UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2016

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 1-9819

DYNEX CAPITAL, INC.
(Exact name of registrant as specified in its charter)

Virginia	**52-1549373**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4991 Lake Brook Drive, Suite 100, Glen Allen, Virginia	**23060-9245**
(Address of principal executive offices)	(Zip Code)

(804) 217-5800
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

On July 31, 2016, the registrant had 49,146,918 shares outstanding of common stock, $0.01 par value, which is the registrant's only class of common stock.

DYNEX CAPITAL, INC.
FORM 10-Q
INDEX

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

DYNEX CAPITAL, INC.
CONSOLIDATED BALANCE SHEETS
($ in thousands except share data)

	June 30, 2016	December 31, 2015
ASSETS	*(unaudited)*	
Mortgage-backed securities (including pledged of $3,116,798 and $3,361,635, respectively)	$ 3,208,735	$ 3,493,701
Mortgage loans held for investment, net	21,815	24,145
Investment in limited partnership	—	10,835
Investment in FHLB stock	5,260	11,475
Cash and cash equivalents	96,897	33,935
Restricted cash	83,679	51,190
Derivative assets	18,421	7,835
Principal receivable on investments	7,794	6,193
Accrued interest receivable	19,619	22,764
Other assets, net	6,853	7,975
Total assets	$ 3,469,073	$ 3,670,048
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	$ 2,600,480	$ 2,589,420
FHLB advances	263,000	520,000
Non-recourse collateralized financing	7,520	8,442
Derivative liabilities	90,260	41,205
Accrued interest payable	1,714	1,743
Accrued dividends payable	12,257	13,709
Other liabilities	2,316	3,504
Total liabilities	2,977,547	3,178,023
Shareholders' equity:		
Preferred stock, par value $.01 per share, 8.5% Series A Cumulative Redeemable; 8,000,000 shares authorized; 2,300,000 shares issued and outstanding ($57,500 aggregate liquidation preference)	$ 55,407	$ 55,407
Preferred stock, par value $.01 per share, 7.625% Series B Cumulative Redeemable; 7,000,000 shares authorized; 2,250,000 shares issued and outstanding ($56,250 aggregate liquidation preference)	54,251	54,251
Common stock, par value $.01 per share, 200,000,000 shares authorized; 49,145,087 and 49,047,335 shares issued and outstanding, respectively	491	490
Additional paid-in capital	726,063	725,358
Accumulated other comprehensive income (loss)	51,908	(12,768)
Accumulated deficit	(396,594)	(330,713)
Total shareholders' equity	491,526	492,025
Total liabilities and shareholders' equity	$ 3,469,073	$ 3,670,048

See notes to the unaudited consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)
(amounts in thousands except per share data)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Interest income	$ 22,816	$ 24,527	$ 47,905	$ 48,626
Interest expense	6,100	5,542	12,410	10,913
Net interest income	16,716	18,985	35,495	37,713
(Loss) gain on derivative instruments, net	(16,297)	17,090	(64,561)	(8,233)
Loss on sale of investments, net	(297)	(1,491)	(4,238)	(183)
Fair value adjustments, net	28	20	51	59
Other income, net	290	612	353	645
General and administrative expenses:				
Compensation and benefits	(1,875)	(2,351)	(4,093)	(4,467)
Other general and administrative	(1,796)	(2,403)	(3,669)	(4,544)
Net (loss) income	(3,231)	30,462	(40,662)	20,990
Preferred stock dividends	(2,294)	(2,294)	(4,588)	(4,588)
Net (loss) income to common shareholders	$ (5,525)	$ 28,168	$ (45,250)	$ 16,402
Other comprehensive income:				
Change in net unrealized gain on available-for-sale investments	$ 22,730	$ (42,027)	$ 60,491	$ (18,722)
Reclassification adjustment for loss on sale of investments, net	297	1,491	4,238	183
Reclassification adjustment for de-designated cash flow hedges	(80)	857	(53)	1,914
Total other comprehensive income (loss)	22,947	(39,679)	64,676	(16,625)
Comprehensive income (loss) to common shareholders	$ 17,422	$ (11,511)	$ 19,426	$ (223)
Net (loss) income per common share-basic and diluted	$ (0.11)	$ 0.52	$ (0.92)	$ 0.30
Weighted average common shares-basic and diluted	49,119	54,574	49,080	54,687

See notes to the unaudited consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(UNAUDITED)
($ in thousands)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Shareholders' Equity
Balance as of December 31, 2015	**$ 109,658**	**$ 490**	**$ 725,358**	**$ (12,768)**	**$ (330,713)**	**$ 492,025**
Stock issuance	—	—	77	—	—	77
Restricted stock granted, net of amortization	—	2	1,441	—	—	1,443
Adjustments for tax withholding on share-based compensation	—	(1)	(484)	—	—	(485)
Stock issuance costs amortization	—	—	(19)	—	—	(19)
Common stock repurchased	—	—	(310)	—	—	(310)
Net loss	—	—	—	—	(40,662)	(40,662)
Dividends on preferred stock	—	—	—	—	(4,588)	(4,588)
Dividends on common stock	—	—	—	—	(20,631)	(20,631)
Other comprehensive income	—	—	—	64,676	—	64,676
Balance as of June 30, 2016	**$ 109,658**	**$ 491**	**$ 726,063**	**$ 51,908**	**$ (396,594)**	**$ 491,526**

