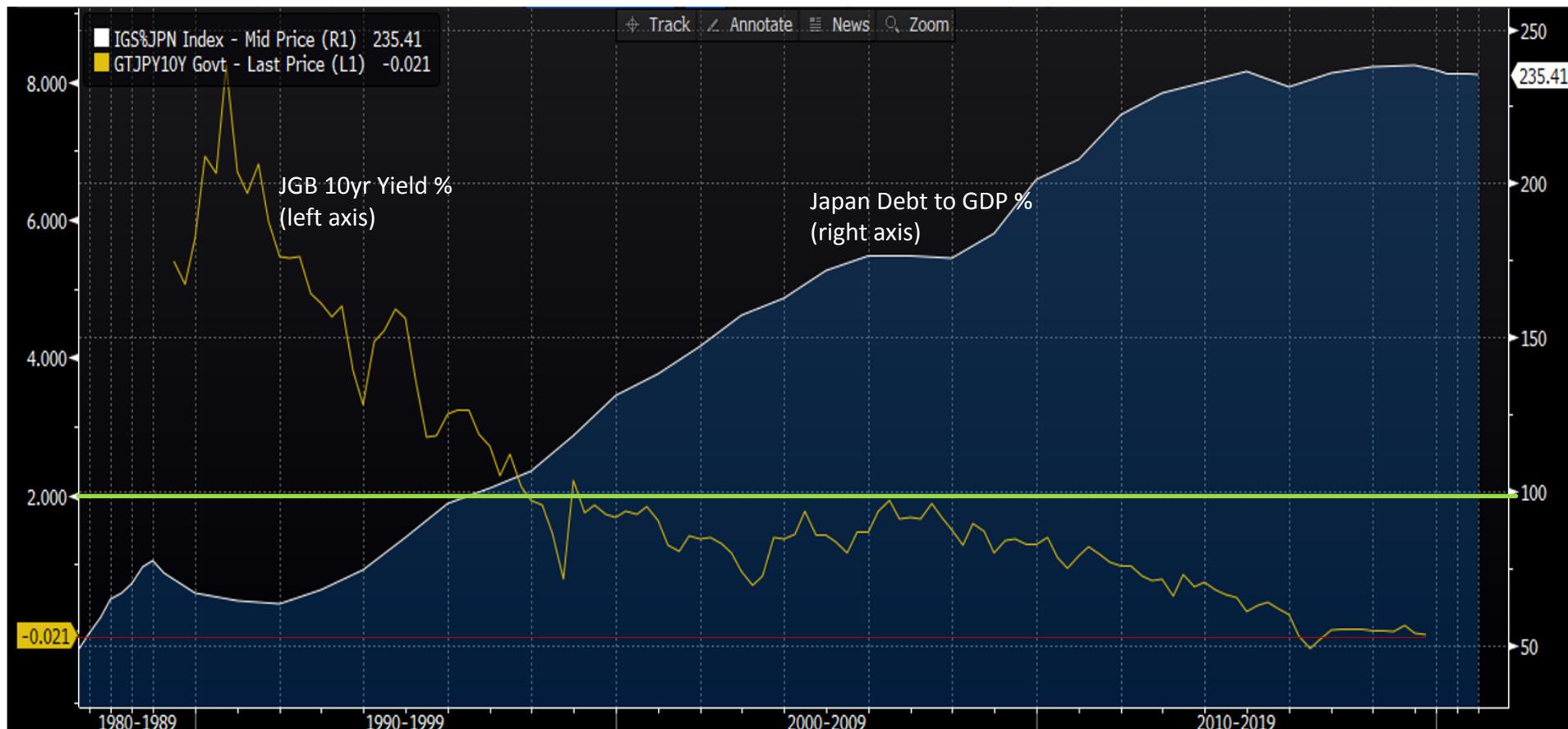
As debt has increased it is difficult for interest rates to rise without having a negative impact on global growth, ultimately putting downward pressure on rates.



Source: Bloomberg

Japan Government Debt % to GDP vs 10 Year Yields

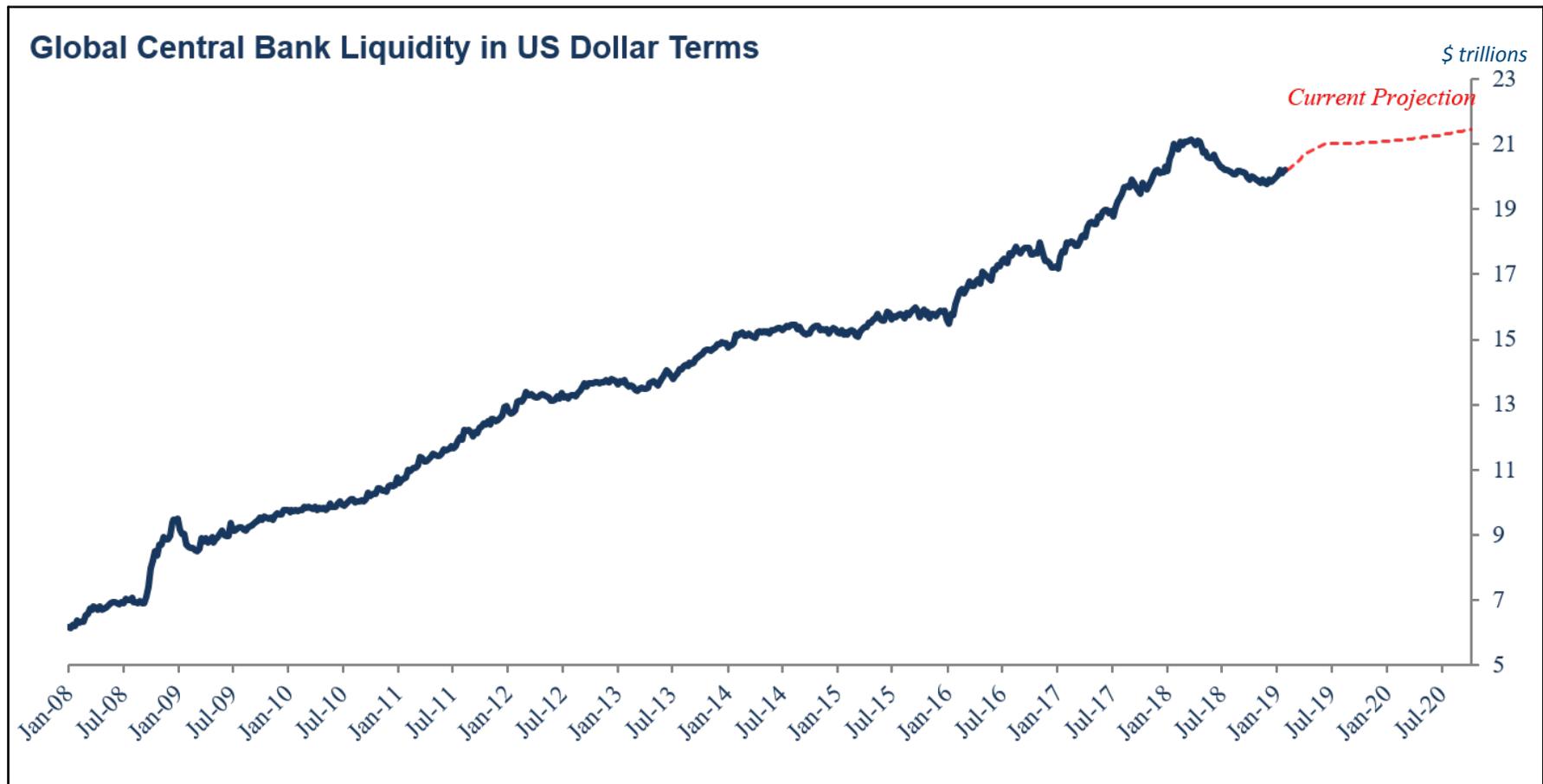
As debt has risen, Japanese 10yr yields have remained below 2% for 20 years



Source: Bloomberg

Central Banks are Key to Asset Price Levels

Rising central bank balance sheets continue to support the spread environment. Since 2008 central banks have added liquidity stimulus via the capital markets through quantitative easing programs.



