



Dynex Capital, Inc.

# FBR Capital Markets 2009 Fall Investor Conference

December 1, 2009





## Safe Harbor

*Note: This presentation contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The words “will,” “believe,” “expect,” “forecast,” “anticipate,” “intend,” “estimate,” “assume,” “project,” “plan,” “continue,” and similar expressions identify forward-looking statements that are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. The Company’s actual results and timing of certain events could differ materially from those projected in or contemplated by the forward-looking statements as a result of unforeseen external factors. These factors may include, but are not limited to, risks associated with: investing in real estate assets including changes in general economic and market conditions and the general availability of credit; the ability to continue to finance our investments; defaults by borrowers and/or guarantors; availability of suitable reinvestment opportunities; fluctuations in interest rates and the market value of our Agency securities particularly in response to changes in government policy; fluctuations in property capitalization rates and values of commercial real estate; defaults by third-party servicers; prepayments of investment portfolio assets; variability in investment portfolio cash flows; other general competitive factors; uncertainty around government policy; and the impact of regulatory changes, our ability to maintain our qualification as a REIT, and our ability to maintain our exemption from registration under the Investment Company Act of 1940. For additional information, see the Company’s Annual Report on Form 10-K for the year ended December 31, 2008 and Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, and other reports filed with and furnished to the Securities and Exchange Commission.*



## Dynex at a Glance

- Internally managed mortgage REIT organized in 1987
- Investor in high grade securitized products both Agency and non-Agency
- Use leverage to enhance returns
- Approximately 20% owned by insiders
- Seasoned management team
- \$150 million tax NOL



## Market Snapshot

	<u>Common</u>	<u>Preferred</u> <u>Series D</u>
NYSE Stock Ticker	DX	DXPRD
Shares Outstanding	13,572,012	4,221,539
Dividends paid YTD	\$0.69	\$0.71
Price as of 11/24/09 close	\$8.24	\$10.14
Current dividend yield	11.2%	9.4%
Book Value per common share*	\$8.96	-
Market Cap as of 11/24/09 close	\$111.8 million	\$42.8 million

*\*Book Value per Common Share as of 9/30/09*



# Balance Sheet

(as of September 30, 2009)

	Asset Basis	Financing	Net Invested Capital	3Q09 Earnings Contribution
Agency MBS	\$ 600,927	\$ 516,627	\$ 84,300	\$4,881
Securitized single-family mortgage loans <sup>(1)</sup>	65,016	42,930	22,086	540
Securitized commercial mortgage loans <sup>(2)</sup>	160,715	143,483	17,232	720
Joint venture (CMBS <sup>(2)</sup> )	8,174	–	8,174	1,620
Other investments <sup>(1)</sup>	8,439	–	8,439	204
<b>Total investments</b>	<b>843,271</b>	<b>703,040</b>	<b>140,231</b>	<b>7,965</b>
Cash and equivalents	21,749	–	21,749	4
Other assets/liabilities	7,526	5,745	1,781	–
<b>Total</b>	<b>\$ 872,546</b>	<b>\$ 708,785</b>	<b>\$ 163,761</b>	<b>\$7,969</b>
<b>1.</b>	<b>Approximate year of origination - 1994</b>			
<b>2.</b>	<b>Approximate year of origination - 1997</b>			



## Purchase of JV Interest

- Repurchased DB's interest in the JV for \$9.5 million in 11/09 which they purchased in 9/06 for a net \$36.5 million
- Assets of JV:
  - \$2.3 million in cash
  - subordinate CMBS bonds with \$38.7 million par originated by DX in 1997/1998
  - rights to redeem \$182.5 million callable CMBS with 8% current coupon
- Will immediately seek to refinance \$113.2 million of the \$182.5 million callable CMBS (and retain any savings from the current 8% rate)
- Expect the return on the \$9.5 million investment to be at least 20% based on conservative performance assumptions for the assets
  - Return could improve based on the refinance of the \$113.2 million (See next page)



## Potentials returns on JV assets

(based on refinancing)

- Range of potential returns on \$9.5 million purchase price based on refinancing outcome:

