DYNEX CAPITAL INC.

# Third Quarter 2017 Earnings Presentation

*November 1, 2017*

# 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, 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 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, 2016 and subsequent filings with the Securities and Exchange Commission, particularly those set forth under the caption "Risk Factors".**

# 3Q17 Highlights

- Dividend of $0.18 per common share
- Comprehensive income of $0.27 per common share and GAAP net income of $0.15 per common share
- Core net operating income(1) of $0.19 per common share for the quarter
  - Includes drop income on TBA securities of $0.08 per common share
- Economic return on book value(2) of 3.5% for the quarter and 11.4% year-to-date
- Book value per common share of $7.46 at September 30, 2017 compared to $7.38 at June 30, 2017 and $7.18 at December 31, 2016
- Net interest spread of 1.47% and adjusted net interest spread(1) of 1.44%

*(1) Reconciliations for non-GAAP measures are presented in the Appendix.*
*(2) For third quarter, equals sum of dividend of $0.18 per common share plus the increase in book value of $0.08 per common share divided by beginning book value per common share for the quarter of $7.38. For year-to-date, equals sum of dividend of $0.54 per common share plus the increase in book value of $0.28 per common share divided by beginning book value per share for the quarter of $7.18.*

# 3Q17 Highlights

- Continued portfolio rebalancing
  - Agency 30-year fixed-rate RMBS investments including TBAs total $1.2 billion at September 30, 2017
  - Fixed rate Agency RMBS and CMBS totaled $2.5 billion at September 30, 2017, constituting 70% of the total investment portfolio inclusive of TBAs
  - Sold $397.6 million in lower yielding hybrid ARMs and had $39.7 million in paydowns given the flatter US Treasury curve and the prospect for faster prepayments
- Hedge position helped to protect adjusted net interest interest income and adjusted net interest spread from increase in short-term rates during 3Q17
- Leverage including TBAs(1) (at cost if settled) increased to 6.3x at September 30, 2017 versus 6.0x at June 30, 2017

*(1) TBA positions were $683.7 million and $416.3 million as of September 30, 2017 and June 30, 2017, respectively, which represents the liability that would have been incurred if the Company were to take delivery of the TBA securities as of those dates*



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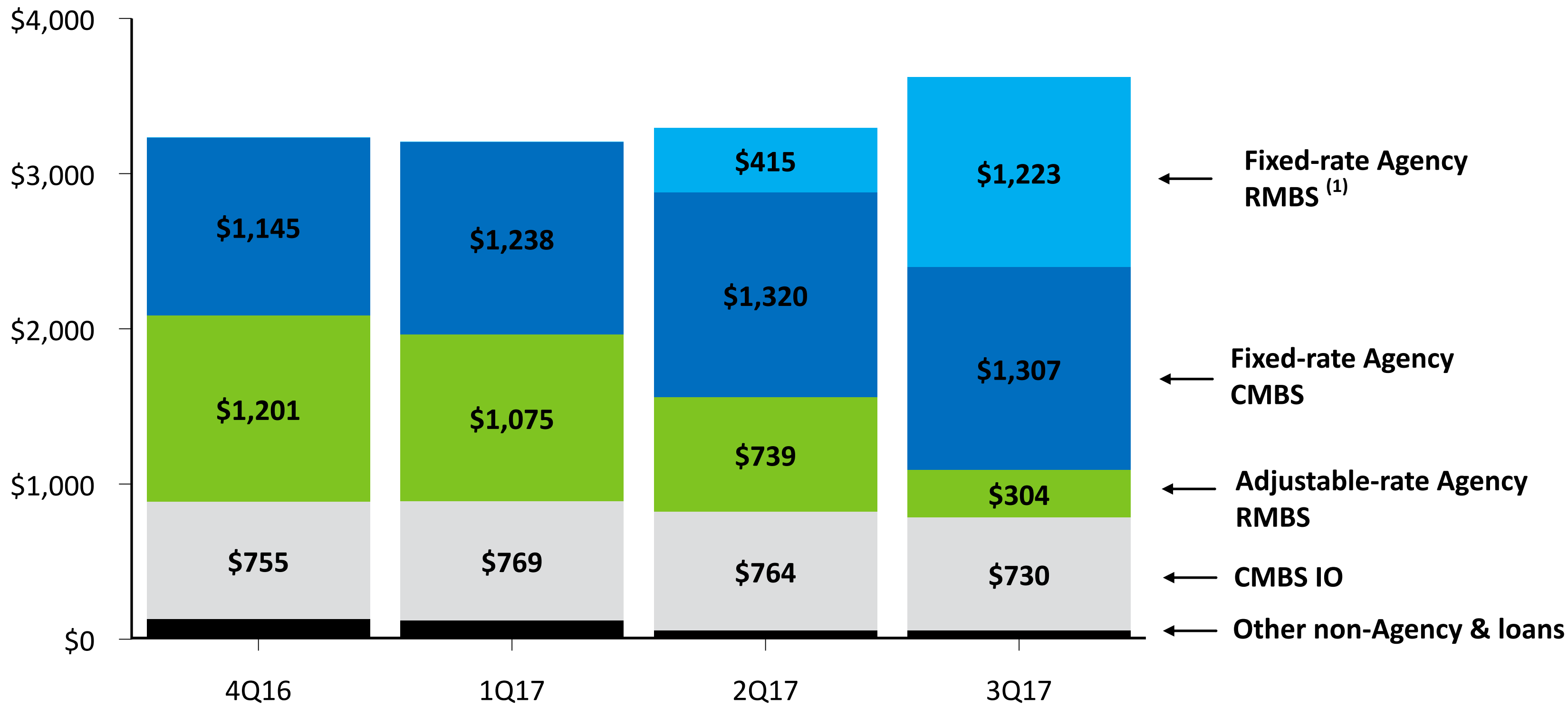
# Portfolio Composition

