



**IMPORTANT TAX INFORMATION REGARDING 2001 DIVIDENDS FROM
DYNEX CAPITAL, INC.**

We are providing this information to assist you in your tax reporting requirements relating to your dividend income from Dynex Capital, Inc. All dividends paid during 2001 were as a result of "excess inclusion" income earned by the Company during 2000. Dividends taxable to Dynex Capital, Inc. shareholders as 2001 income are as follows:

Series A Preferred Stock

Cusip 26817Q 20 9

<u>Payable Date</u>	<u>Dividends Per Share</u>
July 20, 2001	\$0.2925

Series B Preferred Stock

Cusip 26817Q 30 8

<u>Payable Date</u>	<u>Dividends Per Share</u>
July 20, 2001	\$0.2925

Series C Preferred Stock

Cusip 26817Q 40 7

<u>Payable Date</u>	<u>Dividends Per Share</u>
July 20, 2001	\$0.3649

No Series A, B and C preferred dividends were declared in the first, third or fourth quarters of 2001. There were no common dividends declared in 2001.

As all of the 2001 dividends resulted from excess inclusion income earned by the Company, for income tax purposes these dividends are considered ordinary dividends. No portion of the 2001 dividends were attributable to capital gains.

What is "excess inclusion"? During 2001, Dynex Capital owned certain investments for which a portion of the income received from these investments is classified as "excess inclusion" income by the IRS. You should consult your tax advisor, but generally, excess inclusion is defined as income which cannot be eliminated or reduced when filing your taxes through the use of deductions from other sources or exemptions. The Dividends paid to shareholders in 2001 represented this excess inclusion income, and the IRS requires taxpayers to report it when filing income taxes.

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