	WAVG coupon savings on refinance		
	<b>2.5%</b>	<b>3.0%</b>	<b>3.5%</b>
Approximate Return on Investment	38%	45%	53%

*Note: Amounts are hypothetical only and based on anticipated credit and prepayment performance on the CMBS. Amounts also assume rating agency approval of the refinance.*

# Balance Sheet – Adjusted for JV repurchase

(as of September 30, 2009)

	Asset Basis	Financing	Net Invested Capital	3Q09 Earnings Contribution
Agency MBS	\$ 600,927	\$ 516,627	\$ 84,300	\$4,881
Securitized single-family mortgage loans	65,016	42,930	22,086	540
Securitized commercial mortgage loans	160,715	134,388 <sup>(1)</sup>	26,327	1,136 <sup>(5)</sup>
Joint venture	– <sup>(2)</sup>	–	–	– <sup>(2)</sup>
CMBS	6,012 <sup>(3)</sup>	–	6,012	1,202 <sup>(4)</sup>
Other investments	8,439	–	8,439	204
<b>Total investments</b>	<b>841,109</b>	<b>693,945</b>	<b>147,164</b>	<b>7,963</b>
Cash and equivalents	14,551	–	14,551	3
Other assets/liabilities	7,660	5,766	1,894	–
<b>Total</b>	<b>\$863,320</b>	<b>\$699,711</b>	<b>\$163,609</b>	<b>\$7,966</b>