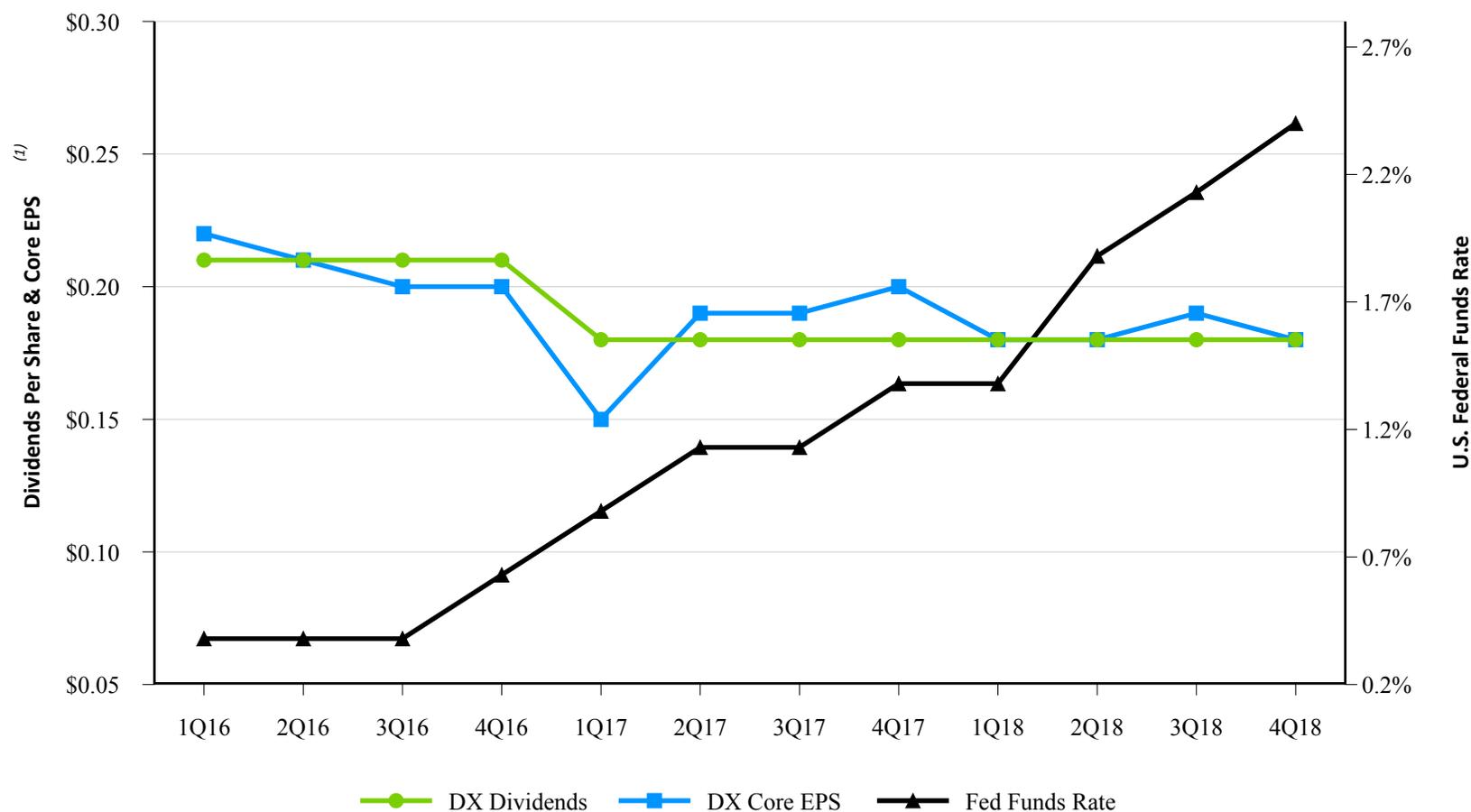
Source: Contingent Macro Advisors, LLC

Government Policy will Continue to Drive Returns

- Rising central bank balance sheets support the spread environment.
 - The fragile global economy is vulnerable to shocks. Bouts of volatility will occur and create opportunity to invest capital. Maintaining liquidity and flexibility will be key to driving returns.
- The Federal Reserve has created a unique situation with the runoff of MBS from their balance sheet, which we believe presents an accretive long-term investment opportunity.
 - While spreads may be volatile in the near term, in the long-term, we believe our macro view supports investing in GSE guaranteed assets that will be an attractive fixed income alternative for a broad group of investors.
- We believe the limitation of the GSEs portfolios by various regulators and potential legislation is likely and will create future opportunities to invest capital.
 - Credit risk transfer in multi-family and single family sectors
 - Other future opportunities from changing GSE footprint