*Emphasizing Higher Liquidity and Credit Quality*

*($ in millions)*

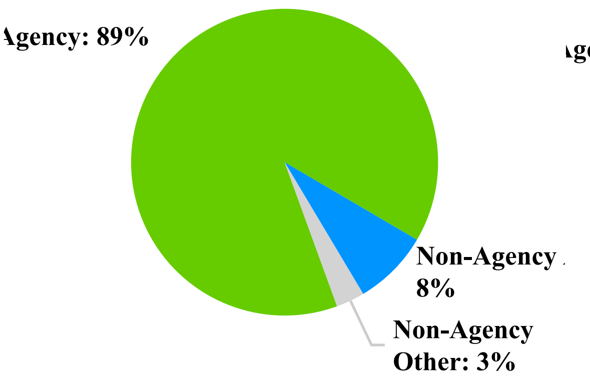



*(1) Includes 30-year fixed-rate specified pools and TBA securities on an if-settled basis.*

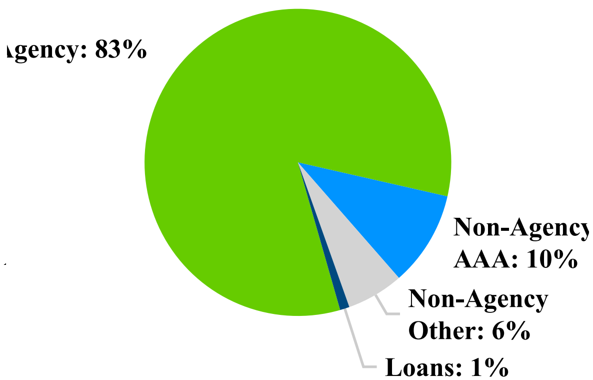
# Disciplined Asset Allocation

## Credit Diversification*

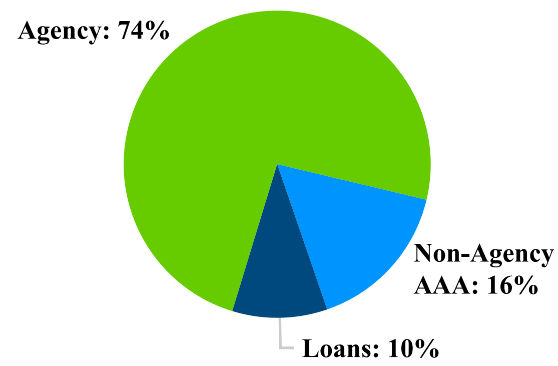
### 3Q 2017




### YE 2015

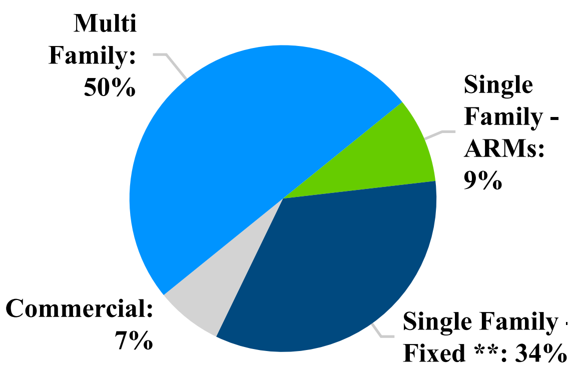



### YE 2010

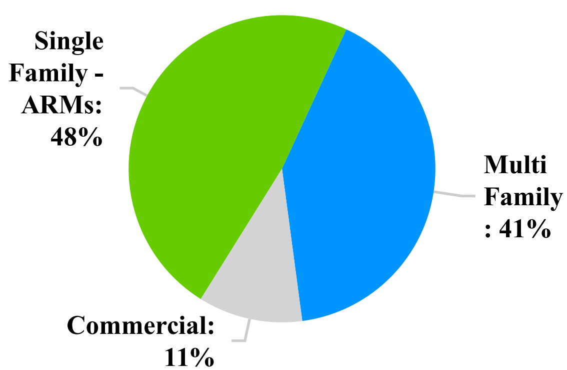



## Sector Diversification*

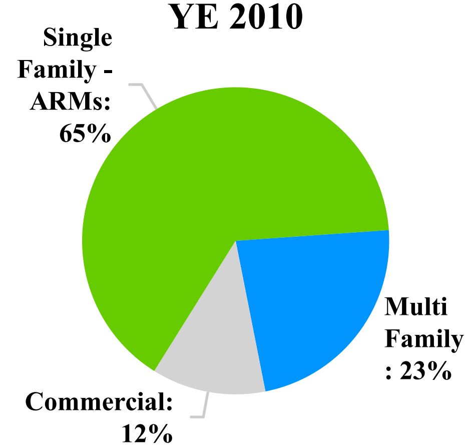
### 3Q 2017




### YE 2015




### YE 2010

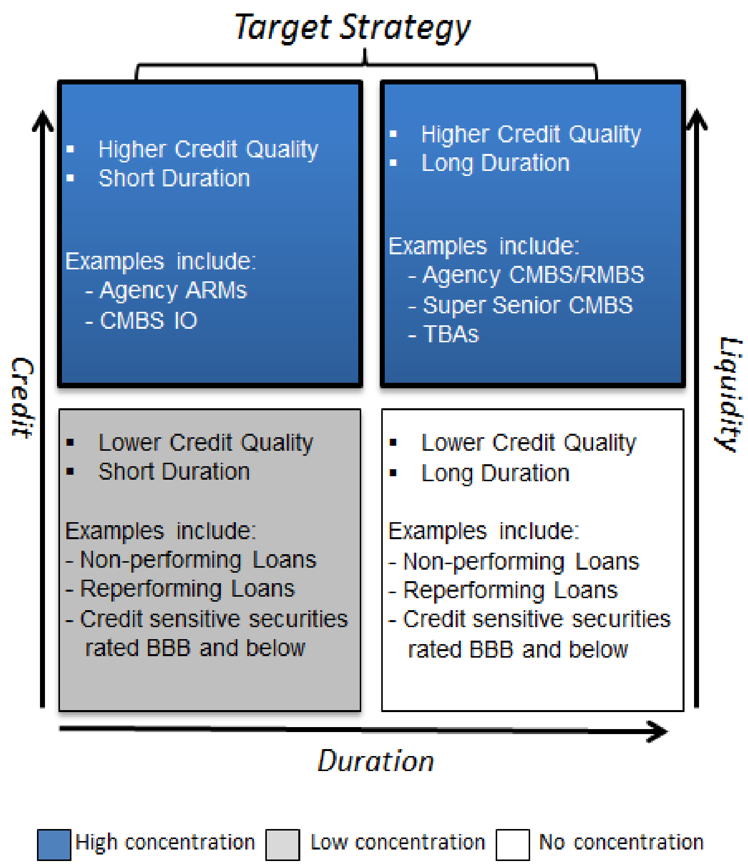



* Amounts exclude non-investment assets

** Includes 30-year fixed-rate specified pools and TBA securities on an if-settled basis.

# 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, as of September 30, 2017
  - **89% Agency guaranteed**
  - **97% AAA rated**
- 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

# Portfolio Shifts in 2017

***Gradual shift from ARMs to Agency 30-year fixed rate securities***

- We have been gradually shifting our portfolio from ARMs to Agency 30-year fixed rate securities. We believe this asset class offers the opportunity to earn an above average return over the long term versus other sectors today. This is unique for Dynex as over the last ten years we have always had more attractive alternatives in other sectors.
- The risk adjusted return and the liquidity of 30-year fixed-rate RMBS more than compensate for the relatively higher duration drift vs. less liquid ARMs. The incremental liquidity also gives us the ability to shrink or grow the balance sheet rapidly.
- The Federal Reserve balance sheet reduction has been well telegraphed and appears priced into the market today. Additional spread widening would present an opportunity to reallocate out of other sectors into Agency residential RMBS. We believe additional spread widening would be limited by demand for these high quality assets from crossover buyers.
- The macroeconomic environment continues to be supportive for spread products. Two major central banks (BoJ and ECB) continue to inject liquidity through large scale asset purchases supporting valuations across sectors. This is a key risk factor and we continue to be vigilant on this issue.
- U.S. housing finance reform debate is dominated by the need for private capital as the GSEs' footprint shrinks in this market. Potential change in government policy could present a major business opportunity for Dynex shareholders.