See notes to the unaudited consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
($ in thousands)

	Six Months Ended June 30,	
	2016	**2015**
Operating activities:		
Net (loss) income	$ (40,662)	$ 20,990
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
Decrease (increase) in accrued interest receivable	3,145	(158)
(Decrease) increase in accrued interest payable	(29)	120
Loss on derivative instruments, net	64,561	8,233
Loss on sale of investments, net	4,238	183
Fair value adjustments, net	(51)	(59)
Amortization of investment premiums, net	73,597	74,737
Other amortization and depreciation, net	850	2,847
Stock-based compensation expense	1,443	1,475
Other operating activities	(862)	18
Net cash and cash equivalents provided by operating activities	106,230	108,386
Investing activities:		
Purchase of investments	(4,970)	(1,000,070)
Principal payments received on investments	187,437	236,598
Proceeds from sales of investments	94,033	233,238
Principal payments received on mortgage loans held for investment, net	2,319	9,825
Payment to acquire interest in limited partnership	—	(6,000)
Distributions received from limited partnership	10,835	—
Net payments on derivatives, including terminations	(26,092)	(10,968)
Other investing activities	(55)	(135)
Net cash and cash equivalents provided by (used in) investing activities	263,507	(537,512)
Financing activities:		
Borrowings under repurchase agreements and FHLB advances	11,394,652	9,719,787
Repayments of repurchase agreement borrowings and FHLB advances	(11,640,592)	(9,221,857)
Principal payments on non-recourse collateralized financing	(939)	(2,035)
Increase in restricted cash	(32,489)	(15,617)
Proceeds from issuance of common stock, net of issuance costs	58	59
Cash paid for repurchases of common stock	(310)	(6,688)
Payments related to tax withholding for stock-based compensation	(485)	(557)
Dividends paid	(26,670)	(31,447)
Net cash and cash equivalents (used in) provided by financing activities	(306,775)	441,645
Net increase in cash and cash equivalents	62,962	12,519
Cash and cash equivalents at beginning of period	33,935	43,944
Cash and cash equivalents at end of period	$ 96,897	$ 56,463
Supplemental Disclosure of Cash Activity:		
Cash paid for interest	$ 12,476	$ 8,842

See notes to the unaudited consolidated financial statements.

NOTE 1 –ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Dynex Capital, Inc., ("Company") was incorporated in the Commonwealth of Virginia on December 18, 1987 and commenced operations in February 1988. The Company primarily earns income from investing on a leveraged basis in mortgage-backed securities ("MBS") that are issued or guaranteed by the U.S. Government or U.S. Government sponsored agencies ("Agency MBS") and MBS issued by others ("non-Agency MBS").

Basis of Presentation

The accompanying unaudited consolidated financial statements of Dynex Capital, Inc. and its subsidiaries (together, "Dynex" or, as appropriate, the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the instructions to the Quarterly Report on Form 10-Q and Article 10, Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all significant adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation of the consolidated financial statements have been included. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for any other interim periods or for the entire year ending December 31, 2016. The unaudited consolidated financial statements included herein should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC.

Reclassifications

Certain items in the prior periods' consolidated financial statements have been reclassified to conform to the current period's presentation. The Company's equity in income of limited partnership for the three and six months ended June 30, 2015 is now included within "other income (expense), net" on the Company's consolidated statements of comprehensive income. This presentation change has no effect on reported total assets, total liabilities, results of operations, or cash flow activities.

Consolidation

The consolidated financial statements include the accounts of the Company and the accounts of its majority owned subsidiaries and variable interest entities ("VIE") for which it is the primary beneficiary. As a primary beneficiary, the Company has both the power to direct the activities that most significantly impact the economic performance of the VIE and a right to receive benefits or absorb losses of the entity that could be potentially significant to the VIE. The Company is required to reconsider its evaluation of whether to consolidate a VIE each reporting period, based upon changes in the facts and circumstances pertaining to the VIE. The Company consolidates certain trusts through which it has securitized mortgage loans as a result of not meeting the sale criteria under GAAP at the time the financial assets were transferred to the trust. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates. The most significant estimates used by management include, but are not limited to, fair value measurements of its investments, other-than-temporary impairments, contingencies, and amortization of premiums and discounts. These items are discussed further below within this note to the consolidated financial statements.

Income Taxes

The Company has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986 and the corresponding provisions of state law. To qualify as a REIT, the Company must meet certain tests including investing in primarily real estate-related assets and the required distribution of at least 90% of its annual REIT taxable income to stockholders after consideration of its net operating loss ("NOL") carryforward and not including taxable income retained in its taxable subsidiaries. As a REIT, the Company generally will not be subject to federal income tax on the amount of its income or capital gains that is distributed as dividends to shareholders.

The Company assesses its tax positions for all open tax years and determines whether the Company has any material unrecognized liabilities in accordance with Accounting Standards Codification ("ASC") Topic 740. The Company records these liabilities, if any, to the extent they are deemed more likely than not to have been incurred.

Net Income (Loss) Per Common Share

The Company calculates basic net income (loss) per common share by dividing net income (loss) to common shareholders for the period by weighted-average shares of common stock outstanding for that period. The Company did not have any potentially dilutive securities outstanding during the three or six months ended June 30, 2016 or June 30, 2015.

