DYNEX CAPITAL INC.

First Quarter 2019 Earnings Presentation

May 1, 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, 2018 and subsequent filings with the Securities and Exchange Commission, particularly those set forth under the caption "Risk Factors".

First Quarter 2019 Highlights

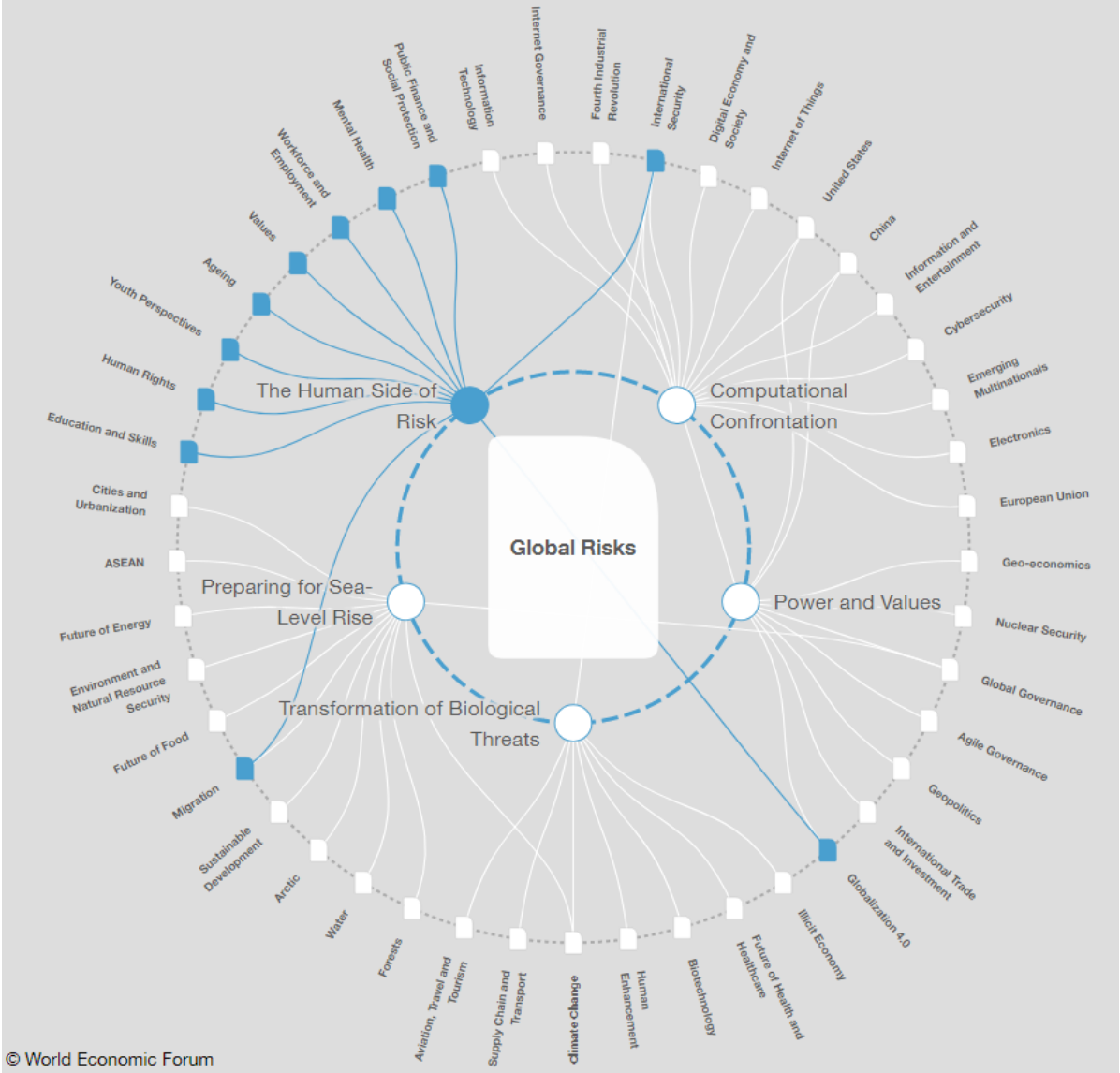
- Comprehensive income of $0.46 per common share and GAAP net loss of $(0.81) per common share
- Core net operating income[(1)] of $0.18 per common share
- Book value per common share increased $0.22 per share, or 3.7%, to $6.24 at March 31, 2019 compared to $6.02 at December 31, 2018
- Net interest spread and adjusted net interest spread of 0.84% and 1.19%, respectively, for the first quarter of 2019, a decline compared to 0.93% and 1.24%, respectively, for the fourth quarter of 2018 primarily due to lower TBA dollar roll income and the tighter spread between 3-month LIBOR and repo rates
- Leverage[(2)] including TBA dollar roll positions increased to 8.5x shareholders' equity at March 31, 2019 compared to 8.0x at December 31, 2018

(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.