Solid Cash Flows in a Fed Tightening Environment

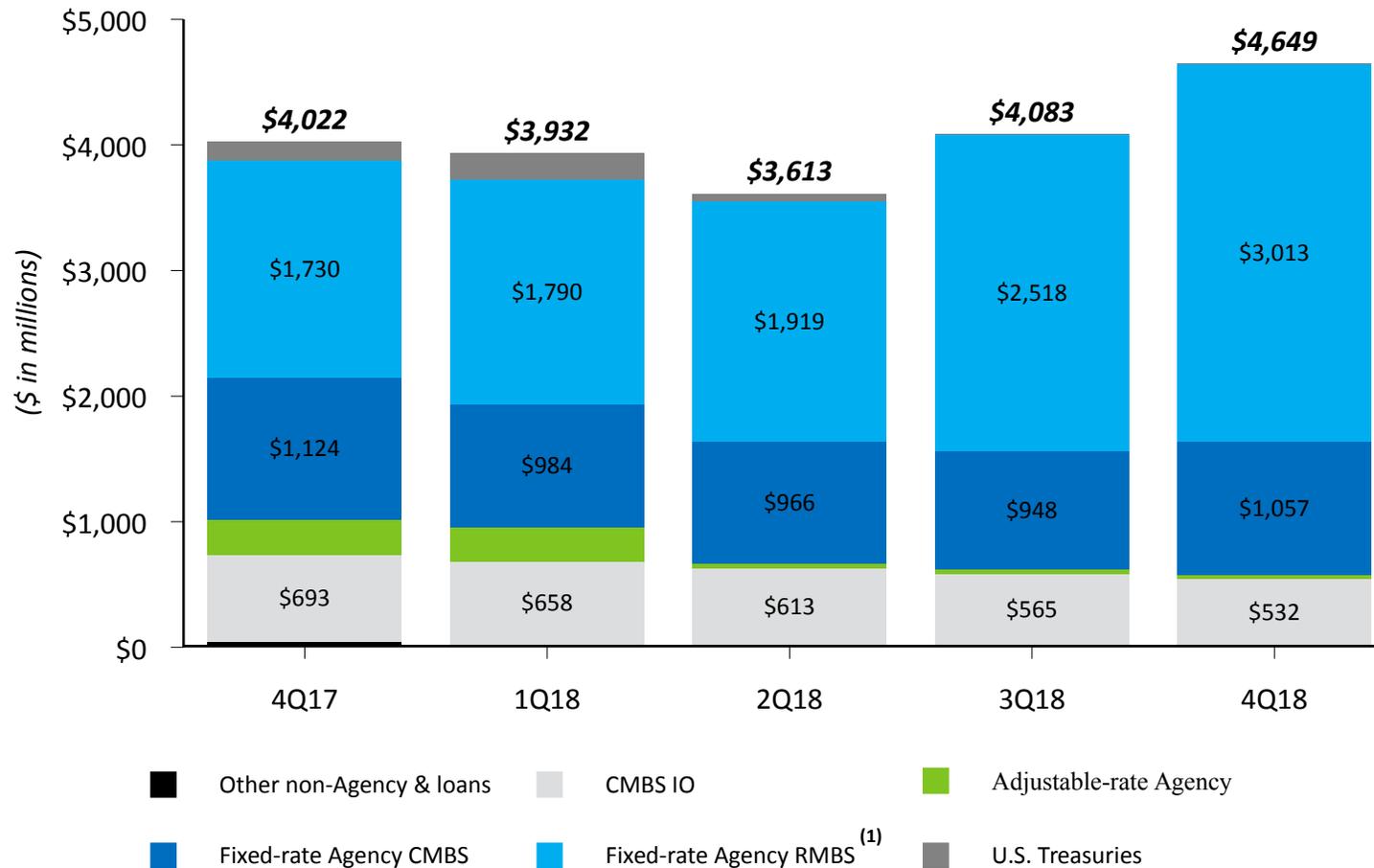
Dividends Per Share vs. Core EPS⁽¹⁾ vs. Fed Funds Rates



(1) Core net operating income to common shareholders on a per share basis. Reconciliations for non-GAAP measures are presented on slide 29.

Portfolio Construction

Emphasizing Higher Liquidity, Credit Quality, and Flexibility



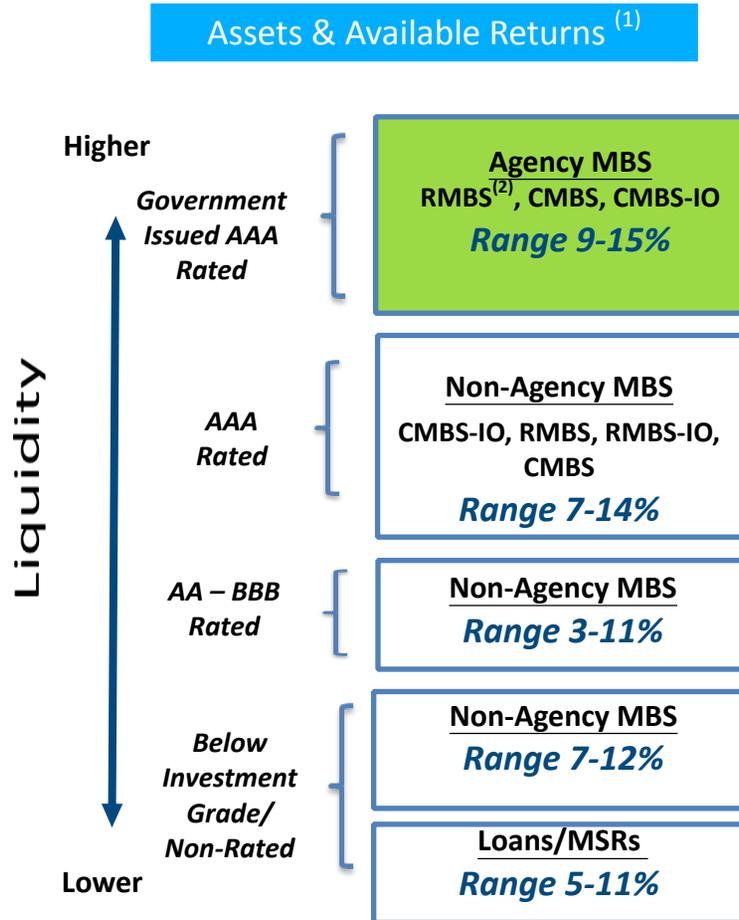
(1) Includes 30-year fixed-rate specified pools and TBAs on an if-settled basis.

Return Environment

- We have transitioned from an environment with some headwinds for our business to one where opportunities exist to invest capital at long term accretive returns and execute on our diversified investment strategy.
- Asset pricing is more favorable as the volatile environment has left credit spreads across fixed income near the widest level in 2 years.
- Financing cost trends appear more favorable compared to the last two years of rising financing costs from Fed tightening, as financing costs are now expected to stabilize and could turn lower.
- High quality assets currently offer the highest relative levered investment returns - a condition that is not often observed in fixed income markets and creates a unique investment opportunity.
- Agency CMBS are currently an attractive asset class, offering levered ROE⁽¹⁾ in the 12-15% range. This sector offers the added benefit of rolldown - as the asset seasons, the pricing reflects the shorter time to maturity, offering a cushion against temporary spread widening and a pathway to book value recovery. We expect to be long term investors in this sector - with opportunistic timing of purchases and long holding periods.
- Agency RMBS also offer levered ROE in the 10-15%⁽¹⁾ range, depending on the coupon. We bear the risk of shifting prepayments in this sector, causing pricing to be more sensitive to changes in interest rates. While we believe mid-teens returns to be long term accretive, we expect to be more opportunistic, with a strategy that reflects risk and value in the sector.

⁽¹⁾ Range of levered returns based on Company assumptions and calculations

Return Environment *(as of December 31, 2018)*



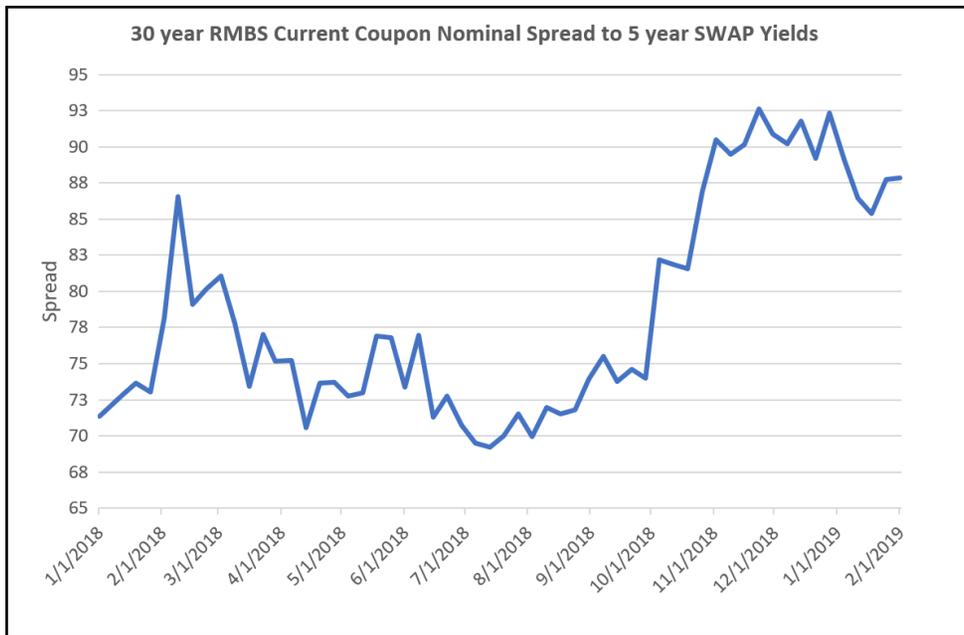
Agency CMBS and RMBS offer attractive returns