Holders of unvested shares of the Company's issued and outstanding restricted common stock are eligible to receive non-forfeitable dividends. As such, these unvested shares are considered participating securities as per ASC Topic 260-10 and therefore are included in the computation of basic net income (loss) per common share using the two-class method. Upon vesting, restrictions on transfer expire on each share of restricted stock, and each such share of restricted stock is converted to one equal share of common stock.

Because the Company's 8.50% Series A Cumulative Redeemable Preferred Stock (the “Series A Preferred Stock”) and 7.625% Series B Cumulative Redeemable Preferred Stock (the “Series B Preferred Stock”) are redeemable at the Company's option for cash only and may convert into shares of common stock only upon a change of control of the Company, the effect of those shares and their related dividends is excluded from the calculation of diluted net income (loss) per common share.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less.

Restricted Cash

Restricted cash consists of cash the Company has pledged to cover initial and variation margin with its financing and derivative counterparties.

Mortgage-Backed Securities

The Company invests in Agency and non-Agency RMBS, CMBS and CMBS IO securities, all of which are designated as available-for-sale ("AFS"). All of the Company’s MBS are recorded at fair value on the consolidated balance sheet. Changes in unrealized gain (loss) on the Company's MBS are reported in other comprehensive income ("OCI") until each security is collected, disposed of, or determined to be other than temporarily impaired. Although the Company generally intends to hold its AFS securities until maturity, it may sell any of these securities as part of the overall management of its business. Upon the sale of an AFS security, any unrealized gain or loss is reclassified out of accumulated other comprehensive income ("AOCI") into net income as a realized "gain (loss) on sale of investments, net" using the specific identification method.

The Company’s MBS pledged as collateral against repurchase agreements and derivative instruments are included in MBS on the consolidated balance sheets with the fair value of the MBS pledged disclosed parenthetically.

Interest Income, Premium Amortization, and Discount Accretion. Interest income on MBS is accrued based on the outstanding principal balance (or notional balance in the case of interest-only, or "IO", securities) and their contractual terms. Premiums and discounts on Agency MBS as well as any non-Agency MBS rated 'AA' and higher at the time of purchase are amortized into interest income over the expected life of such securities using the effective yield method and adjustments to premium amortization are made for actual cash payments as well as changes in projected future cash payments. The Company's projections of future cash payments are based on input and analysis received from external sources and internal models, and include assumptions about the amount and timing of credit losses, loan prepayment rates, fluctuations in interest rates, and other factors. On at least a quarterly basis, the Company reviews and makes any necessary adjustments to its cash flow projections and updates the yield recognized on these assets.

The Company holds certain non-Agency MBS that had credit ratings of less than 'AA' at the time of purchase or were not rated by any of the nationally recognized credit rating agencies. A portion of these non-Agency MBS were purchased at discounts to their par value, which management does not believe to be substantial. The discount is accreted into income over the security's expected life, which reflects management's estimate of the security's projected cash flows. Future changes in the timing of projected cash flows or differences arising between projected cash flows and actual cash flows received may result in a prospective change in the effective yield on those securities.

Determination of MBS Fair Value. The Company estimates the fair value of the majority of its MBS based upon prices obtained from third-party pricing services and broker quotes. The remainder of the Company's MBS are valued by discounting the estimated future cash flows derived from cash flow models that utilize information such as the security's coupon rate, estimated prepayment speeds, expected weighted average life, collateral composition, estimated future interest rates, expected losses, and credit enhancements as well as certain other relevant information. Refer to Note 6 for further discussion of MBS fair value measurements.

Other-than-Temporary Impairment. MBS is considered impaired when its fair value is less than its amortized cost. The Company evaluates all of its impaired MBS for other-than-temporary impairments ("OTTI") on at least a quarterly basis. An impairment is considered other-than-temporary if: (1) the Company intends to sell the MBS; (2) it is more likely than not that the Company will be required to sell the MBS before its fair value recovers; or (3) the Company does not expect to recover the full amortized cost basis of the MBS. If either of the first two conditions is met, the entire amount of the impairment is recognized in earnings. If the impairment is solely due to the inability to fully recover the amortized cost basis, the security is further analyzed to quantify any credit loss, which is the difference between the present value of cash flows expected to be collected on the MBS and its amortized cost. The credit loss, if any, is then recognized in earnings, while the balance of impairment related to other factors is recognized in other comprehensive income.

Following the recognition of an OTTI through earnings, a new cost basis is established for the security. Any subsequent recoveries in fair value may be accreted back into the amortized cost basis of the MBS on a prospective basis through interest income. Please see Note 2 for additional information related to the Company's evaluation for OTTI.

Investment in Limited Partnership

The Company is in the process of liquidating its remaining interests in a limited partnership which is accounted for using the equity method.