"Global Risks Are Intensifying" World Economic Forum Global Risk Report 2019

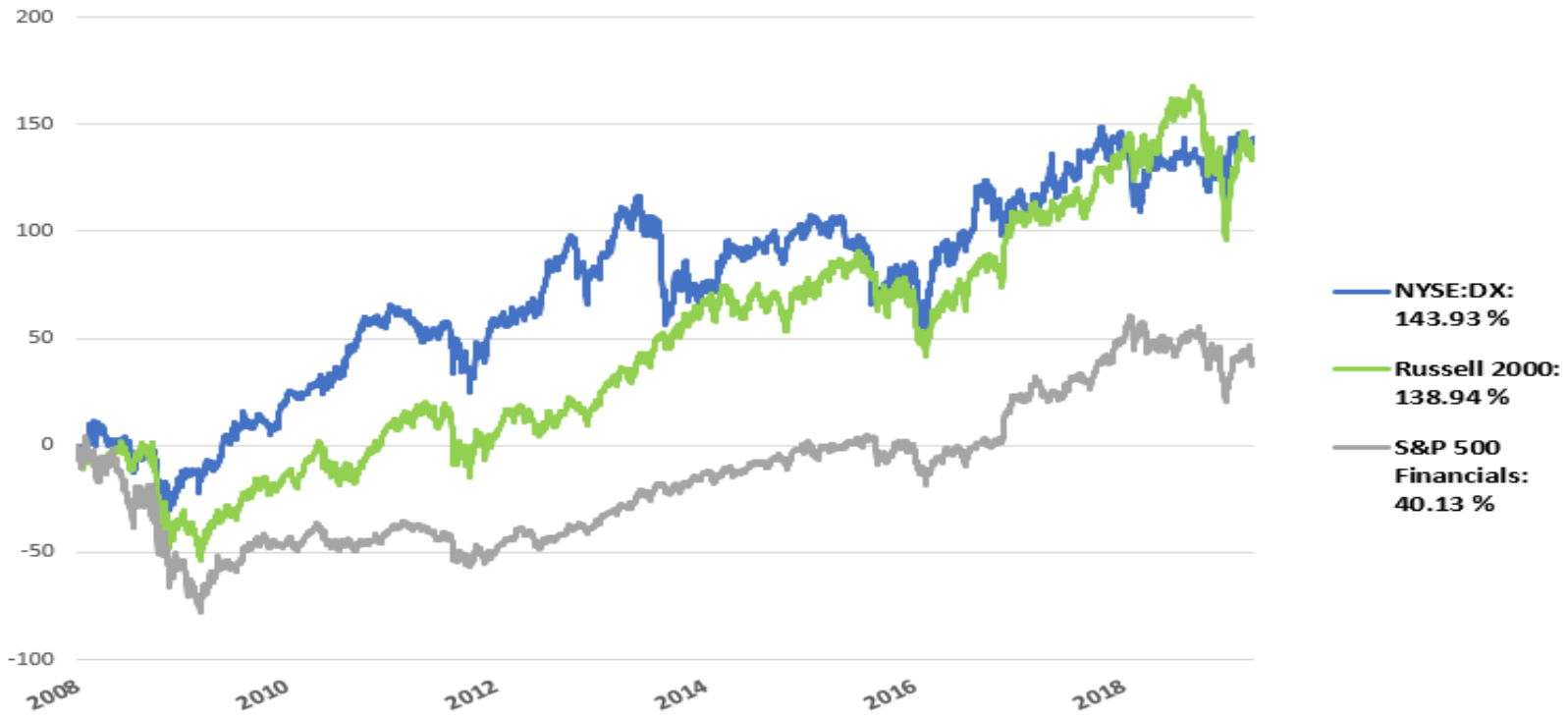
According to the 2019 World Economic Forum's Global Risks Report...

"The world is facing a growing number of complex and interconnected challenges-from slowing global growth and persistent economic inequality to climate change, geopolitical tensions and the accelerating pace of the Fourth Industrial Revolution."



U.S. Real Estate Assets Provide Attractive Returns

- In a world of growing uncertainty and intensifying global risk, we at Dynex believe that generating cash income from United States real estate related assets and the United States housing finance system is the most attractive investment in global capital markets today.
- In our opinion, the optimal portfolio for the environment is a diversified pool of highly liquid mortgage investments with minimal credit risk.
- Given our view of the environment, we believe long-term investors should seek and favor experienced management teams and Dynex brings significant experience and expertise in managing securitized real estate assets through multiple economic cycles.
- Investors should focus on the long-term total returns of mortgage REITs and the power of dividends over time.



Key Takeaways

- We are in a low return environment characterized by interest rates that will spend more time in a narrower range than in recent history, large global pools of negative yielding debt, and a global economy still needing the continued support of central banks.
  - In the context of this view, we believe that investment returns from high quality assets with stable funding such as those in our portfolio offer a compelling opportunity for shareholders
- In the near term, the following factors may be a headwind to earnings and dividend coverage:
  - Basis between 3-month LIBOR and short-term repo rates: repo rates remain elevated due to the Fed's pause at 2.5% on Fed Funds as well as certain technical factors which we anticipate may resolve themselves by 4Q 2019. As the portfolio is structured today, any change in the Fed's policy towards an ease in 2020 will offset the headwind to earnings
  - Short-term prepayment speeds that could rise due to seasonal factors and the temporary drop in mortgage rates
  - Refinancing incentive is a key driver of unexpected rises in prepayments. While we have structured our portfolio to minimize refinancing incentive exposure, we anticipate an increase in prepayments. A healthy level of cash-out refinancing is already factored into our prepayment expectations
- We have observed that historically, flat or inverted yield curves resolve themselves within a 6-9 month period to a steeper yield curve. We believe the current environment will evolve in a manner over the intermediate term that ultimately supports higher net interest spreads.

Key Takeaways

- Long-term factors that continue to support 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.
  - 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.
- Given our view of the environment, we believe long term investors should seek and favor experienced management teams. Dynex brings significant experience and expertise in managing securitized real estate assets through multiple economic cycles.
- In our opinion, the optimal portfolio for the environment is a diversified pool of highly liquid mortgage investments with minimal credit risk.
- At Dynex we believe dividends are, and will continue to be a key driver of long term total returns for equity holders.

Macro Economic Themes

Fragile Economic Growth and Low Inflation

- 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 reversed their course towards quantitative tightening. 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.
- These factors amongst others have led to slowing global growth and inflation below central bank targets.