- We believe the most compelling levered risk-adjusted returns today are offered by the highest credit quality and the most liquid assets.
- With the recent widening, Agency CMBS are an attractive long term investment due to the prepayment protection, stable cash flow and roll down.
- Agency RMBS offer attractive returns as the Federal Reserve reduces its investment in this sector - we expect to be opportunistic in this sector.

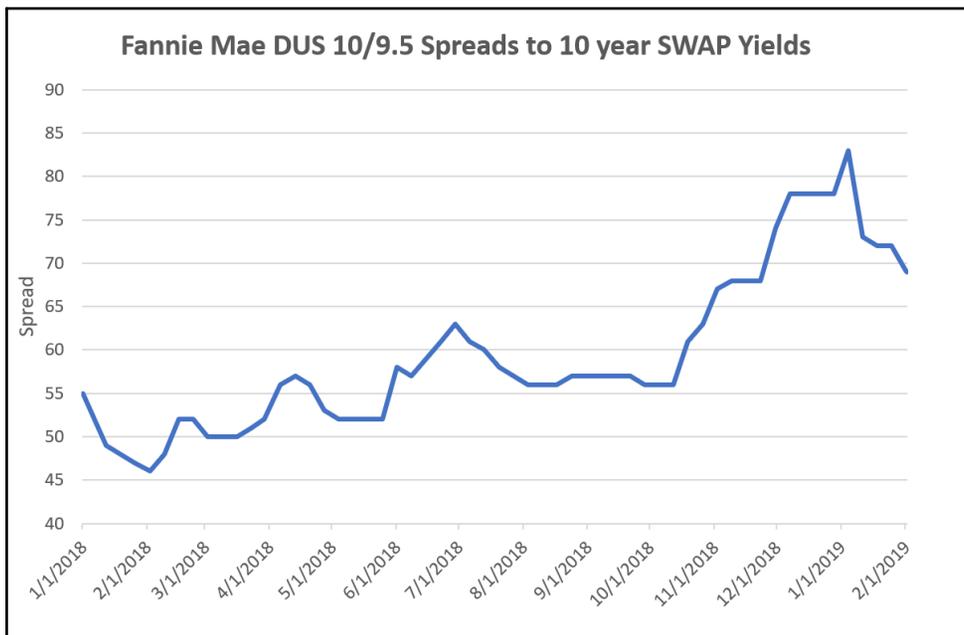
⁽¹⁾ Range of levered returns based on Company assumptions and calculations

⁽²⁾ Includes specified pool and TBA

Capital Raise Opportunity



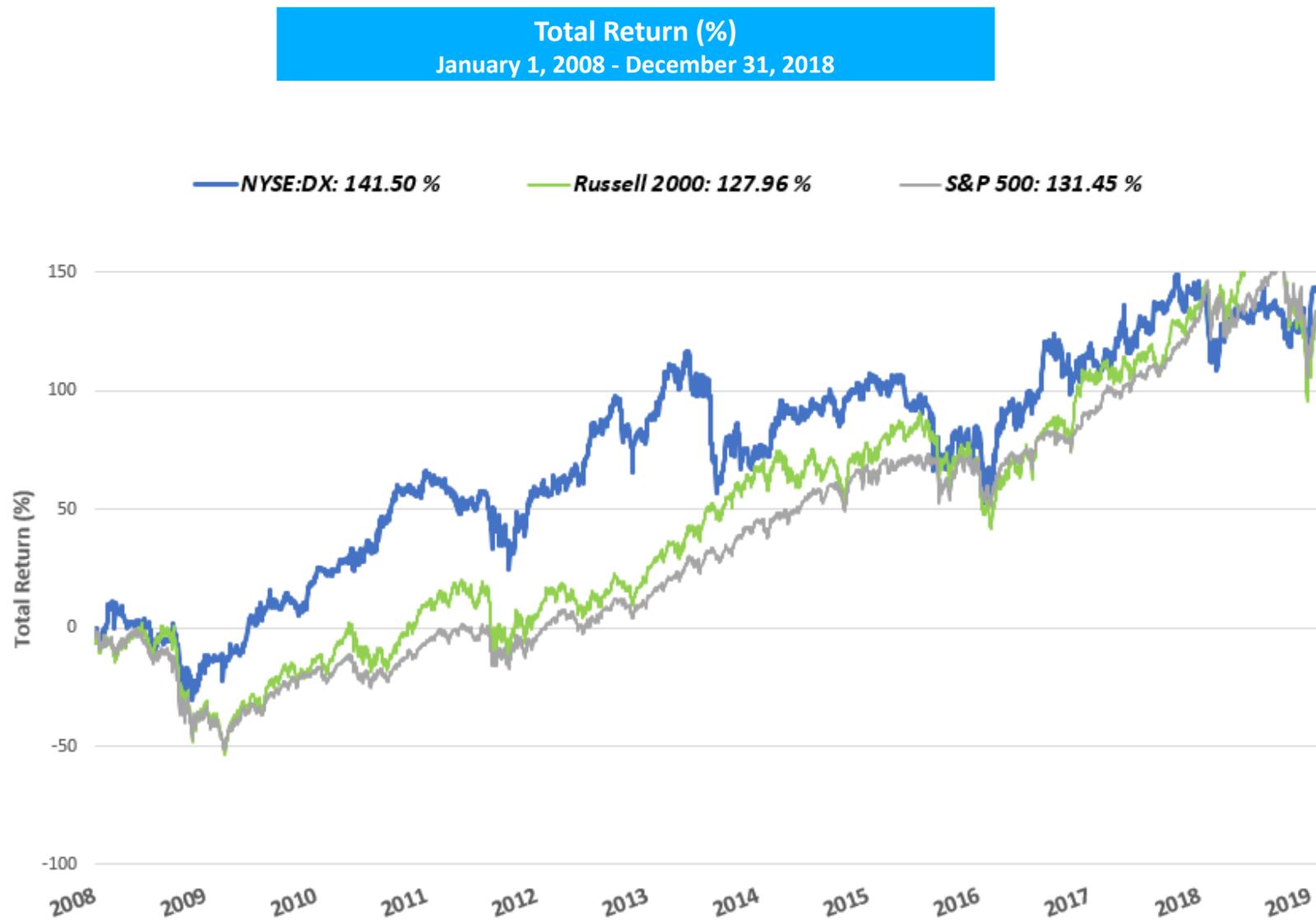
- As we saw returns move to long term accretive levels in the fourth quarter, we responded by making investments with existing capital and liquidity, growing the balance sheet late in the fourth quarter.
- In January 2019, we raised capital, to further take advantage of the improved return environment.
- We expect these actions to support our earnings and offer the opportunity to improve book value if spreads tighten.