Secured Borrowings

The Company's repurchase agreements and Federal Home Loan Bank (or "FHLB") advances, which are used to finance its purchases of MBS, are accounted for as secured borrowings under which the Company pledges its securities as collateral to secure a loan, which is equal in value to a specified percentage of the estimated fair value of the pledged collateral. The Company retains beneficial ownership of the pledged collateral. At the maturity of a repurchase agreement, the Company is required to repay the loan and concurrently receives back its pledged collateral from the lender or, with the consent of the lender, the Company may renew the agreement at the then prevailing financing rate. A repurchase agreement lender may require the Company to pledge additional collateral in the event of a decline in the fair value of the collateral pledged. Repurchase agreement financing is recourse to the Company and the assets pledged. Most of the Company’s repurchase agreements are based on the September 1996 version of the Bond Market Association Master Repurchase Agreement, which generally provides that the lender, as buyer, is responsible for obtaining collateral valuations from a generally recognized source agreed to by both the Company and the lender, or, in an instance when such source is not available, the value determination is made by the lender.

As a result of a final rule issued by the Federal Housing Finance Administration ("FHFA") in January 2016 regarding the exclusion of captive insurance entities from membership in the FHLB, the Company's wholly owned subsidiary, Mackinaw Insurance Company, LLC ("Mackinaw"), must terminate its membership in the FHLB of Indianapolis by February 19, 2017 and will no longer be permitted new advances or renewals of existing advances. FHLB advances outstanding on the Company's consolidated balance sheet as of June 30, 2016 will be repaid before December 31, 2016.

Derivative Instruments

The Company's derivative instruments, which currently include interest rate swaps and Eurodollar futures, are accounted for at fair value and recognized accordingly as either derivative assets or derivative liabilities on the Company's consolidated balance sheet. All periodic interest costs and changes in fair value of derivative instruments, including gains and losses realized upon termination, are recorded in "gain (loss) on derivative instruments, net" on the Company's consolidated statement of comprehensive income. Please refer to Note 4 for additional information regarding the Company's accounting for its derivative instruments.

Although MBS have characteristics that meet the definition of a derivative instrument, ASC Topic 815 specifically excludes these instruments from its scope because they are accounted for as debt securities under ASC Topic 320.

Share-Based Compensation

Pursuant to the Company’s 2009 Stock and Incentive Plan, the Company may grant share-based compensation to eligible employees, directors or consultants or advisers to the Company, including stock awards, stock options, stock appreciation rights, dividend equivalent rights, performance shares, and restricted stock units. The Company's restricted stock currently issued and outstanding under this plan may be settled only in shares of its common stock, and therefore are treated as equity awards with their fair value measured at the grant date and recognized as compensation cost over the requisite service period with a corresponding credit to shareholders' equity. The requisite service period is the period during which an employee is required to provide service in exchange for an award, which is equivalent to the vesting period specified in the terms of the time-based restricted stock award. None of the Company's restricted stock awards have performance based conditions. The Company does not currently have any share-based compensation issued or outstanding other than restricted stock.

Contingencies

In the normal course of business, there may be various lawsuits, claims, and other contingencies pending against the Company. On a quarterly basis, the Company evaluates whether to establish provisions for estimated losses from those matters. The Company recognizes a liability for a contingent loss when: (a) the underlying causal event has occurred prior to the balance sheet date; (b) it is probable that a loss has been incurred; and (c) there is a reasonable basis for estimating that loss. A liability is not recognized for a contingent loss when it is only possible or remotely possible that a loss has been incurred, however, possible contingent losses shall be disclosed. If the contingent loss (or an additional loss in excess of any accrual) is at least a reasonable possibility and material, then the Company discloses a reasonable estimate of the possible loss or range of loss, if such reasonable estimate can be made. If the Company cannot make a reasonable estimate of the possible material loss, or range of loss, then that fact is disclosed.

Recent Accounting Pronouncements

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases*, which includes the following amendments:

- for operating and finance leases, a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments in its consolidated balance sheet;
- for finance leases, a lessee is required to recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income;

- for finance leases, a lessee is required to classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows;
- for operating leases, a lessee is required to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis in the statement of comprehensive income; and
- for operating leases, a lessee is required to classify all cash payments within operating activities in the statement of cash flows.

Under the new guidance, lessor accounting is largely unchanged. ASU No. 2016-02 is effective for public companies for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Company does not expect this ASU to have a material impact on the Company's consolidated financial statements.

The FASB issued ASU No. 2016-09, *Compensation - Stock Compensation,* which simplifies several aspects of the accounting for share-based payment award transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement cash flows. The amendments are effective for public companies for fiscal years beginning after December 15, 2016, and early adoption is permitted. The Company does not expect this ASU to have a material impact on the Company's consolidated financial statements.

The FASB issued ASU No. 2016-13, *Financial Instruments - Credit Losses,* which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For assets measured at amortized cost, the amendments in this ASU eliminate the probable initial recognition threshold in current GAAP and broaden the information that an entity must consider in developing its expected credit loss estimate to include the use of forecasted information. For assets classified as available-for-sale with changes in fair value recorded in other comprehensive income, measurement of credit losses will be similar to current GAAP. However, the amendments in this ASU require that credit losses be presented as an allowance rather than as a write-down, which is referred to in current GAAP as an other-than-temporary impairment. An entity will be able to record reversals of credit losses, if credit loss estimates decline, in net income for the current period. The amendments in this ASU will not permit an entity to use the length of time a debt security has been in an unrealized loss position to avoid recording a credit loss and removes the requirements to consider historical and implied volatility of the fair value of a security as well as recoveries or declines in fair value after the balance sheet date. The amendments in this ASU will affect an entity by varying degrees depending on the credit quality of the assets held by the entity, their duration, and how the entity applies current GAAP. These amendments will become effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and early adoption will be permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. An entity will apply the amendments in this ASU through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently evaluating the impact of this ASU on its consolidated financial statements.