**(1)** Adjusted to eliminate obligation under payment agreement to JV

**(2)** Adjusted to eliminate investment in JV

**(3)** Adjusted to consolidate assets held by the JV at their estimated fair value

**(4)** Adjusted to reflect earnings at estimated 20% rate of return

**(5)** Adjusted to eliminate the interest expense associated with obligation under payment agreement





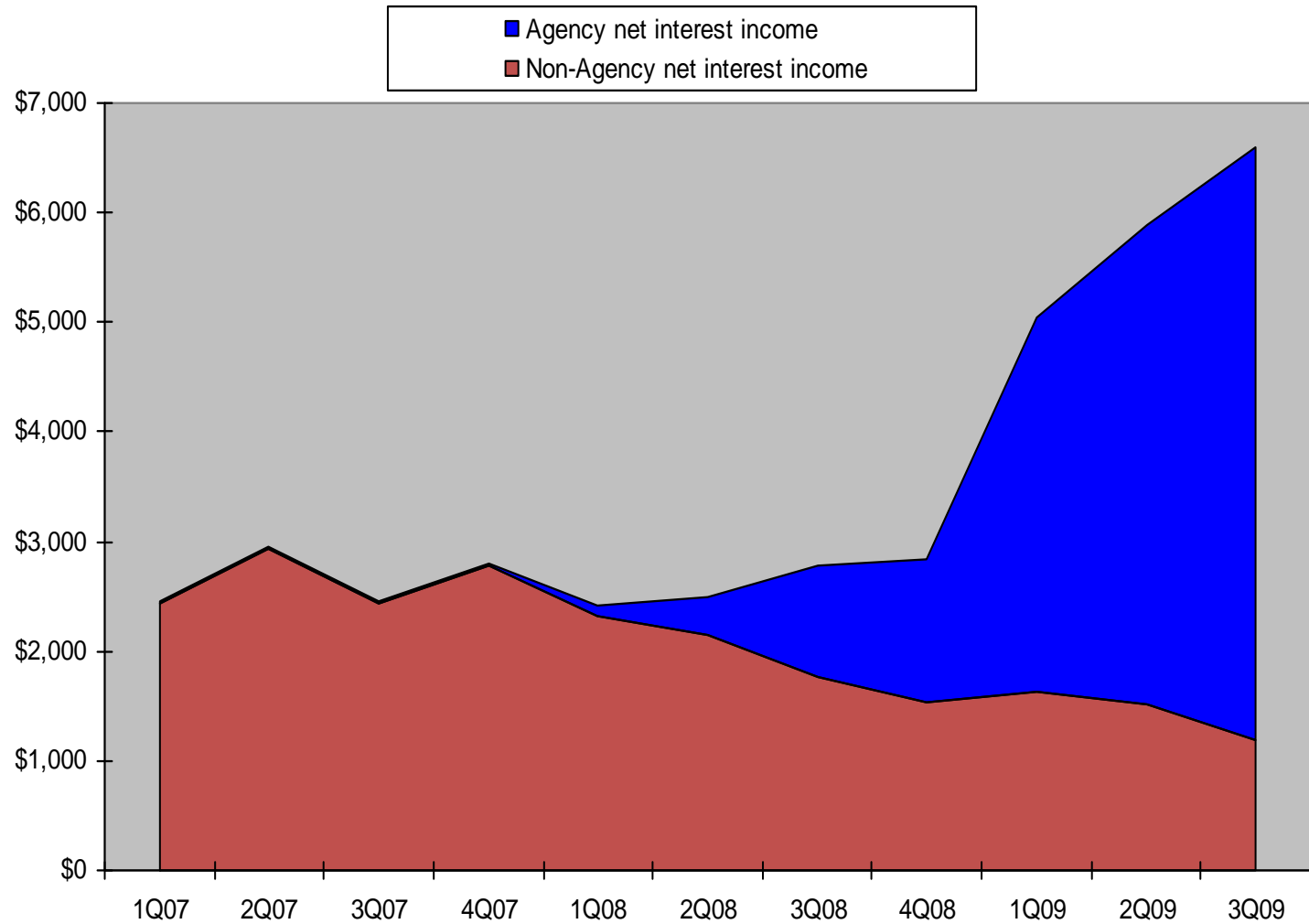
## Business Model: A Closer Look

- Investor in high grade securitized products both Agency and non-Agency
- Target short-duration assets financed with a combination of leverage and equity
- Top-down, relative value approach in determining allocation of capital
- Long-term approach to asset selection
- Disciplined risk-management framework focused on managing prepayment, interest rate, credit and liquidity risks



# Diversified Income Growth

(\$000)





## Comparison to Other REITs

(Data for 3Q09)

	<b>DX</b>	<b>MFA</b>	<b>HTS</b>	<b>CMO</b>	<b>ANH</b>
Portfolio (\$ in millions)	\$ 843	\$ 9,349	\$ 6,733	\$ 7,920	\$ 5,949
Agency MBS	71%	90%	100%	99%	100%
Non-Agency	29%	10%	0%	1%	0%
Agency ARMs	46%	9%	0%	73%	22%
Agency Hybrid ARMs	54%	90%	100%	27%	63%
Agency Fixed	0%	1%	0%	0%	15%
Agency MBS yield	4.13%	5.18%	4.57%	3.90%	5.20%
Borrowing cost	0.43%	2.70%	1.64%	1.65%	2.47%
Net interest spread	3.70%	2.48%	2.93%	2.25%	2.73%
WAVG months-to-reset	20	31	47	8	24
WAVG funding (mos)	2	14	28	4	NA
Duration gap (mos)	18	17	19	4	NA



## Current Investment Landscape

- Fundamentals are conducive for a low-rate, steep yield curve environment
- Government will heavily impact investment returns in 2010
- Technical factors will play a large role in asset prices
- Investment opportunities will be created as market factors evolve in 2010
- In the near term, we are focused on the callable CMBS refinance opportunity
- Longer term, relative value opportunities will exist to take advantage of differences in prepayment speeds, credit performance and MBS pool liquidity





## Our Mission

- Seek attractive risk-adjusted returns across a variety of market environments
- Provide an attractive total return opportunity while protecting book value
- Maintain a culture of disciplined Risk Management
- Foster a culture of integrity and transparency
- Stay focused on long-term business opportunities



## Why Dynex

- We are positioned to take advantage of opportunities in multiple sectors of the Agency and non-Agency markets
- Our current short duration portfolio has limited extension risk and should outperform in a rising rate environment
- We are adding plain vanilla interest rate swaps at very low rates to reduce the duration of our portfolio
- Our current seasoned non-Agency assets are performing well
- Our lightly leveraged balance sheet gives us flexibility to be opportunistic
- We have proven we can manage through cycles