# Current Investment and Risk Posture

***Risk environment emphasizes need for liquidity***

- The investment environment, at the moment, is conducive to generating net interest income from high quality assets, due to low realized volatility and a benign outlook for central bank withdrawal of stimulus. However, we remain extremely vigilant due to tight spreads across all credit products, tenuous geopolitical environment and fragile, unpredictable global recovery.
- Our portfolio is focused on the highest quality assets with high liquidity. We believe liquidity gives us flexibility in periods of heightened risk, either to invest opportunistically or to de-risk via sales, or gradually deploy capital as spreads widen. This is consistent with Dynex's long history of capital allocation and redeployment to attractive sectors over time.
- Our strategy is to take advantage of the current opportunity to earn net interest income in 30-year MBS while maintaining our investments in Agency CMBS, Agency CMBS IOs, and Non-Agency CMBS IOs. We are also positioned with capital and liquidity to be able to invest in a spread widening environment.
- Over the next few years, we believe 30-year MBS will present an attractive opportunity to generate meaningful above average returns and we expect to continue to actively participate and manage our capital accordingly.

# Investment Strategy Focus & Outlook

***Liquidity provides flexibility to redeploy capital opportunistically***

- Maintain investments in higher credit quality, more liquid assets and maintain high liquidity position given the low volatility and tight credit spread environment
  - Credit spreads on all assets are vulnerable to a repricing shift as central banks gradually remove stimulus or to a surprise exogenous shock
- Maintain diversified investment strategy in residential and commercial sectors given their complimentary cash flow and risk profiles
- Seek to capitalize on opportunities for investing capital from increased market volatility and/or shifts in government and regulatory policy
- Continue to seek ways to diversify funding sources as the regulatory environment becomes more favorable
- Continue commitment to disciplined risk management and capital allocation decisions that maximize flexibility given the current environment



