DYNEX

IMPORTANT TAX INFORMATION REGARDING 2005
DIVIDENDS FROM DYNEX CAPITAL, INC.
ON SERIES D PREFERRED STOCK

We are providing this information to assist you in your tax reporting requirements relating to your dividends received from Dynex Capital, Inc. Dividends paid during 2005 were in part a return of capital and in part ordinary income as a result of "excess inclusion" income earned by the Company during 2005. No portion of the dividends paid in 2005 were attributable to capital gains. As detailed below, approximately 27% of the Series D preferred stock dividends paid in 2005 will be reported as ordinary income as a result of "excess inclusion" income earned by the Company. These "excess inclusion" income amounts arose from the ownership of certain investments by the Company. Amounts indicated below are based on information provided by third-parties.

The per share split between ordinary income and return of capital on the Series D Preferred stock is as follows:

Payment Date	Dividends per share	Ordinary income	Return of capital
January 31, 2005	$0.2375	$0.0283	$0.2092
April 29, 2005	$0.2375	$0.0512	$0.1863
August 1, 2005	$0.2375	$0.0821	$0.1554
October 31, 2005	$0.2375	$0.0950	$0.1425
Totals	$0.9500	$0.2566	$0.6934

What is "excess inclusion"? During 2005, Dynex Capital owned certain REMIC residual interests for which a portion of the income received from these investments is classified as "excess inclusion" income by the IRS. You should consult your tax advisor, but generally, excess inclusion is defined as income which cannot be eliminated or reduced when filing your taxes through the use of deductions from other sources or exemptions. A portion of the dividends paid to shareholders in 2005 represented distributions of this excess inclusion income, and the IRS requires taxpayers to report it when filing their income tax return.

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