Favorable Long-Term Investment Trends

- Substantial global demand for cash yield should support demand for mortgage REIT stocks:
 - Aging global population
 - Negative to low yields globally
- Expanding investment opportunities from growing RMBS/CMBS supply:
 - Need for private capital to replace government balance sheets
 - Favorable U.S. demographic trends driving household formation/housing demand
- Potential greater returns on investments in the future:
 - Better risk premiums as Federal Reserve reduces its footprint
 - Less competition from GSEs for assets if they are reformed
 - Anticipated lower regulatory costs over the long-term
 - Stable or lower financing costs in a Fed pause/ease scenario

Attractive Returns over the Long-Term



Source: SNL Financial (assumes dividends reinvested)

Market Snapshot

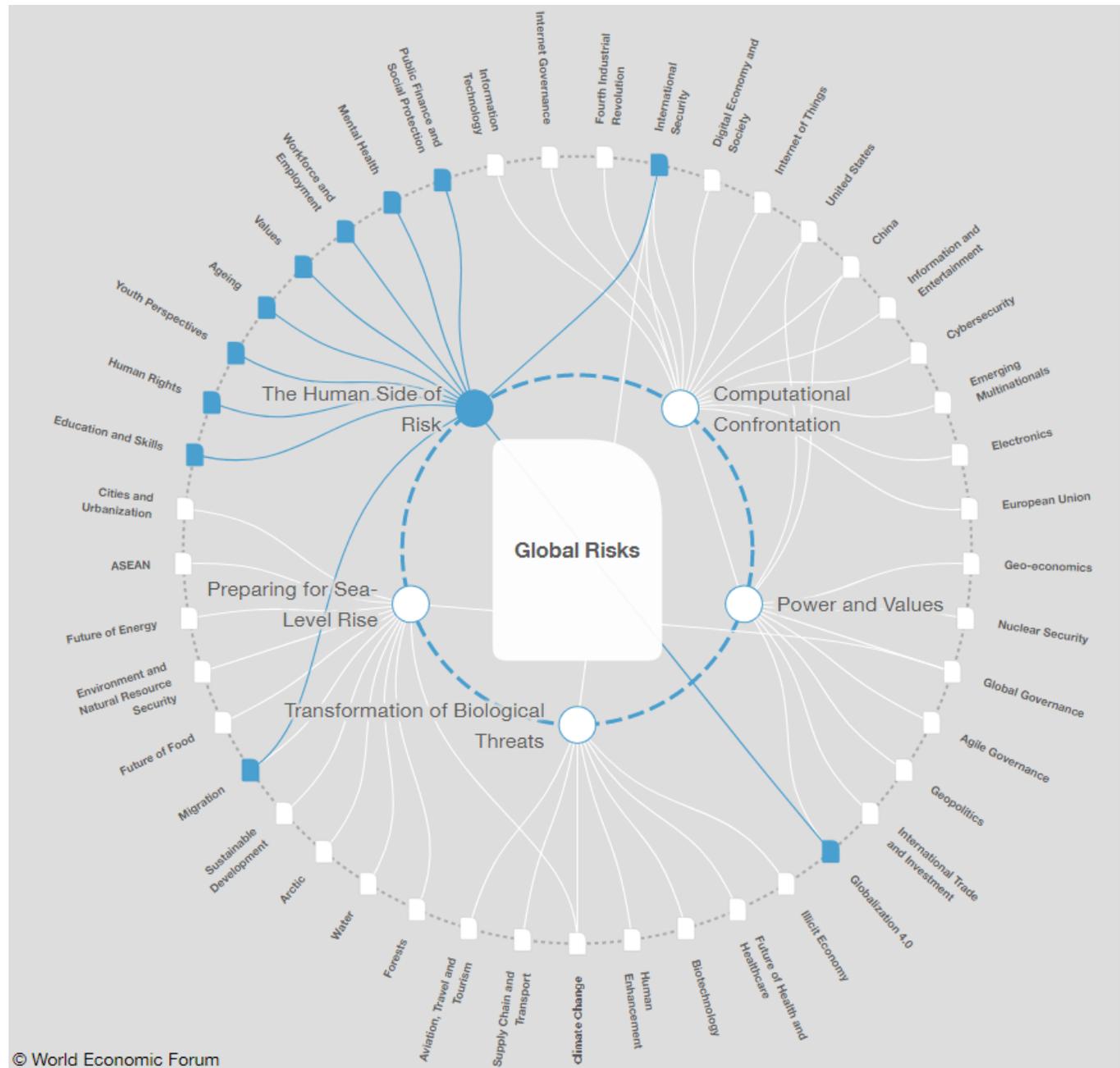
	As of December 31, 2018		
	Common Stock	Preferred Stocks	
NYSE Ticker:	<i>DX</i>	<i>DXPrA</i>	<i>DXPrB</i>
Shares Outstanding (<i>in millions</i>): (as of 12/31/2018)	62.8	2.3	3.7
4Q18 Dividends per share:	\$0.18	\$0.53125	\$0.4765625
Annualized Dividend Yield: (based on 12/31/2018 stock price)	12.59%	8.48%	8.27%
Share Price: (as of 12/31/2018)	\$5.72	\$25.06	\$23.05
Market Capitalization (<i>in millions</i>): (based on 12/31/2018 shares outstanding and stock price)	\$359.31	\$57.64	\$84.24
Price to Book: (based on 12/31/2018 book value and stock price)	95.0%	-	-



Supplemental Information

Global Risks Are Intensifying

According to the 2019 World Economic Forum's Global Risks Report, global risks - of events or conditions that may cause serious problems for entire countries or industries in the coming decade - are intensifying. Yet, the collective will to tackle them appears to be lacking. Instead, divisions are hardening. The idea of taking back control, either from domestic political rivals or from international organizations, is resonating in many countries. That is because while globalization has brought with it great prosperity, it has also led to pronounced inequality.



Negative Yielding Global Debt

\$9trn bonds globally trade at negative interest rates



Source: Bloomberg Finance LP, DB Global Research

Deutsche Bank Research

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Appropriate Leverage on Highly Liquid Assets

- Liquid assets offer tremendous flexibility to respond to market shocks by being able to quickly adjust the size of our balance sheet.
 - Agency RMBS TBA securities have a low bid-offer spread and can be traded in block size of \$500mm to \$1 billion with low market impact
 - Agency CMBS and pools can be traded with bid-lists and have wide participation across fixed income investors and dealers
- *"After 10 years of concentrated effort in the public and private sectors, the system is now much stronger, with greater capacity to function effectively in stressful times."*
 - Jerome Powell November 28, 2018 speech on financial stability
- Financial regulators have strengthened repo market infrastructure for liquid assets to provide enhanced durability of financing versus 5 and 10 years ago
 - More capital in the financial system as regulators forced banks to reduce leverage, hold more capital, increase liquidity on the balance sheet.
 - The Federal Reserve is more involved in the securities markets today
 - Global regulators are intensely focused on coordinating to avert another systemic financial collapse.
 - Recent developments like the Capped Contingency Liquidity Facility and intra-day daylight overdraft protections further enhance system durability for liquid assets.