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# Macroeconomic Themes

***Policy is as important as fundamentals in driving returns***

- Improving but still fragile global economic fundamentals
- Steady/improving U.S. fundamentals - employment improving, GDP increasing, inflation below the Fed target
- Government policy - monetary, regulatory, fiscal - will continue to drive returns
  - Composition and culture of the Fed will change very soon
  - Fed balance sheet reduction
  - Economic environment increases potential tightening/easing cycle by the Fed similar to 1994-1995
  - Fiscal policy: uncertain if it will be agreed to, implemented, and deficit financed
  - Regulatory policy: will be driven by appointees and could be significant
- High asset prices reflect global demand for yield and continued central bank support
  - Equity markets have become accustomed to central bank bailouts
- Global debt and U.S. debt are at all time high levels, contributing to a fragile global economy vulnerable to exogenous events
- Globalization has created an irreversible connectedness between our economy and the rest of the world

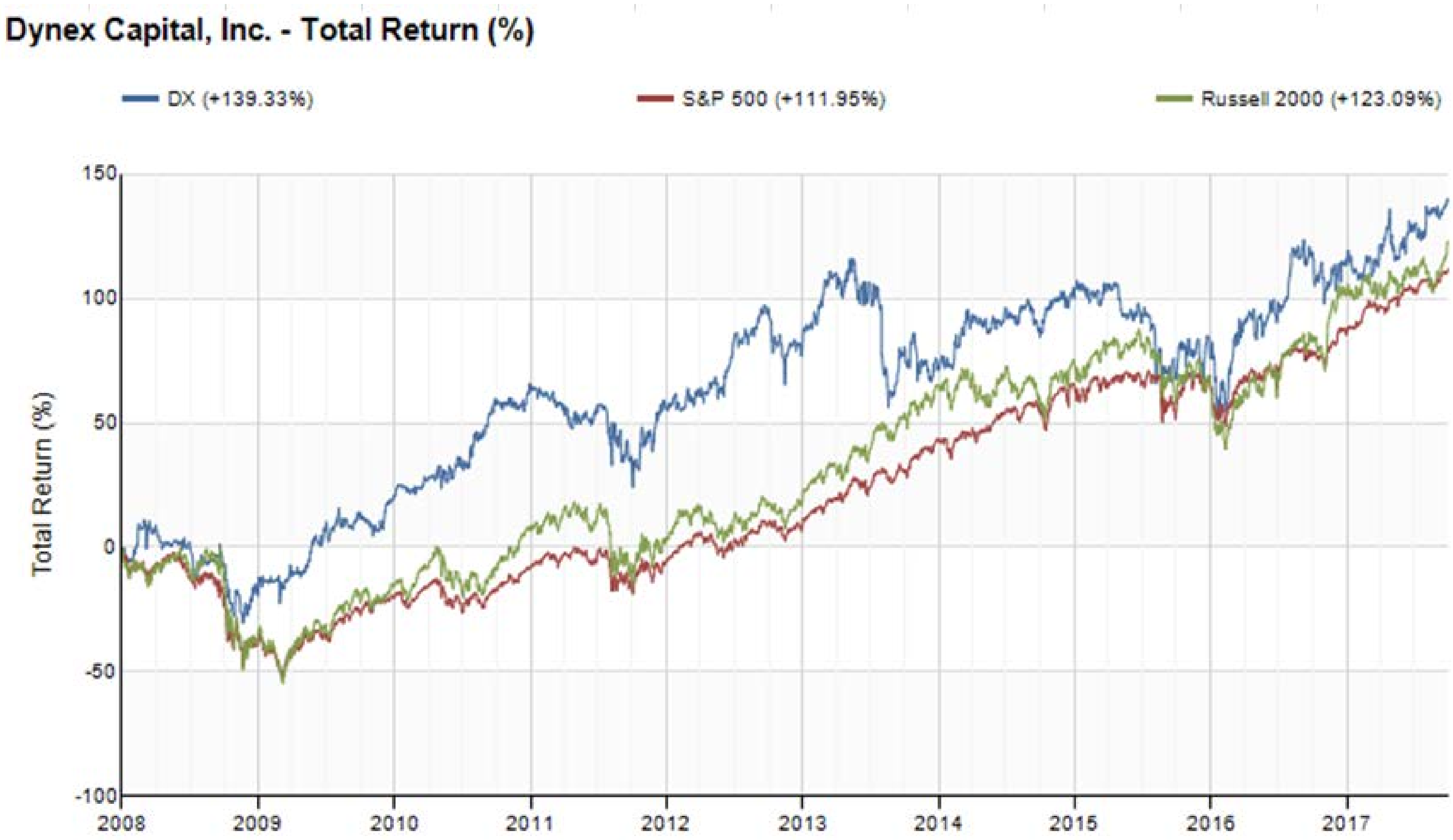
# Favorable Long-Term Trends

***Long-term trends should support our business model***

- Substantial global demand for yield supports long term valuations of mortgage REITs:
  - 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 as they are reformed
  - Lower regulatory costs over the long-term

# Long-Term Value is Driven by Above Average Dividends

**Total Return (%)**
**January 1, 2008 - September 30, 2017**




*Source: SNL Financial*

# Market Snapshot

| | Common Stock | Preferred Stocks | |
|---|---|---|---|
| NYSE Ticker: | *DX* | *DXPrA* | *DXPrB* |
| Shares Outstanding:<br>(as of 9/30/17) | 51.26M | 2.30M | 3.37M |
| Q3 Dividends per share: | $0.18 | $0.53125 | $0.4765625 |
| Dividend Yield:<br>(annualized, based on 10/20/17 stock price) | 9.78% | 8.29% | 7.69% |
| Share Price:<br>(at 10/20/17) | $7.36 | $25.64 | $24.78 |
| Market Capitalization:<br>(based on 9/30/17 shares outstanding and 10/20/17 stock price) | $377.29 | $58.97 | $83.39 |
| Price to Book:<br>(based on 9/30/17 book value and 10/20/17 stock price) | 98.7% | - | - |