($ in thousands except per share data)

NOTE 2 – MORTGAGE-BACKED SECURITIES

The majority of the Company's MBS are pledged as collateral to cover initial and variation margins for the Company's secured borrowings and derivative instruments. The following tables present the Company’s MBS by investment type as of the dates indicated:

	June 30, 2016						
	Par	Net Premium (Discount)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	WAC (1)
RMBS:							
Agency	$ 1,329,159	$ 65,558	$ 1,394,717	$ 7,031	$ (8,545)	$ 1,393,203	3.03%
Non-Agency	55,603	(29)	55,574	82	(418)	55,238	3.56%
	1,384,762	65,529	1,450,291	7,113	(8,963)	1,448,441	
CMBS:							
Agency	856,352	10,713	867,065	37,329	(82)	904,312	3.40%
Non-Agency	117,696	(7,671)	110,025	8,511	—	118,536	5.00%
	974,048	3,042	977,090	45,840	(82)	1,022,848	
CMBS IO (2):							
Agency	—	386,628	386,628	7,732	(889)	393,471	0.67%
Non-Agency	—	342,101	342,101	3,606	(1,732)	343,975	0.60%
	—	728,729	728,729	11,338	(2,621)	737,446	
Total AFS securities:	$ 2,358,810	$ 797,300	$ 3,156,110	$ 64,291	$ (11,666)	$ 3,208,735	

(1) *The current weighted average coupon ("WAC") is the gross interest rate of the pool of mortgages underlying the security weighted by the outstanding principal balance (or by notional balance in the case of an IO security).*

(2) *The notional balance for Agency CMBS IO and non-Agency CMBS IO was $12,078,342 and $10,597,035, respectively, as of June 30, 2016.*

	December 31, 2015						
	Par	Net Premium (Discount)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	WAC (1)
RMBS:							
Agency	$ 1,536,733	$ 77,617	$ 1,614,350	$ 4,362	$ (20,190)	$ 1,598,522	3.03%
Non-Agency	66,003	(45)	65,958	70	(818)	65,210	3.25%
	1,602,736	77,572	1,680,308	4,432	(21,008)	1,663,732	
CMBS:							
Agency	876,751	13,252	890,003	10,542	(14,614)	885,931	3.45%
Non-Agency	156,218	(8,133)	148,085	7,039	(941)	154,183	4.29%
	1,032,969	5,119	1,038,088	17,581	(15,555)	1,040,114	
CMBS IO (2):							
Agency	—	421,857	421,857	5,922	(1,651)	426,128	0.80%
Non-Agency	—	365,554	365,554	1,992	(3,819)	363,727	0.71%
	—	787,411	787,411	7,914	(5,470)	789,855	
Total AFS securities:	$ 2,635,705	$ 870,102	$ 3,505,807	$ 29,927	$ (42,033)	$ 3,493,701	

($ in thousands except per share data)

(1) The current weighted average coupon ("WAC") is the gross interest rate of the pool of mortgages underlying the security weighted by the outstanding principal balance (or by notional balance in the case of an IO security).

(2) The notional balance for the Agency CMBS IO and non-Agency CMBS IO was $12,180,291 and $10,328,628, respectively, as of December 31, 2015.

Actual maturities of MBS are affected by the contractual lives of the underlying mortgage collateral, periodic payments of principal, prepayments of principal, and the payment priority structure of the security; therefore, actual maturities are generally shorter than the securities' stated contractual maturities.

The following table presents information regarding the sales included in "(loss) gain on sale of investments, net" on the Company's consolidated statements of comprehensive income for the periods indicated:

	Three Months Ended June 30,			
	2016		2015	
	Proceeds Received	Realized Gain (Loss)	Proceeds Received	Realized Gain (Loss)
Agency RMBS	$ 10,287	$ (297)	$ 96,025	$ (1,875)
Agency CMBS	—	—	98,887	(822)
Non-Agency CMBS IO	—	—	31,972	1,206
	$ 10,287	$ (297)	$ 226,884	$ (1,491)

	Six Months Ended June 30,			
	2016		2015	
	Proceeds Received	Realized Gain (Loss)	Proceeds Received	Realized Gain (Loss)
Agency RMBS	$ 54,178	$ (3,010)	$ 156,370	$ (2,196)
Agency CMBS	—	—	98,887	(822)
Non-Agency CMBS	33,640	(1,228)	—	—
Agency CMBS IO	—	—	29,385	1,474
Non-Agency CMBS IO	—	—	44,764	1,361
	$ 87,818	$ (4,238)	$ 329,406	$ (183)

The following table presents certain information for those MBS in an unrealized loss position as of the dates indicated:

	June 30, 2016			December 31, 2015		
	Fair Value	Gross Unrealized Losses	# of Securities	Fair Value	Gross Unrealized Losses	# of Securities
Continuous unrealized loss position for less than 12 months:						
Agency MBS	$ 322,585	$ (2,095)	45	$ 1,332,849	$ (19,062)	109
Non-Agency MBS	89,794	(807)	20	351,650	(5,347)	72
Continuous unrealized loss position for 12 months or longer:						
Agency MBS	$ 368,509	$ (7,421)	55	$ 775,484	$ (17,393)	72
Non-Agency MBS	92,521	(1,343)	28	8,306	(231)	7