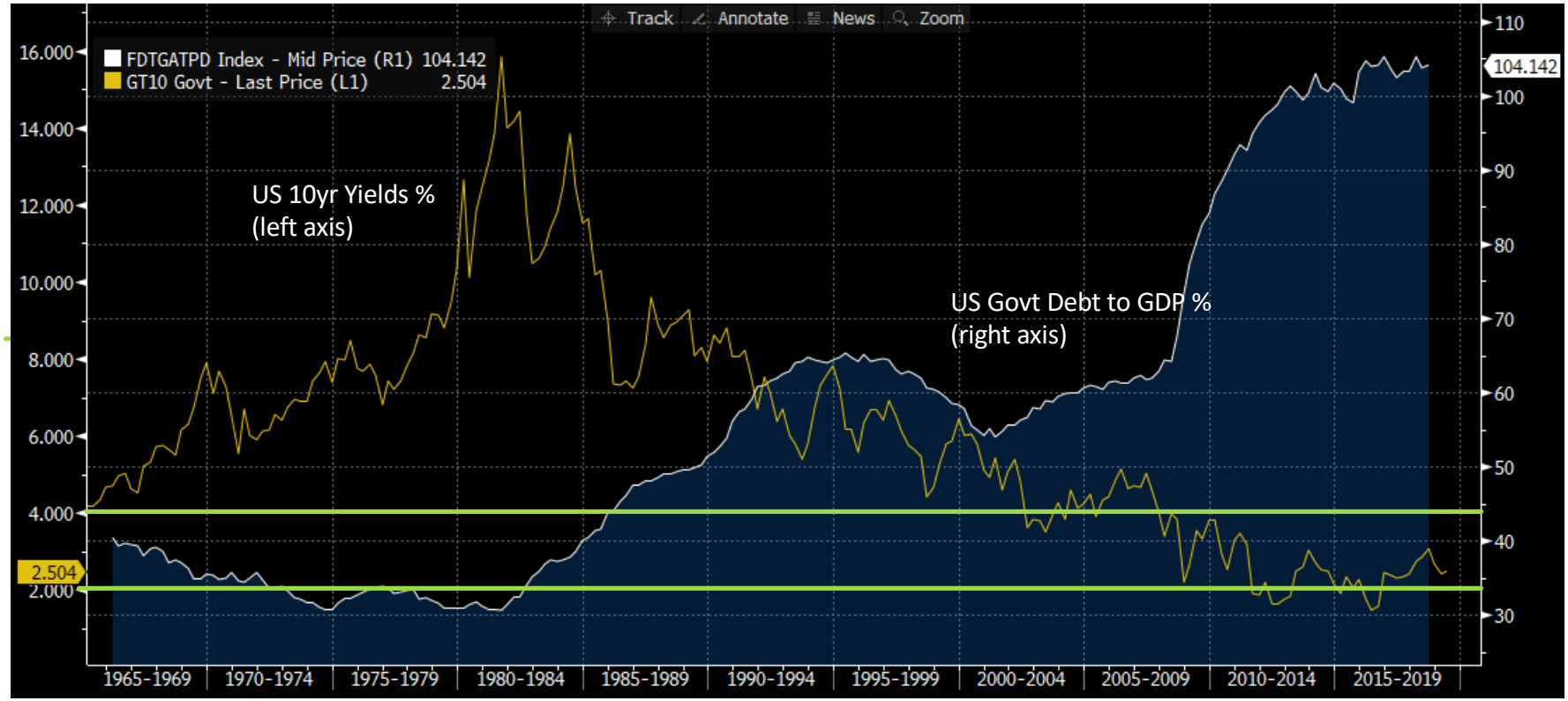
Interest Rate View - Narrower Range

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

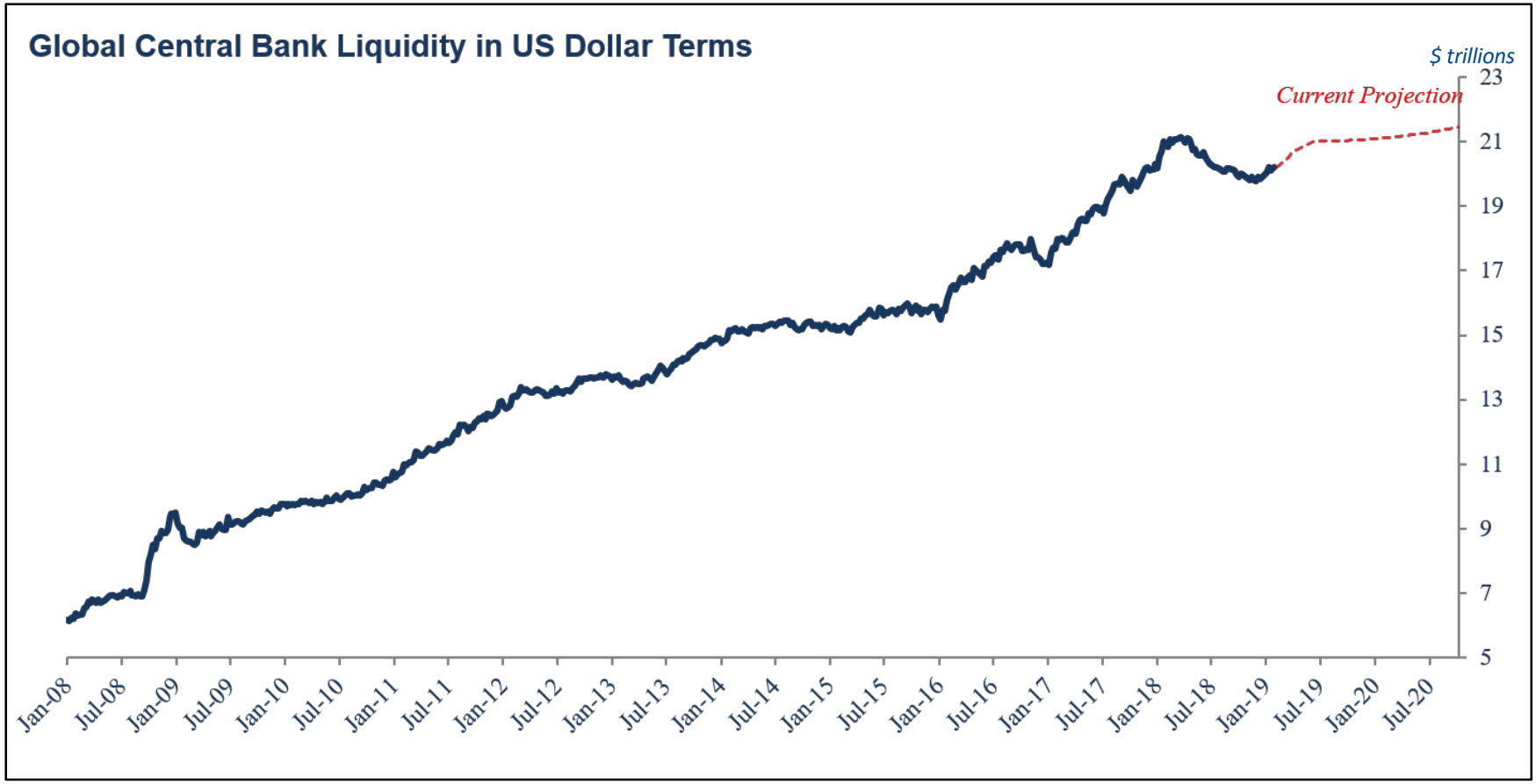
As debt has increased it is difficult for interest rates to rise without having a negative impact on global growth, ultimately putting downward pressure on rates.