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# Supplemental Information

# Mortgage REIT Business Model

**ASSETS**

Liquidity: Higher → Lower

*Government Issued AAA Rated*

**Agency MBS**
RMBS*
CMBS
CMBS-IO

*AAA Rated*

**Non-Agency MBS**
CMBS-IO
RMBS
RMBS-IO
CMBS

***97% of Dynex portfolio today***

*AA – BBB Rated*

**Non-Agency MBS**

*Below Investment Grade/ Non-Rated*

**Non-Agency MBS**

**Loans/MSRs**

**specified pool or TBA*

**CAPITAL**

*Short Term*

**Repo/Dollar Rolls**

**Committed Repo**

**Dynex sources today**

**Warehouse Lines**

*Medium Term*

**Unsecured Notes**

**Convertible Notes**

*Permanent ~7-9 % Yield*

**Preferred Stock**

*Permanent ~9-14 % Yield*

**Common Stock**

**Dynex sources today**

Over our 30 year history we have invested in every real estate debt asset class. Today we are emphasizing higher liquidity and higher credit quality.

# Credit Spreads *(in bps)*

| Asset Class | 9/30/17 | 6/30/17 | 3/31/17 | 12/31/16 | 9/30/16 | 06/30/16 | 12/31/15 | 06/30/15 | 12/31/14 |
|---|---|---|---|---|---|---|---|---|---|
| **Agency DUS** | **64** | **68** | **67** | **76** | **80** | **94** | **89** | **60** | **59** |
| **Fixed 30yr FN 3%*** | **29** | **36** | **34** | **36** | **18** | **26** | **37** | **21** | **9** |
| **Fixed 30yr FN 4%*** | **29** | **31** | **27** | **33** | **12** | **24** | **26** | **8** | **1** |
| **Freddie K AAA IO** | **120** | **145** | **150** | **200** | **230** | **255** | **225** | **150** | **155** |
| **AAA CMBS IO** | **120** | **110** | **145** | **195** | **215** | **240** | **240** | **175** | **—** |
| **AAA CMBS** | **83** | **88** | **93** | **91** | **100** | **104** | **138** | **92** | **88** |
| **Freddie K B** | **170** | **165** | **220** | **295** | **265** | **325** | **350** | **157** | **170** |
| Agency ARM 5/1 (new issue) | 20 | 21 | 24 | 19 | 32 | 38 | 22 | 16 | 21 |
| Fixed 30yr FN 3.5% | 27 | 31 | 27 | 29 | 10 | 29 | 34 | 18 | 11 |
| Freddie K C | 280 | 275 | 350 | 435 | 490 | 540 | 480 | 228 | 250 |
| IG Corporates | 117 | 123 | 128 | 138 | 159 | 157 | 172 | 146 | 132 |
| High Yield | 415 | 441 | 456 | 476 | 558 | 628 | 746 | 521 | 562 |
| AA CMBS | 143 | 132 | 129 | 128 | 160 | 186 | 223 | 163 | 141 |
| A CMBS | 184 | 182 | 182 | 230 | 255 | 304 | 348 | 230 | 203 |
| BBB CMBS | 366 | 357 | 439 | 485 | 560 | 604 | 562 | 388 | 358 |
| CRT.M3-2014 | 186 | 162 | 236 | 297 | 311 | 415 | 478 | 425 | 475 |
| 10y swap spreads | (4.4) | (2.4) | (0.4) | (13.0) | (14.0) | (10.6) | (8.5) | 9.8 | 11.8 |

Dynex Portfolio

*Source: Blackrock, JP Morgan and Company data*
**Option Adjusted Spreads (OAS) using BlackRock prepayment and interest rate models*

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# Financial Performance - Comparative Quarters

| ($ in thousands, except per share amounts) | 3Q2017 Income (Expense) | 3Q2017 Per Common Share | 2Q2017 Income (Expense) | 2Q2017 Per Common Share |
|---|---|---|---|---|
| Interest income | $23,103 | $0.46 | $24,856 | $0.51 |
| Interest expense | 9,889 | 0.20 | 8,714 | 0.18 |
| **GAAP net interest income** | 13,214 | 0.26 | 16,142 | 0.33 |
| TBA drop income | 3,902 | 0.08 | 1,351 | 0.03 |
| Net periodic interest costs (1) | (1,131) | (0.02) | (1,352) | (0.03) |
| Accretion of de-designated hedges | (48) | — | (73) | — |
| **Adjusted net interest income (2)** | 15,937 | 0.32 | 16,068 | 0.33 |
| Other (loss) income, net | (109) | — | 4 | — |
| G & A expenses | (3,599) | (0.07) | (4,097) | (0.08) |
| Preferred stock dividends | (2,808) | (0.06) | (2,641) | (0.06) |
| **Core net operating income to common shareholders (2)** | 9,421 | 0.19 | 9,334 | 0.19 |
| Change in fair value of derivatives (1) | 3,222 | 0.06 | (15,801) | (0.32) |
| Realized loss on sale of investments, net | (5,211) | (0.10) | (3,709) | (0.07) |
| Accretion of de-designated hedges | 48 | — | 73 | — |
| Fair value adjustments, net | 23 | — | 30 | — |
| **GAAP net income (loss) to common shareholders** | 7,503 | 0.15 | (10,073) | (0.20) |
| Unrealized gain on MBS | 6,192 | 0.12 | 12,448 | 0.25 |
| Accretion of de-designated hedges | (48) | — | (73) | — |
| **Total comprehensive income to common shareholders** | $13,647 | $0.27 | $2,302 | $0.05 |

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

*(2)* See reconciliation at page 25.