($ in thousands except per share data)

Because the principal related to Agency MBS is guaranteed by the government-sponsored entities Fannie Mae and Freddie Mac which have the implicit guarantee of the U.S. government, the Company does not consider any of the unrealized losses on its Agency MBS to be credit related. Although the unrealized losses are not credit related, the Company assesses its ability and intent to hold any Agency MBS with an unrealized loss until the recovery in its value. This assessment is based on the amount of the unrealized loss and significance of the related investment as well as the Company's current leverage and anticipated liquidity. Based on this analysis, the Company has determined that the unrealized losses on its Agency MBS as of June 30, 2016 and December 31, 2015 were temporary.

The Company reviews any non-Agency MBS in an unrealized loss position to evaluate whether any decline in fair value represents an OTTI. The evaluation includes a review of the credit ratings of these non-Agency MBS and the seasoning of the mortgage loans collateralizing these securities as well as the estimated future cash flows which include projected losses. The Company performed this evaluation for the non-Agency MBS in an unrealized loss position and has determined that there have not been any adverse changes in the timing or amount of estimated future cash flows that necessitate a recognition of OTTI amounts as of June 30, 2016 or December 31, 2015.

NOTE 3 – SECURED BORROWINGS

The Company's secured borrowings, which consist of repurchase agreements and FHLB advances, that were outstanding as of June 30, 2016 and December 31, 2015 are summarized in the table below:

	June 30, 2016		
Collateral Type	**Balance**	**Weighted Average Rate**	**Fair Value of Collateral Pledged**
Agency RMBS	$ 1,284,519	0.67%	$ 1,334,785
Non-Agency RMBS	45,581	1.81%	54,577
Agency CMBS	547,234	0.67%	592,932
Non-Agency CMBS	101,795	1.37%	117,564
Agency CMBS IO	331,263	1.30%	388,185
Non-Agency CMBS IO	283,906	1.39%	338,357
Securitization financing bond	6,182	1.80%	6,685
Total repurchase agreements	$ 2,600,480	0.88%	$ 2,833,085
FHLB advances [(1)]	263,000	0.51%	283,295
Total secured borrowings	$ 2,863,480	0.85%	$ 3,116,380

($ in thousands except per share data)

	December 31, 2015		
Collateral Type	**Balance**	**Weighted Average Rate**	**Fair Value of Collateral Pledged**
Agency RMBS	$ 1,439,436	0.47%	$ 1,483,152
Non-Agency RMBS	52,128	1.77%	64,286
Agency CMBS	301,427	0.49%	345,728
Non-Agency CMBS	126,378	1.26%	143,785
Agency CMBS IOs	360,245	1.24%	421,285
Non-Agency CMBS IOs	302,771	1.33%	359,351
Securitization financing bond	7,035	1.65%	8,054
Total repurchase agreements	$ 2,589,420	0.75%	$ 2,825,641
FHLB advances (1)	520,000	0.40%	541,771
Total secured borrowings	$ 3,109,420	0.69%	$ 3,367,412

(1) As of June 30, 2016 and December 31, 2015, FHLB advances were collateralized primarily with Agency CMBS.

As of June 30, 2016, the weighted average remaining term to maturity of our repurchase agreements was 21 days compared to 22 days as of December 31, 2015. The remaining balance of FHLB advances is due in October 2016. The following table provides a summary of the original term to maturity of our secured borrowings as of June 30, 2016 and December 31, 2015:

Original Term to Maturity	**June 30, 2016**	**December 31, 2015**
Less than 30 days	$ 657,966	$ 551,643
30 to 90 days	1,846,757	782,393
91 to 180 days	95,757	1,512,384
181 to 364 days	263,000	—
1 year or longer	—	263,000
	$ 2,863,480	$ 3,109,420

The following table lists the counterparties with whom the Company had over 10% of its shareholders' equity at risk (defined as the excess of collateral pledged over the borrowings outstanding):

	June 30, 2016		
Counterparty Name	**Balance**	**Weighted Average Rate**	**Equity at Risk**
Wells Fargo Bank, N. A. and affiliates	$ 281,421	1.34%	$ 52,582

Of the amount outstanding with Wells Fargo Bank, N.A. and affiliates, $267,866 is under a committed repurchase facility which has an aggregate maximum borrowing capacity of $350,000 and is scheduled to mature on August 6, 2018, subject to early termination provisions contained in the master repurchase agreement. The facility is collateralized primarily by CMBS IO, and its weighted average borrowing rate as of June 30, 2016 was 1.34%.

As of June 30, 2016, the Company had repurchase agreement amounts outstanding with 19 of its 32 available repurchase agreement counterparties. The Company's counterparties, as set forth in the master repurchase agreement with the counterparty, require the Company to comply with various customary operating and financial covenants, including, but not limited to, minimum net worth, maximum declines in net worth in a given period, and maximum leverage requirements as well as maintaining the Company's REIT status. In addition, some of the agreements contain cross default features, whereby default under an agreement with one lender simultaneously causes default under agreements with other lenders. To the extent that the Company fails to comply with the covenants contained in these financing agreements or is otherwise found to be in default under the terms of such agreements, the counterparty has the right to accelerate amounts due under the master repurchase agreement. With respect to outstanding repurchase agreement and FHLB advance financings as of June 30, 2016, the Company was in compliance with all covenants.