Source: Bloomberg

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.

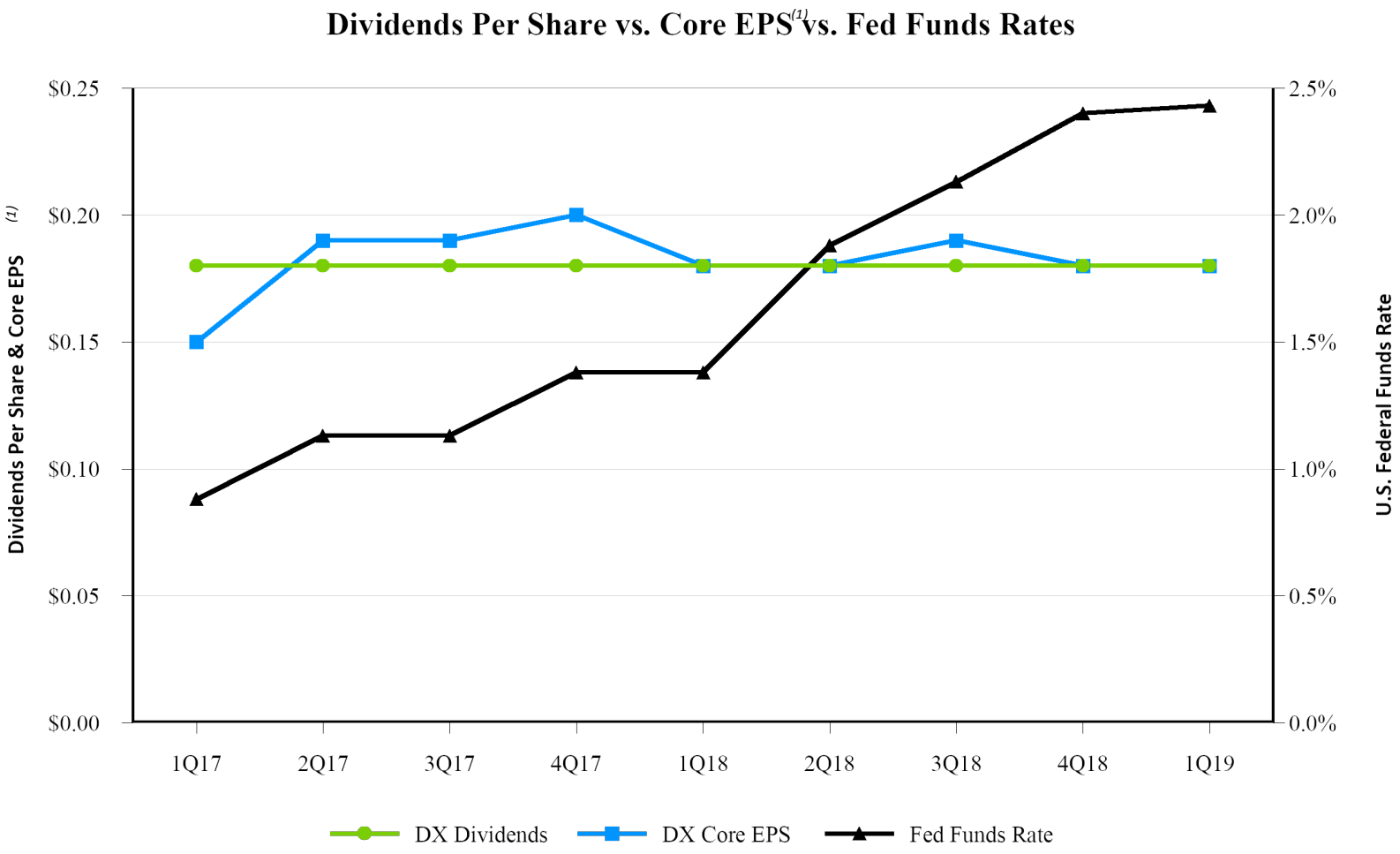


Source: Contingent Macro Advisors, LLC

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

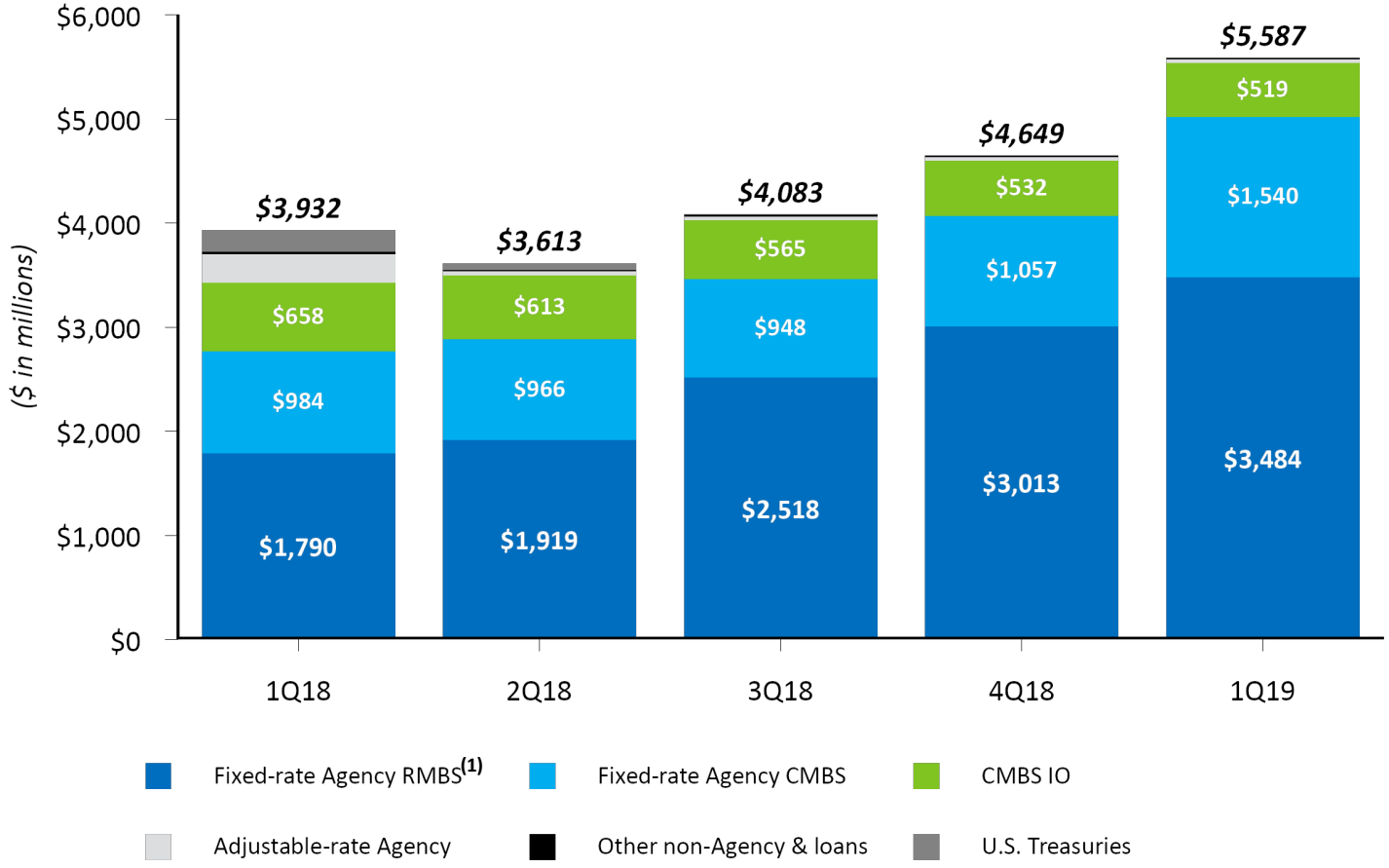
Solid Cash Flows in a Fed Tightening Environment



(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.

Portfolio Construction

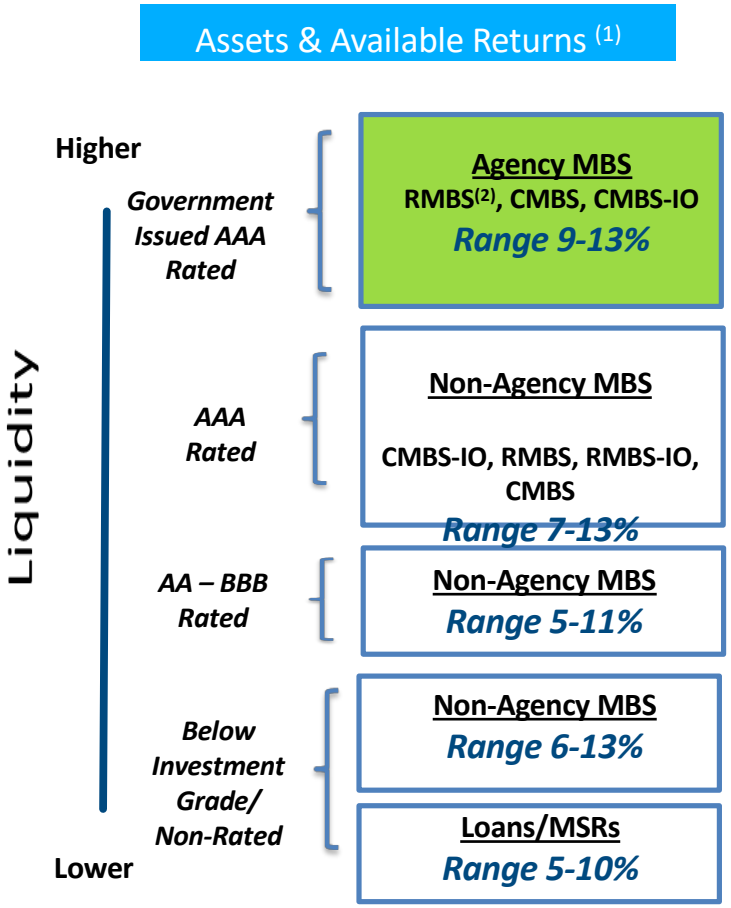
- We have a diversified portfolio across residential and commercial agency securities. We have benefited from this diversification for multiple years.
  - Over time, the mix of CMBS and RMBS investments has reduced the negative impact of prepayments on our portfolio returns.
  - Agency CMBS acts as a cushion in the event of unexpected moves up or down in the level of interest rates
  - High quality CMBS IO are shorter duration, add yield and are intended to limit portfolio volatility
- 90% of our Agency 30 year RMBS fixed rate portfolio has prepayment protection in the form of loan characteristics that limit the incentive to refinance (low balances, high LTV, or geography specific or low weighted average note rates).
- We anticipate continuing to opportunistically increase leverage in our high quality asset portfolio, given the funding environment as well as the marginal return offered by such assets. We still do not view this as an appropriate time to invest in credit sensitive assets that are leveraged with short term financing.
- Our current portfolio construction allows us the flexibility to rapidly pivot to other opportunities when they arise.

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.

Return Environment *(as of April 30, 2019)*



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.
- 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.
- Our current portfolio construction allows us the flexibility to rapidly pivot to other opportunities when they arise.

(1) Range of levered returns based on Company assumptions and calculations
(2) Includes specified pool and TBA

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 March 31, 2019		
	Common Stock	Preferred Stocks	
NYSE Ticker:	*DX*	*DXPrA*	*DXPrB*
Shares Outstanding *(in millions)*: (as of 03/31/2019)	72.2	2.3	3.9
1Q19 Dividends per share:	$0.18	$0.53125	$0.4765625
Annualized Dividend Yield: (based on 03/31/2019 stock price)	11.82%	8.33%	8.02%
Book Value: (as of 03/31/2019)	$6.24	—	—
Share Price: (as of 03/31/2019)	$6.09	$25.51	$23.77
Market Capitalization (*in millions)*: (based on 03/31/2019 shares outstanding and stock price)	$439.99	$58.67	$91.94
Price to Book: (based on 03/31/2019 book value and stock price)	97.6%	—	—

Supplemental Information

DYNEX CAPITAL INC.

