DYNEX

**February 15, 2012**

**IMPORTANT TAX INFORMATION REGARDING 2011**
**DIVIDENDS FROM DYNEX CAPITAL, INC.**

Information is provided below to assist you in your tax reporting requirements related to distribution as dividends of taxable income by Dynex Capital, Inc. ("Dynex" or the "Company"). As detailed below, a portion of the dividends paid by Dynex on its common stock represent distributions of ordinary taxable income and a portion represent the return of capital. The distributions of ordinary taxable income are not eligible for the tax rate reductions enacted for qualified dividend income under the Jobs and Growth Tax Relief Reconciliation Act of 2003 and are accordingly being reported as non-qualifying dividends.

Shareholders should review the 2011 tax statements and/or 1099s that they receive from their brokerage firms in order to ensure that the dividend distribution information reported on such statements conforms to the information set forth in this notice.

The table below provides a summary of the tax information relating to the quarterly dividend distributions of the Company for the 2011 tax year:

**Dynex Capital Common Stock (CUSIP 26817Q506)**

| Dividend Record Date | Payment Date | Dividends per Share | Ordinary Income | Return of Capital | Capital Gain Distribution |
|---|---|---|---|---|---|
| 03/31/2011 | 04/30/2011 | $0.2700 | $0.2433 | $0.0267 | $0.0000 |
| 06/30/2011 | 07/29/2011 | $0.2700 | $0.2433 | $0.0267 | $0.0000 |
| 09/30/2011 | 10/31/2011 | $0.2700 | $0.2433 | $0.0267 | $0.0000 |
| 12/30/2011 | 01/31/2012 | $0.2800 | $0.2523 | $0.0277 | $0.0000 |
| | | $1.0900 | $0.9822 | $0.1078 | $0.0000 |

**Excess Inclusion Income**

A portion of the taxable ordinary income reported in the table above is characterized as "Excess Inclusion Income") as defined by Section 860E of the Internal Revenue Code. As a result, certain shareholders may be required to report a portion of the dividends received from Dynex to taxing authorities as "Excess Inclusion Income." Below are some potential tax consequences to certain shareholders as a result of the characterization of a portion of our dividends as Excess Inclusion Income. The Company strongly urges you to consult your tax advisor regarding the tax consequences of your ownership of shares of the Company's common stock.

- Tax-exempt shareholders will be subject to unrelated business taxable income (commonly referred to as UBTI) with respect to such excess inclusion income;
- Non-U.S. shareholders will be subject to the 30 percent U.S. federal withholding tax on this income without reduction under any otherwise applicable income tax treaty; and
- U.S. shareholders, including taxpaying entities, will not be able to offset such excess inclusion income against net operating losses or otherwise allowable deductions.

**We have not received all of the information necessary to determine the amount of Excess Inclusion Income at this time. Once the required information is received and the Excess Inclusion Income amounts are calculated we will update the tax information on our website www.dynexcapital.com.**

**Tax Disclaimer**

The tax and excess inclusion income information above should not be construed as tax advice and is not a substitute for careful tax planning and analysis. You should consult your own tax advisor regarding the specific federal, state, local, foreign and other tax consequences to you regarding your ownership of shares of the Company's common stock.