($ in thousands except per share data)

Please see Note 5 for the Company's disclosures related to offsetting assets and liabilities.

NOTE 4 – DERIVATIVES

The Company utilizes derivative instruments to economically hedge a portion of its exposure to interest rate risk. The Company primarily uses pay-fixed interest rate swaps and Eurodollar contracts to hedge its exposure to changes in interest rates and uses receive-fixed interest rate swaps to offset a portion of its pay-fixed interest rate swaps in order to manage its overall hedge position. The objective of the Company's risk management strategy is to mitigate declines in book value resulting from fluctuations in the fair value of the Company's assets from changing interest rates and to protect some portion of the Company's earnings from rising interest rates. Please refer to Note 1 for information related to the Company's accounting policy for its derivative instruments.

The table below summarizes information about the Company’s derivative instruments treated as trading instruments on its consolidated balance sheet as of the dates indicated:

	June 30, 2016			
	Derivative Assets		Derivative Liabilities	
Trading Instruments	**Fair Value**	**Notional**	**Fair Value**	**Notional**
Interest rate swaps	$ 18,421	$ 425,000	$ (44,791)	$ 1,355,000
Eurodollar futures [(1)]	—	—	(45,469)	6,300,000
Total	$ 18,421	$ 425,000	$ (90,260)	$ 7,655,000

	December 31, 2015			
	Derivative Assets		Derivative Liabilities	
Trading Instruments	**Fair Value**	**Notional**	**Fair Value**	**Notional**
Interest rate swaps	$ 7,835	$ 460,000	$ (12,108)	$ 2,920,000
Eurodollar futures [(1)]	—	—	(29,097)	6,300,000
Total	$ 7,835	$ 460,000	$ (41,205)	$ 9,220,000

(1) The Eurodollar futures aggregate notional amount represents the total notional of the 3-month contracts with expiration dates from 2017 to 2020. The maximum notional outstanding for any future 3-month period did not exceed $725,000 as of June 30, 2016 or as of December 31, 2015.

The following table summarizes the contractual maturities remaining for the Company’s outstanding interest rate swap agreements as of June 30, 2016:

($ in thousands except per share data)

Remaining Maturity	Pay-Fixed Interest Rate Swaps	Pay-Fixed Weighted-Average Rate	Receive-Fixed Interest Rate Swaps	Receive-Fixed Weighted-Average Rate
12 months or less	$ 185,000	0.92%	$ —	—%
13-24 months	—	—%	—	—%
25-36 months	160,000	1.37%	—	—%
37-48 months	335,000	1.61%	250,000	1.91%
49-60 months	50,000	1.35%	150,000	1.71%
61-72 months	—	—%	—	—%
73-84 months	—	—%	—	—%
85-96 months	—	—%	—	—%
97-108 months	375,000	2.83%	25,000	2.71%
109-120 months	250,000	2.43%	—	—%

The following table summarizes the volume of activity related to derivative instruments for the period indicated:

For the six months ended June 30, 2016:	Beginning of Period Notional Amount	Additions	Settlement, Termination, Expiration or Exercise	End of Period Notional Amount
Receive-fixed interest rate swaps	$ 425,000	$ —	$ —	$ 425,000
Pay-fixed interest rate swaps (1)	2,955,000	1,250,000	(2,850,000)	1,355,000
Eurodollar futures	6,300,000	—	—	6,300,000
	$ 9,680,000	$ 1,250,000	$ (2,850,000)	$ 8,080,000

(1) The notional amount of pay-fixed interest rate swaps that were forward starting as of June 30, 2016 was $625,000.

The table below provides detail of the Company's "(loss) gain on derivative instruments, net" by type of derivative for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
Type of Derivative Instrument	2016	2015	2016	2015
Receive-fixed interest rate swaps	$ 3,743	$ (1,746)	$ 14,277	$ 2,782
Pay-fixed interest rate swaps	(15,854)	16,263	(62,466)	2,900
Eurodollar futures	(4,186)	2,573	(16,372)	(13,915)
(Loss) gain on derivative instruments, net	$ (16,297)	$ 17,090	$ (64,561)	$ (8,233)

There is a net unrealized gain of $868 remaining in AOCI on the Company's consolidated balance sheet as of June 30, 2016 which represents the activity related to interest rate swap agreements while they were previously designated as cash flow hedges, and this amount will be recognized in the Company's net income as a portion of "interest expense" over the remaining contractual life of the agreements. The Company estimates a credit of $386 will be reclassified to net income as a reduction of "interest expense" within the next 12 months.

A portion of the Company's interest rate swaps were entered into under bilateral agreements which contain cross-default provisions with other agreements between the parties. In addition, these bilateral agreements contain financial and operational covenants similar to those contained in our repurchase agreements, as described in Note 3. With respect to interest rate agreements under which interest rate swaps were entered into as of June 30, 2016, the Company was in compliance with all covenants.