Negative Yielding Global Debt

Source: Deutsche Bank

Financial Performance - Comparative Quarters

($ in thousands, except per share amounts)	1Q 2019 Income (Expense)	1Q 2019 Per Common Share	4Q 2018 Income (Expense)	4Q 2018 Per Common Share
Interest income	$39,957	$0.58	$32,014	$0.53
Interest expense	26,276	0.38	19,053	0.31
GAAP net interest income	13,681	0.20	12,961	0.22
TBA drop income [1]	1,963	0.03	3,072	0.05
Net periodic interest benefit of interest rate swaps [1]	3,897	0.06	1,940	0.03
Less: accretion of de-designated hedges [2]	(165)	—	(75)	—
Adjusted net interest income [3]	19,376	0.29	17,898	0.29
Other expenses, net	(231)	—	(566)	—
General and administrative expenses	(3,954)	(0.06)	(3,492)	(0.06)
Preferred stock dividends	(3,059)	(0.05)	(2,963)	(0.05)
Core net operating income to common shareholders [3]	12,132	0.18	10,877	0.18
Change in fair value of derivatives [1]	(67,557)	(0.99)	(86,993)	(1.43)
Realized loss on sale of investments, net	—	—	(5,428)	(0.09)
Accretion of de-designated hedges	165	—	75	—
Fair value adjustments, net	(13)	—	(16)	—
GAAP net loss to common shareholders	(55,273)	(0.81)	(81,485)	(1.34)
Unrealized gain (loss) on MBS	86,632	1.27	50,129	0.82
Accretion of de-designated hedges	(165)	—	(75)	—
Comprehensive income (loss) to common shareholders	$31,194	$0.46	($31,431)	($0.52)
WAVG common shares outstanding	68,435		60,870	

(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) Accretion of de-designated hedges is included in GAAP interest expense, but is excluded in calculating adjusted net interest income as it represents a portion of interest expense incurred by cash flow hedges prior to 2013 and therefore not an expense related to current period.
(3) See reconciliations for non-GAAP measures on slide 28.

Book Value Rollforward

	$ in '000s	Per Common Share
Common shareholders' equity, December 31, 2018 (1)	$378,288	$6.02
GAAP net loss to common shareholders:		
Core net operating income to common (2)	12,132	
Change in fair value of derivatives	(67,557)	
Other	152	
Unrealized net losses on MBS	86,632	
Dividends declared	(12,350)	
Stock transactions (3)	53,175	
Common shareholders' equity, March 31, 2019 (1)	$450,472	$6.24

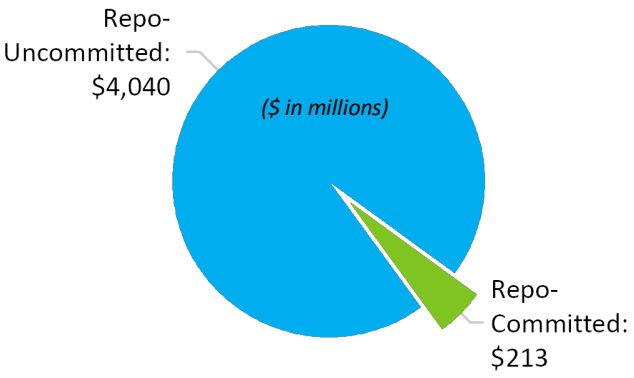
(1) Common shareholders' equity represents total shareholders' equity less the liquidation value of preferred stock outstanding as of the date indicated.
(2) Reconciliations for non-GAAP measures are presented on slide 29.
(3) Reflects the impact from the increase in number of common shares outstanding, net of impact from the increase in proceeds recorded in shareholders' equity.

Repo Financing *(as of March 31, 2019)*

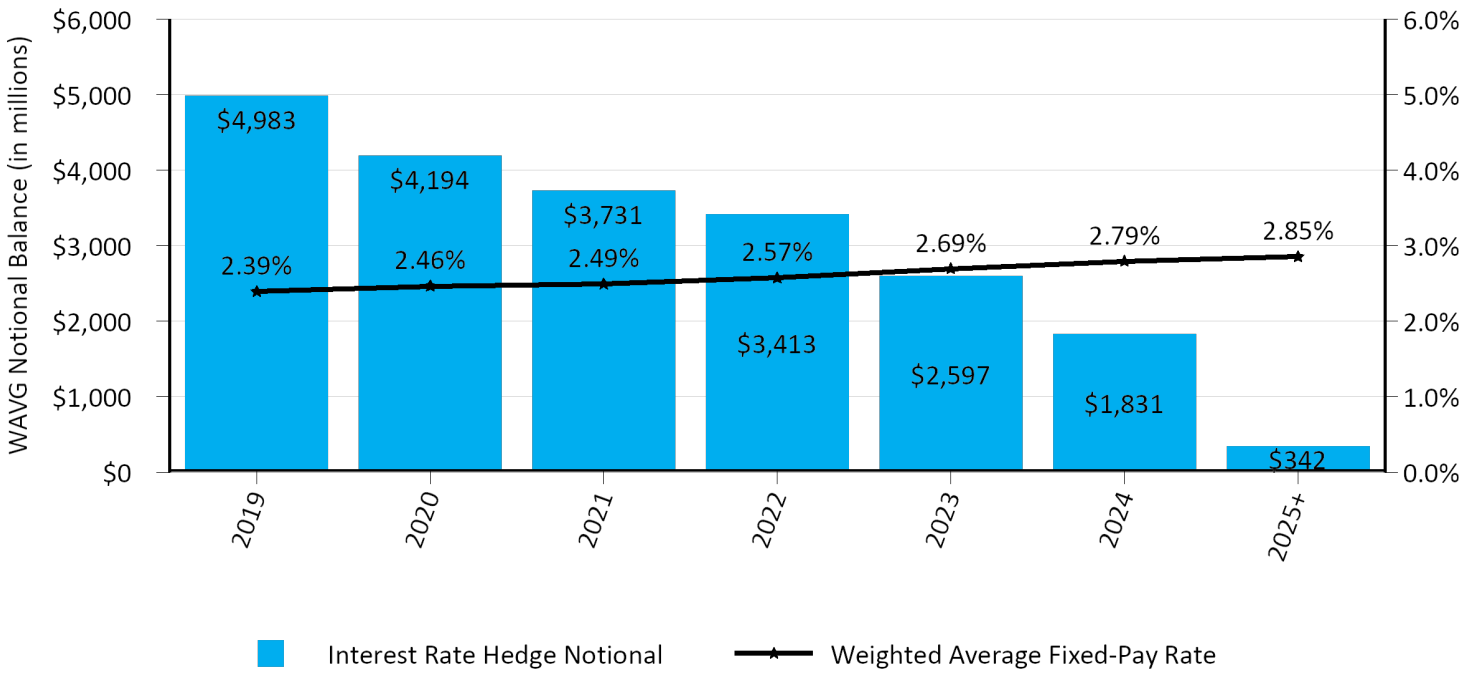
Collateral Type	Balance ($ in thousands)	Weighted Average Rate	Fair Value of Collateral Pledged ($ in thousands)
Agency RMBS	$2,582,697	2.75%	$2,719,705
Agency CMBS	1,220,326	2.68%	1,304,731
Agency CMBS IO	253,168	3.05%	282,927
Non-Agency CMBS IO	196,702	3.39%	230,244
Total	$4,252,893	2.78%	$4,537,607