Financial Performance - Comparative Quarters

(\$ in thousands, except per share amounts)	4Q 2018		3Q 2018	
	Income (Expense)	Per Common Share	Income (Expense)	Per Common Share
Interest income	\$32,014	\$0.53	\$26,925	\$0.47
Interest expense	19,053	0.31	14,751	0.26
GAAP net interest income	12,961	0.22	12,174	0.21
TBA drop income ⁽¹⁾	3,072	0.05	4,262	0.07
Net periodic interest benefit of interest rate swaps ⁽¹⁾	1,940	0.03	1,777	0.03
Accretion of de-designated hedges	(75)	—	(66)	—
Adjusted net interest income ⁽²⁾	17,898	0.29	18,147	0.31
Other expenses, net	(566)	—	(409)	—
General and administrative expenses	(3,492)	(0.06)	(3,964)	(0.07)
Preferred stock dividends	(2,963)	(0.05)	(2,956)	(0.05)
Core net operating income to common shareholders ⁽²⁾	10,877	0.18	10,818	0.19
Change in fair value of derivatives ⁽¹⁾	(86,993)	(1.43)	13,460	0.23
Realized loss on sale of investments, net	(5,428)	(0.09)	(1,726)	(0.03)
Accretion of de-designated hedges	75	—	66	—
Fair value adjustments, net	(16)	—	12	—
GAAP net (loss) income to common shareholders	(81,485)	(1.34)	22,630	0.39
Unrealized gain (loss) on MBS	50,129	0.82	(21,848)	(0.38)
Accretion of de-designated hedges	(75)	—	(66)	—
Comprehensive (loss) income to common shareholders	(\$31,431)	(\$0.52)	\$716	\$0.01
WAVG common shares outstanding	60,870		57,727	

(1) TBA drop income, net periodic interest benefit, and change in fair value of derivatives are components of "gain (loss) on derivative instruments, net" reported in the comprehensive income statement.

(2) See reconciliations for non-GAAP measures on slide 29.

Book Value Rollforward

	\$ in '000s	Per Common Share
Common shareholders' equity, September 30, 2018 ⁽¹⁾	\$398,212	\$6.75
GAAP net loss to common shareholders:		
Core net operating income to common ⁽²⁾	10,877	
Realized loss on sale of MBS, net	(5,428)	
Change in fair value of derivatives	(86,993)	
Other	59	
Unrealized net losses on MBS	50,129	
Dividends declared	(11,328)	
Stock transactions ⁽³⁾	22,760	
Common shareholders' equity, December 31, 2018 ⁽¹⁾	\$378,288	\$6.02

(1) Common shareholders' equity represents total shareholders' equity less the liquidation value of preferred stock outstanding as of the date indicated.

(2) Reconciliations for non-GAAP measures are presented on slide 29.

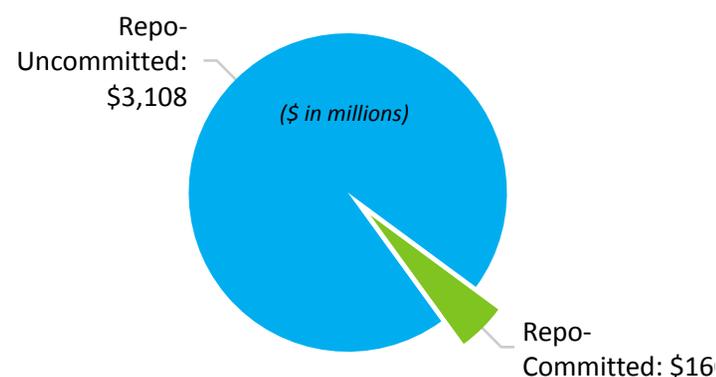
(3) Reflects the impact from the increase in number of common shares outstanding, net of impact from the increase in proceeds recorded in shareholders' equity.

Repo Financing *(as of December 31, 2018)*

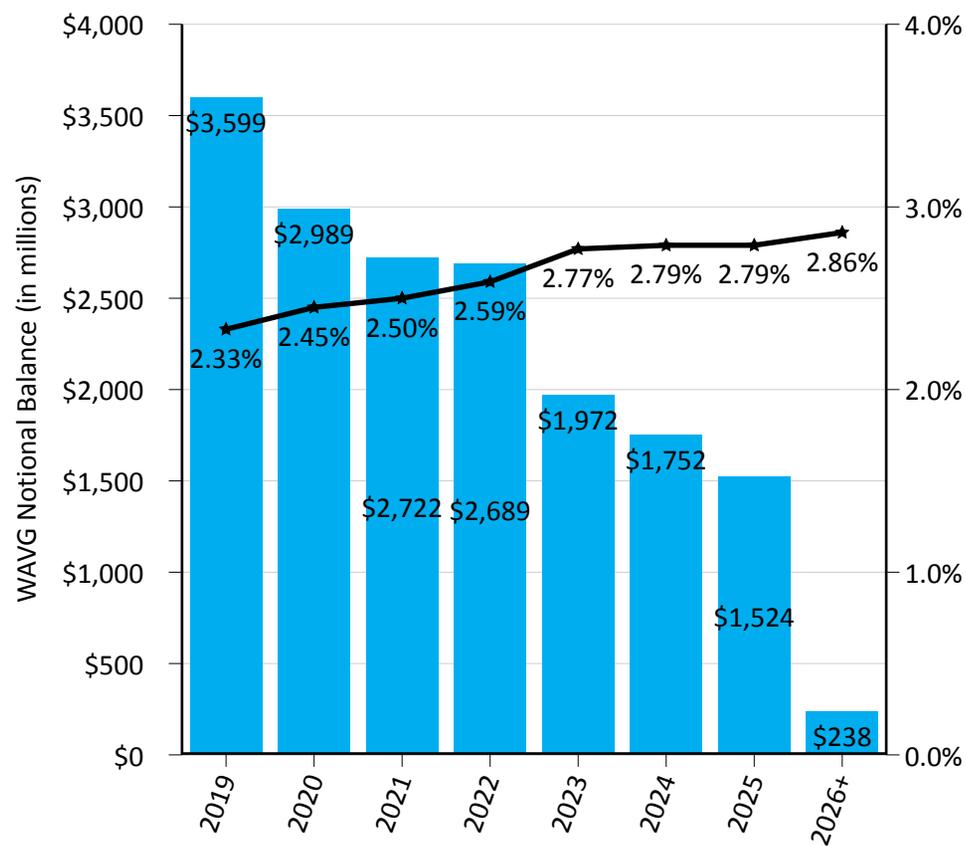
Collateral Type	Balance (\$ in thousands)	Weighted Average Rate	Fair Value of Collateral Pledged (\$ in thousands)
Agency RMBS	\$1,887,878	2.66%	\$1,998,922
Agency CMBS	919,833	2.51%	986,861
Agency CMBS IO	253,258	2.96%	285,247
Non-Agency CMBS IO	207,015	3.38%	240,574
Total	\$3,267,984	2.69%	\$3,511,604

Remaining Term to Maturity	Balance (\$ in thousands)	Percentage	Weighted Average Original Term to Maturity
< 30 days	\$2,319,911	71%	56
30 to 90 days	948,073	29%	89
	\$3,267,984	100%	66

Counterparty by Region (based on outstanding balance)	#	% of all REPO Balances
North America	10	67%
Asia	4	18%
Europe	3	15%
Total	17	100%



Hedge Position *(as of December 31, 2018)*



■ Interest Rate Hedge Notional
—▲ Weighted Average Fixed-Pay Rate, Net

Interest Rate Swaps <i>(\$ in thousands)</i>		
Years to Maturity	Notional Amount ⁽¹⁾	Weighted Average Fixed-Pay Rate, Net
≤ 3 years	\$ 1,410,000	2.02%
>3 and ≤ 6 years	1,380,000	2.15%
>6 and ≤ 10 years	1,505,000	2.80%
>10 years	220,000	2.81%
Total	\$ 4,515,000	2.35%

(1) Includes \$775,000 of forward-starting pay-fixed swaps.