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# Book Value Rollforward

| ($ in thousands, except per share amounts) | $ Amount | Per Common Share |
|---|---|---|
| Common shareholders' equity, June 30, 2017 [1] | $363,558 | $7.38 |
| GAAP net income: | | |
| Core net operating income [2] | 9,421 | 0.19 |
| Realized loss on sale of MBS, net | (5,211) | (0.10) |
| Change in fair value of derivatives | 3,222 | 0.06 |
| Other | 71 | — |
| Unrealized gains on MBS | 6,192 | 0.12 |
| Dividends declared | (9,227) | (0.18) |
| Stock transactions | 14,446 | (0.01) |
| Common shareholders' equity, September 30, 2017 [1] | $382,472 | $7.46 |

GAAP EPS: $0.15

*(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 in the Appendix.*



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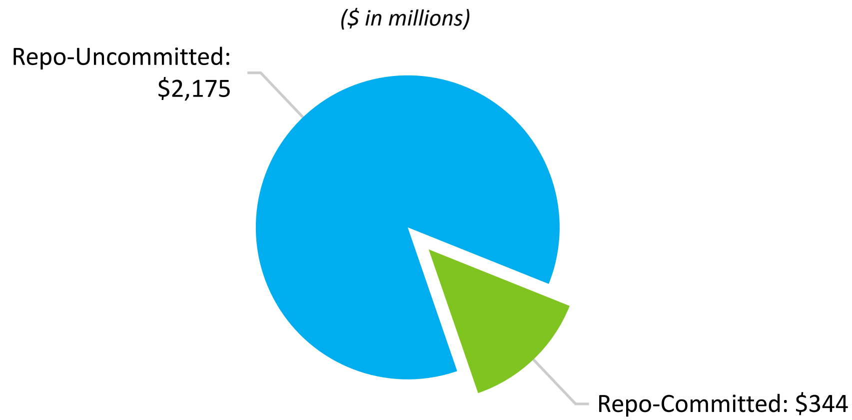
# Repo Financing *(as of September 30, 2017)*