Remaining Term to Maturity	Balance ($ in thousands)	Percentage	Weighted Average Original Term to Maturity
< 30 days	$3,459,566	81%	52
30 to 90 days	793,327	19%	82
	$4,252,893	100%	58

Counterparty by Region (based on outstanding balance)	#	% of all REPO Balances
North America	12	68%
Asia	4	17%
Europe	3	15%
Total	19	100%



Hedge Position *(as of March 31, 2019)*



Years to Maturity	Notional Amount [1]	Weighted Average Fixed-Pay Rate
≤ 3 years	$ 1,435,000	2.01%
>3 and ≤ 6 years	1,930,000	2.27%
>6 and ≤ 10 years	1,530,000	2.85%
>10 years	120,000	2.84%
Total	$ 5,015,000	2.38%

(1) $'s in thousands

Risk Position - Interest Rates

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

Parallel Change in Treasury Yields (bps)	As of March 31, 2019		As of December 31, 2018	
	Percentage Change in			
	Market Value of Investments & Hedges	Shareholders' Equity	Market Value of Investments & Hedges	Shareholders' Equity
+100	(0.7)%	(5.5)%	(1.1)%	(7.3)%
+50	—%	(0.7)%	(0.3)%	(1.7)%
-50	(0.5)%	(4.3)%	(0.2)%	(1.4)%
-100	(1.7)%	(13.9)%	(1.1)%	(7.6)%

Curve Shift 2 year Treasury (bps)	Curve Shift 10 year Treasury (bps)	As of March 31, 2019		As of December 31, 2018	
		Percentage Change in			
		Market Value of Investments & Hedges	Shareholders' Equity	Market Value of Investments & Hedges	Shareholders' Equity
+25	+50	(0.3)%	(0.2)%	(0.1)%	(0.8)%
+25	+0	—%	(0.1)%	—%	(0.3)%
+50	+25	—%	—%	(0.2)%	(1.1)%
+50	+100	(0.6)%	(4.8)%	(0.8)%	(5.7)%
-10	-50	(0.6)%	(4.5)%	(0.4)%	(2.6)%

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 percentage change in these values incorporates portfolio and hedge characteristics as they existed at the dates indicated.

	As of March 31, 2019		As of December 31, 2018	
	Percentage Change in			
Parallel Change in Market Credit Spreads	Market Value of Investments [1]	Shareholders' Equity	Market Value of Investments [1]	Shareholders' Equity
+20/+50 [2]	(1.3)%	(10.2)%	(1.3)%	(9.5)%
+10	(0.6)%	(4.8)%	(0.6)%	(4.5)%
-10	0.6%	5.0%	0.7%	5.0%
-20/-50 [2]	1.3%	10.6%	1.5%	11.0%

(1) Includes changes in market value of our MBS investments, including TBA securities.
(2) Assumes a 20-basis point shift in Agency and non-Agency RMBS and CMBS and a 50-basis point shift in Agency and non-Agency CMBS IO.

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				
	3/31/2019	12/31/2018	9/30/18	6/30/18	3/31/18
GAAP net (loss) income to common shareholders	($55,273)	($81,485)	$22,630	$12,710	$41,367
Adjustments:					
Accretion of de-designated cash flow hedges [1]	(165)	(75)	(66)	(48)	(48)
Change in fair value of derivatives instruments, net [2]	67,557	86,993	(13,460)	(14,715)	(34,841)
Loss on sale of investments, net	—	5,428	1,726	12,444	3,775
Fair value adjustments, net	13	16	(12)	(27)	(29)
Core net operating income to common shareholders	$12,132	$10,877	$10,818	$10,364	$10,224
Core net operating income per common share	$0.18	$0.18	$0.19	$0.18	$0.18

	Quarter Ended				
	3/31/2019	12/31/2018	9/30/18	6/30/18	3/31/18
GAAP net interest income	$13,681	$12,961	$12,174	$11,747	$13,595
Add: TBA drop income	1,963	3,072	4,262	3,619	3,733
Add: net periodic interest benefit (cost) [3]	3,897	1,940	1,777	2,333	(220)
Less: de-designated hedge accretion [1]	(165)	(75)	(66)	(48)	(48)
Non-GAAP adjusted net interest income	$19,376	$17,898	$18,147	$17,651	$17,060
GAAP interest expense	$26,276	$19,053	$14,751	$14,175	$11,595
Add: net periodic interest (benefit) cost [3]	(3,897)	(1,940)	(1,777)	(2,333)	220
Less: de-designated hedge accretion [1]	165	75	66	48	48
Non-GAAP adjusted interest expense	$22,544	$17,188	$13,040	$11,890	$11,863