Risk Position - Interest Rates

Changes in interest rates can impact the market value of our investments, net of hedges, and book value per common share. The estimated changes in these values incorporates the levels of duration and convexity inherent in our investment portfolio as it existed at the dates indicated.

Parallel Change in Treasury Yields (bps)	As of December 31, 2018		As of September 30, 2018	
	Change in Market Value of Investments, net	Change in Shareholders' Equity	Change in Market Value of Investments, net	Change in Shareholders' Equity
+100	(1.0)%	(7.3)%	(1.8)%	(11.0)%
+50	(0.2)%	(1.7)%	(0.7)%	(4.5)%
-50	(0.2)%	(1.3)%	0.4%	2.5%
-100	(1.1)%	(7.6)%	0.3%	1.9%

Curve Shift 2 year Treasury (bps)	Curve Shift 10 year Treasury (bps)	As of December 31, 2018		As of September 30, 2018	
		Change in Market Value of Investments, net	Change in Shareholders' Equity	Change in Market Value of Investments, net	Change in Shareholders' Equity
+25	+50	(0.1)%	(0.8)%	(0.6)%	(3.4)%
+25	+0	—%	(0.3)%	(0.2)%	(1.0)%
+50	+25	(0.2)%	(1.1)%	(0.5)%	(3.0)%
+50	+100	(0.8)%	(5.7)%	(1.5)%	(8.9)%
-10	-50	(0.4)%	(2.6)%	0.2%	1.3%

Source: Company models based on modeled option adjusted duration. Includes changes in market value of our investments and derivative instruments, including TBA securities, but excludes changes in market value of our financings because they are not carried at fair value on our balance sheet.

Risk Position - Credit Spreads

Changes in market credit spreads versus our hedges can impact the market value of our investments, net of hedges, and book value per common share. The estimated change in these values incorporates portfolio and hedge characteristics as they existed at the dates indicated.

Parallel Change in Market Credit Spreads	As of December 31, 2018		As of September 30, 2018	
	Change in Market Value of Investments, net	Change in Shareholders' Equity	Change in Market Value of Investments, net	Change in Shareholders' Equity
+25	(1.6)%	(11.2)%	(1.7)%	(10.5)%
-25	1.8%	12.5%	1.6%	9.5%

Source: Company models based on modeled option adjusted duration. Includes changes in market value of our investments and derivative instruments, including TBA securities, but excludes changes in market value of our financings because they are not carried at fair value on our balance sheet. The projections for market value do not assume any change in credit spreads.

Reconciliation of GAAP Measures to Non-GAAP Measures

(\$ in thousands except per share data)

	Quarter Ended				
	12/31/2018	9/30/18	6/30/18	3/31/18	12/31/17
GAAP net (loss) income to common shareholders	(\$81,485)	\$22,630	\$12,710	\$41,367	\$19,053
Adjustments:					
Accretion of de-designated cash flow hedges ⁽¹⁾	(75)	(66)	(48)	(48)	(48)
Change in fair value of derivatives instruments, net ⁽²⁾	86,993	(13,460)	(14,715)	(34,841)	(9,072)
Loss on sale of investments, net	5,428	1,726	12,444	3,775	902
Fair value adjustments, net	16	(12)	(27)	(29)	(12)
Core net operating income to common shareholders	\$10,877	\$10,818	\$10,364	\$10,224	\$10,823
Core net operating income per common share	\$0.18	\$0.19	\$0.18	\$0.18	\$0.20

	Quarter Ended				
	12/31/2018	9/30/18	6/30/18	3/31/18	12/31/17
GAAP net interest income	\$12,961	\$12,174	\$11,747	\$13,595	\$14,068
Add: TBA drop income	3,072	4,262	3,619	3,733	3,925
Add: net periodic interest benefit (cost) ⁽³⁾	1,940	1,777	2,333	(220)	(319)
Less: de-designated hedge accretion ⁽¹⁾	(75)	(66)	(48)	(48)	(48)
Non-GAAP adjusted net interest income	\$17,898	\$18,147	\$17,651	\$17,060	\$17,626
GAAP interest expense	\$19,053	\$14,751	\$14,175	\$11,595	\$10,056
Add: net periodic interest (benefit) cost ⁽³⁾	(1,940)	(1,777)	(2,333)	220	319
Less: de-designated hedge accretion ⁽¹⁾	75	66	48	48	48
Non-GAAP adjusted interest expense	\$17,188	\$13,040	\$11,890	\$11,863	\$10,423

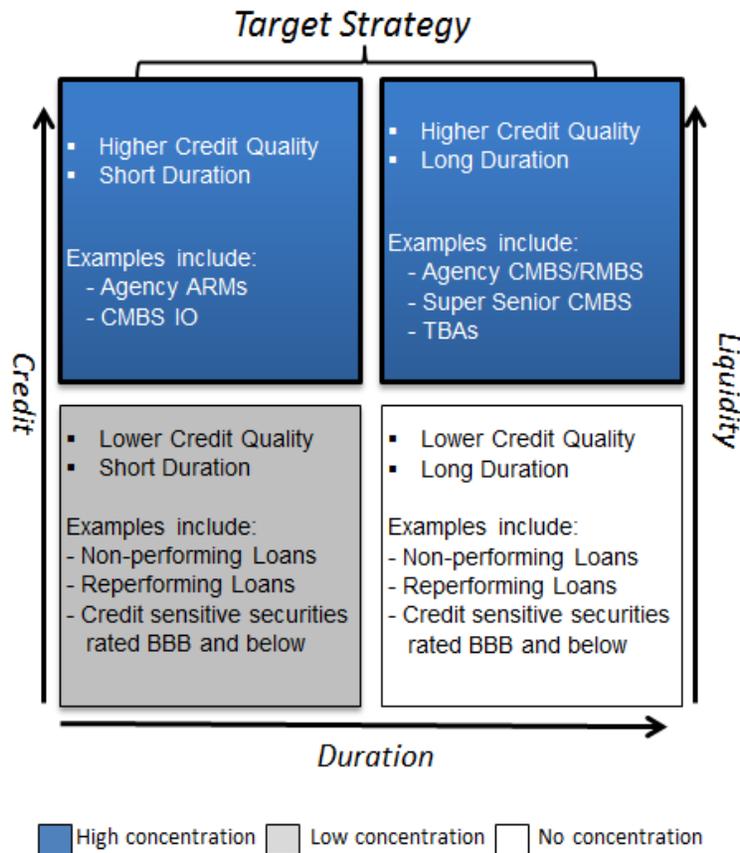
(1) Amount recorded as a portion of "interest expense" in accordance with GAAP related to the accretion of the balance remaining in accumulated other comprehensive income as a result of the Company's discontinuation of cash flow hedge accounting effective June 30, 2013.