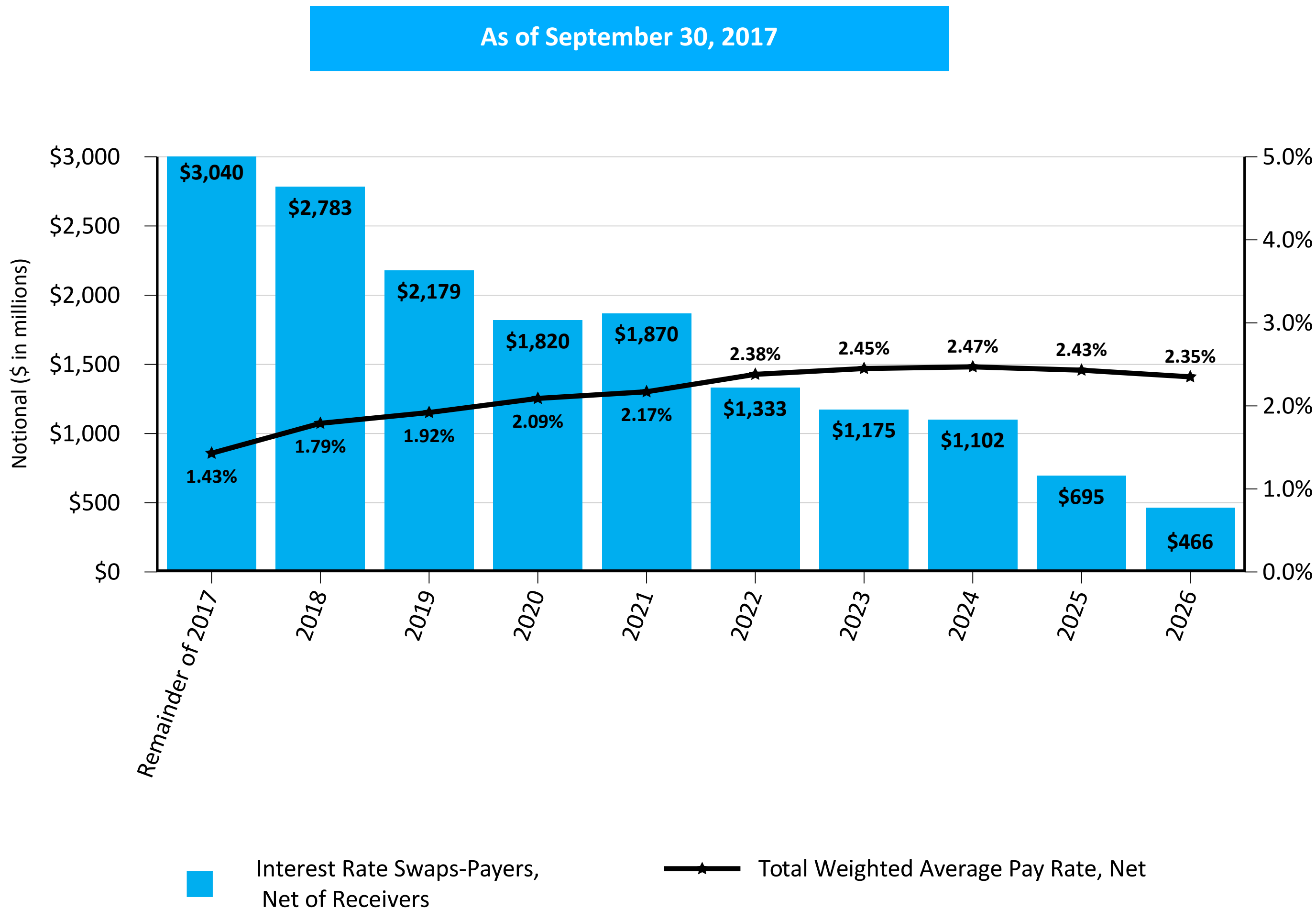



| Active Counterparty by Region | # | % of all REPO |
|---|---|---|
| North America | 9 | 67% |
| Asia | 6 | 21% |
| Europe | 3 | 12% |
| Total | 18 | 100% |

| Active Counterparty by Type | # | % of all REPO |
|---|---|---|
| Broker/Dealers | 4 | 20% |
| Domestic Banks | 8 | 60% |
| Foreign Banks | 6 | 20% |
| Total | 18 | 100% |

- We maintain a diversified funding platform with over 34 established counterparties, currently active with 18 counterparties
- Our funding is well diversified by counterparty and geography
- Repo markets remain highly liquid

# Hedge Position



# Risk Position

| Treasury Yields [1] | As of September 30, 2017 | As of June 30, 2017 |
|---|---|---|
| 2Y | 1.49% | 1.38% |
| 5Y | 1.94% | 1.89% |
| 10Y | 2.33% | 2.31% |
| 30Y | 2.86% | 2.84% |

| Parallel Change in Treasury Yields (bps) | Percentage Change in Projected Market Value of Assets, Net of Hedges [2] | |
|---|---|---|
| | As of September 30, 2017 | As of June 30, 2017 |
| +100 | (1.32)% | (0.49)% |
| +50 | (0.54)% | (0.19)% |
| -50 | 0.31% | 0.06% |

| Curve Shift 2 year Treasury (bps) | Curve Shift 10 year Treasury (bps) | Percentage Change in Projected Market Value of Assets, Net of Hedges [2] | |
|---|---|---|---|
| | | As of September 30, 2017 | As of June 30, 2017 |
| 0 | -25 | —% | —% |
| -10 | -50 | (0.21)% | —% |
| +25 | +50 | (0.52)% | (0.14)% |
| +50 | +100 | (1.17)% | (0.38)% |
| +25 | +0 | (0.08)% | (0.06)% |
| +50 | +25 | (0.34)% | (0.14)% |

| Parallel Change in Market Credit Spreads | Percentage Change in Projected Market Value of Assets | |
|---|---|---|
| | As of September 30, 2017 | As of June 30, 2017 |
| +50 | (2.59)% | (1.99)% |
| +25 | (1.28)% | (1.00)% |
| -25 | 1.28% | 1.01% |
| -50 | 2.61% | 2.03% |

(1) *Treasury yields source: Bloomberg*

(2) *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.*



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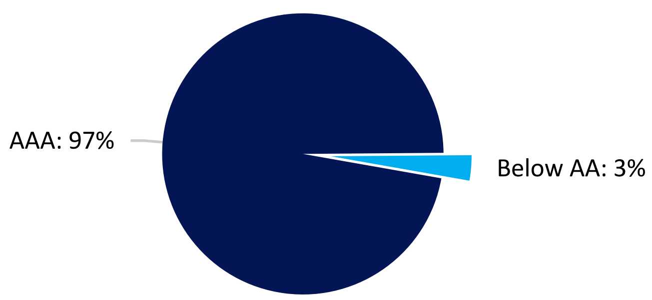
# CMBS*