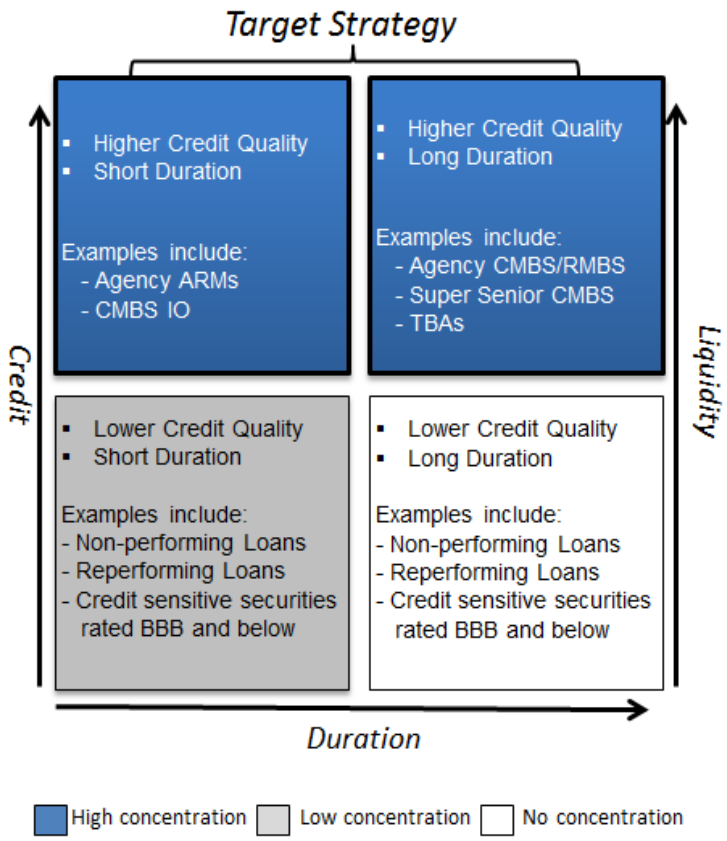
(1) Amount recorded as a portion of "interest expense" in accordance with GAAP related to the accretion of the balance remaining in accumulated other comprehensive income as a result of the Company's discontinuation of cash flow hedge accounting effective June 30, 2013.

(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.

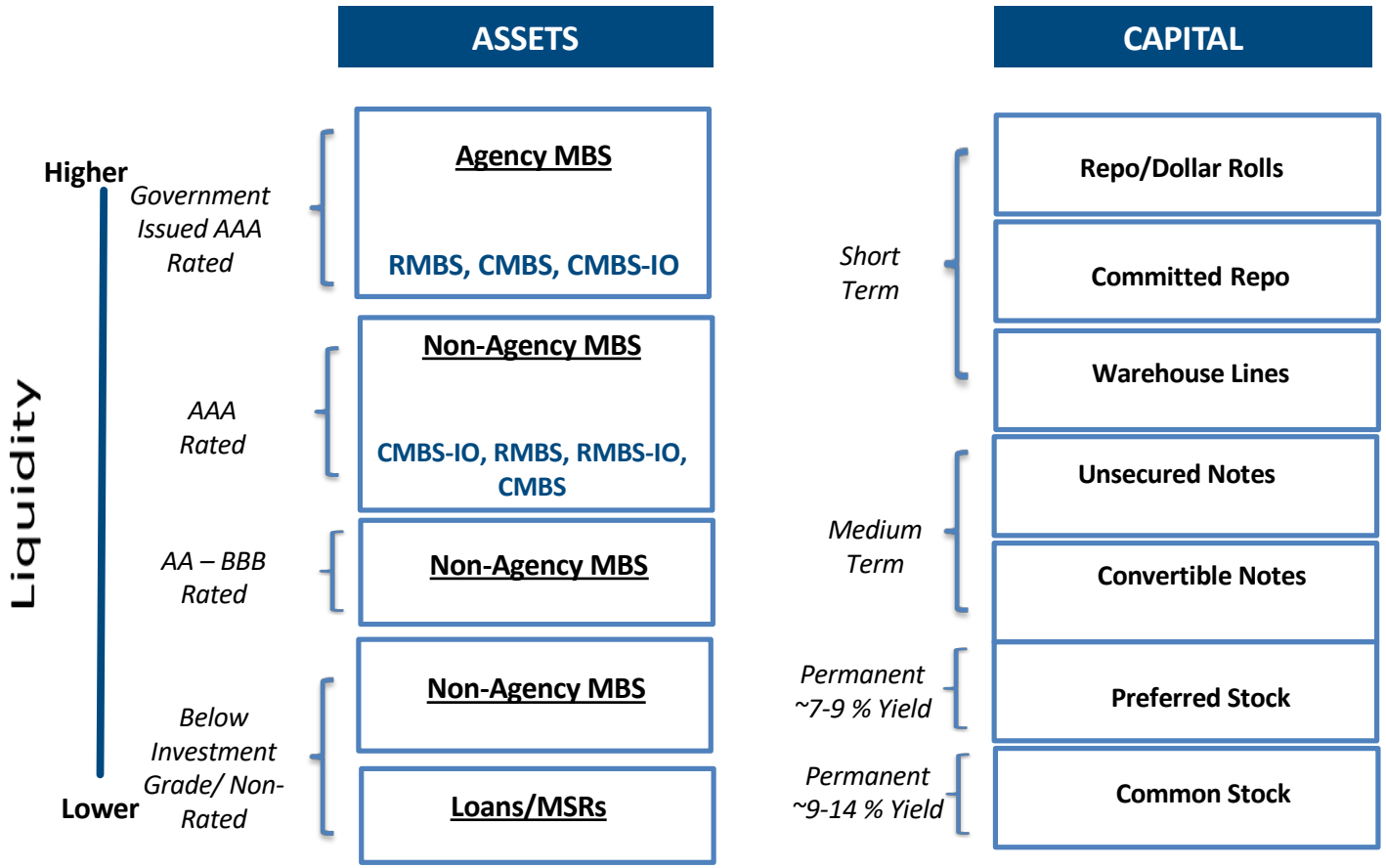
Investment Strategy

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.

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