(2) Amount represents net realized and unrealized gains and losses on derivatives and excludes net periodic interest costs related to these instruments.

(3) Amount represents net periodic interest benefit (cost) of effective interest rate swaps outstanding during the period and exclude termination costs and changes in fair value of derivative instruments.

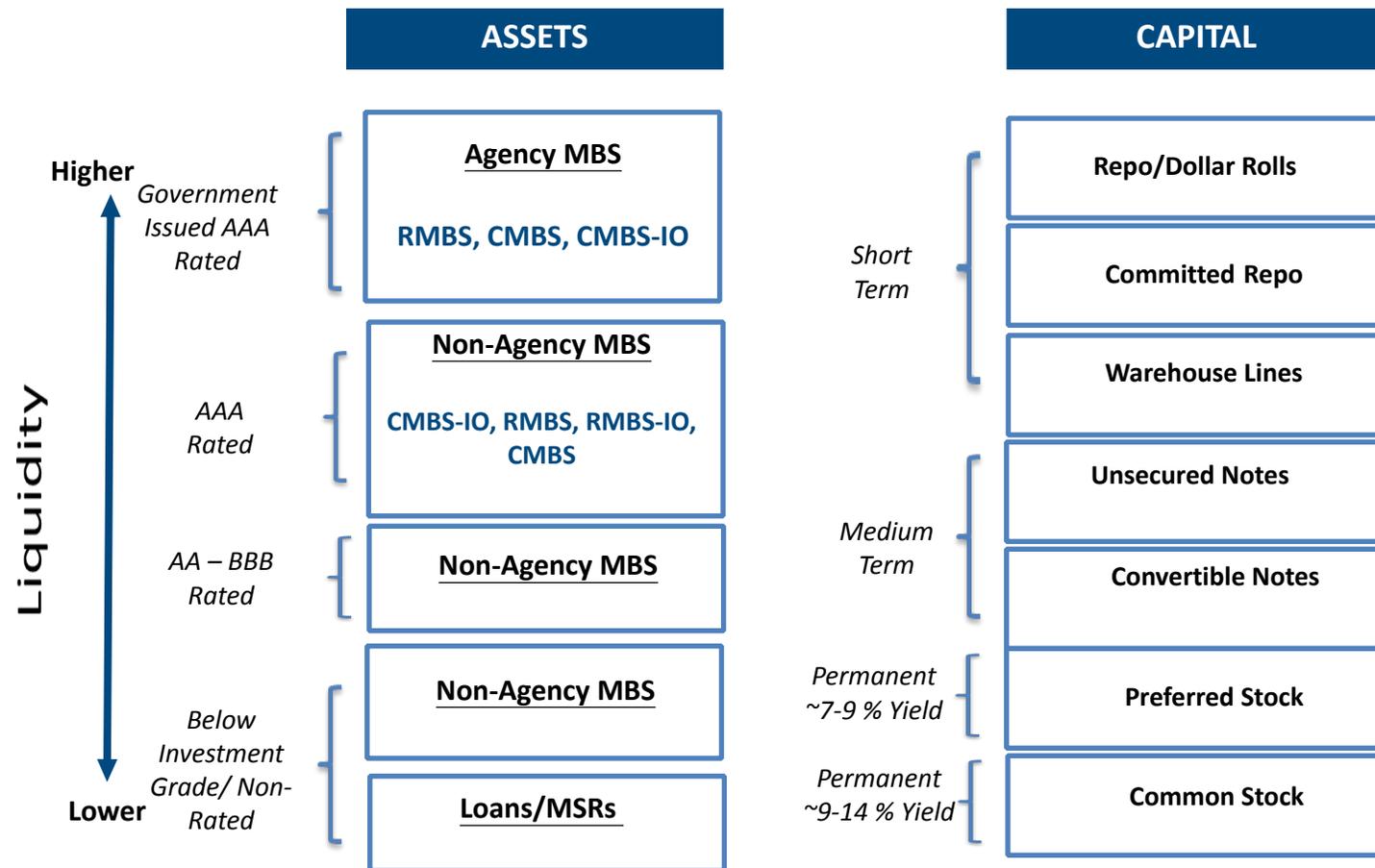
Investment Strategy

Diversified investment approach that performs in a variety of market environments



- Dynamic and disciplined capital allocation model enables capturing long-term value
- Invest in a high quality, liquid asset portfolio of primarily Agency investments
- Diversification is a key benefit
 - Balance between commercial and residential sectors provides diversified cash flow and prepayment profile
 - Agency CMBS protect the portfolio from extension risk. High quality CMBS IO add yield and are intended to limit credit exposure and prepayment volatility vs. lower rated tranches
 - Agency fixed rate RMBS will allow us to grow our balance sheet opportunistically
- Flexible portfolio duration position to reflect changing market conditions

Mortgage REIT Business Model



MREIT Glossary of Terms

Commercial Mortgage-Backed Securities (CMBS) are a type of mortgage-backed security that is secured by the mortgage on a commercial property. CMBS can be Agency issued and issued by a private enterprise (non-Agency).

Credit Risk is the risk of loss of principal or interest stemming from a borrower's failure to repay a loan.

Curve Twist Terms:

Bull Flattener: Is a rate environment in which long-term interest rates are declining faster than short-term interest rates.

Bear Flattener: Is a yield-rate environment in which short-term interest rates are rising faster rate than long-term interest rates.

Bear Steepener: Is a rate environment in which long-term interest rates are rising faster than short-term interest rates.

Bull Steepener: Is a rate environment in which short-term interest rates are declining faster than long-term interest rates.

Duration is a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years.

Duration Drift is a measure of the change in duration for a change in interest rates

Interest Only Securities (IOs) are securities backed by a portion of the excess interest of a securitization and sold individually from the principal component.

Interest Rate Risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, the shape of the yield curve or in any other interest rate relationship. Interest rate risk can also manifest itself through the purchase of fixed rate instruments funded with floating rate, or very short maturity, instruments.

Leverage is the use of borrowed money to finance assets including TBA dollar rolls.

Prepayment Risk is the risk associated with the early unscheduled return of principal.

MREIT Glossary of Terms

Repurchase Agreements are a short-term borrowing that uses loans or securities as collateral. The lender advances only a portion of the value of the asset (the advance rate). The inverse of the advance rate is the equity contribution of the borrower (the haircut).

Residential Mortgage-Backed Securities (RMBS) are a type of mortgage-backed debt obligation whose cash flows come from residential debt, such as mortgages, home-equity loans and subprime mortgages. Each security is typically backed by a pool of mortgage loans created by US government agencies, banks, or other financial institutions. RMBS can be Agency issued or issued by a private enterprise (non-Agency).

Spread Risk is the potential price volatility resulting from the expansion and contraction of the security's risk premium over a benchmark (or risk-free) interest rate.

TBA Dollar Roll is a financing mechanism for long positions in TBAs whereby an investor enters into an offsetting short position and simultaneously enters into an identical TBA with a later settlement date.

To Be Announced (TBA) Securities are forward contracts involving the purchase or sale of non-specified Agency RMBS or CMBS.