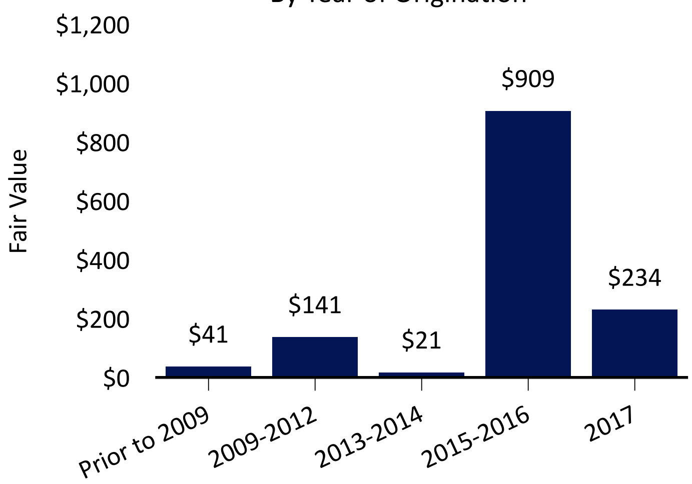
*(as of September 30, 2017)*

## Credit Quality




## Vintage

By Year of Origination

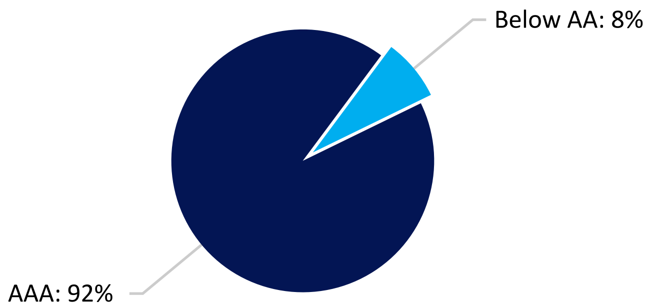



*($ in millions)*

# CMBS IO*

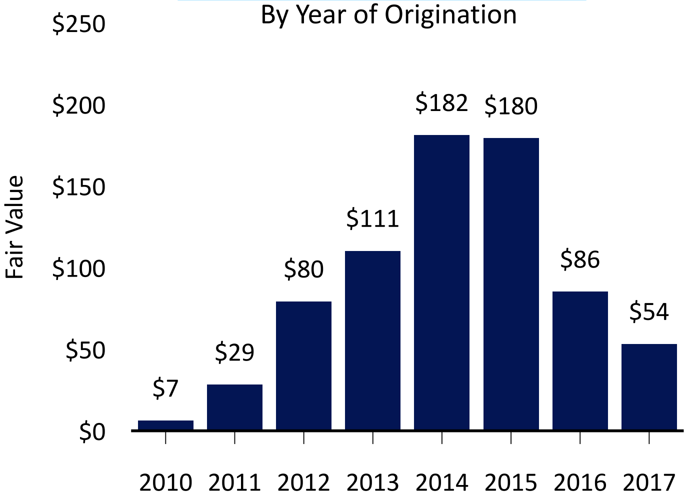
*(as of September 30, 2017)*

## Credit Quality




## Vintage

By Year of Origination




*Includes both Agency and Non-Agency assets

# Dividend Character - YTD 09/30/2017 *(Estimated)*

| *($ in thousands)* | |
|---|---|
| GAAP net income to common shareholders | $4,046 |
| GAAP net income on taxable REIT subsidiary | 28 |
| GAAP net income to common shareholders excluding taxable REIT subsidiary | 4,018 |
| Differences between GAAP net income and taxable income: | |
| Change in fair value of derivative instruments | 14,602 |
| Loss on sale of investments | (3,716) |
| Tax amortization on terminated derivative instruments | (16,157) |
| Premium amortization | 1,955 |
| Other | 395 |
| Taxable income to common shareholders | 1,097 |
| Add back: Capital losses | 5,791 |
| Taxable income - ordinary income | $6,888 |
| Common dividends paid deduction | ($27,950) |
| Common dividend representing return of capital | ($21,062) |
| % of common dividend representing non-taxable return of capital | 75% |



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# Reconciliation of GAAP Measures to Non-GAAP Measures

*($ in thousands except per share data)*

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| | 9/30/17 | 6/30/17 | 3/31/17 | 12/31/16 | 9/30/16 |
| **GAAP net (loss) income to common shareholders** | $7,503 | ($10,073) | $6,616 | $66,758 | $12,406 |
| Adjustments: | | | | | |
| Accretion of de-designated cash flow hedges (1) | (48) | (73) | (99) | (99) | (99) |
| Change in fair value of derivatives instruments, net (2) | (3,222) | 15,801 | (790) | (56,686) | (2,564) |
| Loss on sale of investments, net | 5,211 | 3,709 | 1,708 | — | — |
| Fair value adjustments, net | (23) | (30) | (10) | (17) | (34) |
| **Core net operating income to common shareholders** | $9,421 | $9,334 | $7,425 | $9,956 | $9,709 |
| **Core net operating income per common share** | $0.19 | $0.19 | $0.15 | $0.20 | $0.20 |

| | Quarter Ended | | | | |
|---|---|---|---|---|---|
| | 9/30/17 | 6/30/17 | 3/31/17 | 12/31/16 | 9/30/16 |
| **GAAP net interest income** | $13,214 | $16,142 | $14,900 | $16,105 | $15,067 |
| Add: TBA drop income | 3,902 | 1,351 | — | — | — |
| Add: net periodic interest costs (3) | (1,131) | (1,352) | (615) | (140) | (155) |
| Less: de-designated hedge accretion (1) | (48) | (73) | (99) | (99) | (99) |
| **Non-GAAP adjusted net interest income** | $15,937 | $16,068 | $14,186 | $15,866 | $14,813 |
| | | | | | |
| **GAAP interest expense** | $9,889 | $8,714 | $7,519 | $6,753 | $6,068 |
| Add: net periodic interest costs (3) | 1,131 | 1,352 | 615 | 140 | 155 |
| Less: de-designated hedge accretion (1) | 48 | 73 | 99 | 99 | 99 |
| **Non-GAAP adjusted interest expense** | $11,068 | $10,139 | $8,233 | $6,992 | $6,322 |

*(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 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 costs on effective interest rate swaps outstanding during the period and exclude termination costs and changes in fair value.*



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# 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.

**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.

**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 and 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 TBA securities whereby an investor enters into an offsetting short position versus TBA securities and simultaneously enters into a similar TBA securities contract for a later settlement date.

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

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