Please see Note 5 for the Company's disclosures related to offsetting assets and liabilities.

($ in thousands except per share data)

NOTE 5 – OFFSETTING ASSETS AND LIABILITIES

The Company's derivatives, repurchase agreements, and FHLB advances are subject to underlying agreements with master netting or similar arrangements, which provide for the right of offset in the event of default or in the event of bankruptcy of either party to the transactions. The Company reports its assets and liabilities subject to these arrangements on a gross basis. The following tables present information regarding those assets and liabilities subject to such arrangements as if the Company had presented them on a net basis as of June 30, 2016 and December 31, 2015:

	Offsetting of Assets					
				Gross Amount Not Offset in the Balance Sheet (1)		
	Gross Amount of Recognized Assets	Gross Amount Offset in the Balance Sheet	Net Amount of Assets Presented in the Balance Sheet	Financial Instruments Received as Collateral	Cash Received as Collateral	Net Amount
June 30, 2016						
Derivative assets	$ 18,421	$ —	$ 18,421	$ (18,421)	$ —	$ —
December 31, 2015:						
Derivative assets	$ 7,835	$ —	$ 7,835	$ (7,835)	$ —	$ —

	Offsetting of Liabilities					
				Gross Amount Not Offset in the Balance Sheet (1)		
	Gross Amount of Recognized Liabilities	Gross Amount Offset in the Balance Sheet	Net Amount of Liabilities Presented in the Balance Sheet	Financial Instruments Posted as Collateral	Cash Posted as Collateral	Net Amount
June 30, 2016						
Derivative liabilities	$ 90,260	$ —	$ 90,260	$ (22,965)	$ (66,914)	$ 381
Repurchase agreements	2,600,480	—	2,600,480	(2,600,480)	—	—
FHLB Advances	263,000	—	263,000	(263,000)	—	—
	$ 2,953,740	$ —	$ 2,953,740	$ (2,886,445)	$ (66,914)	$ 381
December 31, 2015:						
Derivative liabilities	$ 41,205	$ —	$ 41,205	$ (9,079)	$ (32,111)	$ 15
Repurchase agreements	2,589,420	—	2,589,420	(2,589,420)	—	—
FHLB advances	520,000	—	520,000	(520,000)	—	—
	$ 3,150,625	$ —	$ 3,150,625	$ (3,118,499)	$ (32,111)	$ 15

(1) Amount disclosed for collateral received by or posted to the same counterparty include cash and the fair value of MBS up to and not exceeding the net amount of the asset or liability presented in the balance sheet. The fair value of the actual collateral received by or posted to the same counterparty may exceed the amounts presented.

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 clarifies that fair value should be based on the assumptions market participants would use when pricing an asset or liability and also requires an entity to consider all aspects of nonperformance risk, including the entity's own credit standing, when measuring fair value of a liability. ASC Topic 820 established a valuation hierarchy of three levels as follows:

($ in thousands except per share data)

- Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities as of the measurement date.
- Level 2 – Inputs include quoted prices in active markets for similar assets or liabilities; quoted prices in inactive markets for identical or similar assets or liabilities; or inputs either directly observable or indirectly observable through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 – Unobservable inputs are supported by little or no market activity. The unobservable inputs represent management's best estimate of how market participants would price the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The following table presents the fair value of the Company's assets and liabilities presented on its consolidated balance sheets, segregated by the hierarchy level of the fair value estimate, that are measured at fair value on a recurring basis as of the dates indicated:

	June 30, 2016			
	Fair Value	Level 1 - Unadjusted Quoted Prices in Active Markets	Level 2 - Observable Inputs	Level 3 - Unobservable Inputs
Assets:				
Mortgage-backed securities	$ 3,208,735	$ —	$ 3,194,840	$ 13,895
Derivative assets	18,421	—	18,421	—
Total assets carried at fair value	$ 3,227,156	$ —	$ 3,213,261	$ 13,895
Liabilities:				
Derivative liabilities	$ 90,260	$ 45,469	$ 44,791	$ —
Total liabilities carried at fair value	$ 90,260	$ 45,469	$ 44,791	$ —

	December 31, 2015			
	Fair Value	Level 1 - Unadjusted Quoted Prices in Active Markets	Level 2 - Observable Inputs	Level 3 - Unobservable Inputs
Assets:				
Mortgage-backed securities	$ 3,493,701	$ —	$ 3,477,266	$ 16,435
Derivative assets	7,835	—	7,835	—
Total assets carried at fair value	$ 3,501,536	$ —	$ 3,485,101	$ 16,435
Liabilities:				
Derivative liabilities	$ 41,205	$ 29,097	$ 12,108	$ —
Total liabilities carried at fair value	$ 41,205	$ 29,097	$ 12,108	$ —

The Company did not have assets or liabilities measured at fair value on a non-recurring basis as of June 30, 2016 or December 31, 2015.

The Company's derivative assets and liabilities include interest rate swaps and Eurodollar futures. Interest rate swaps are valued using the income approach with the primary input being the forward interest rate swap curve, which is considered an observable input and thus their fair values are considered Level 2 measurements. Eurodollar futures are valued based on closing exchange prices on these contracts. Accordingly, the fair values of these financial futures are classified as Level 1 measurements.

($ in thousands except per share data)

Agency MBS, as well a majority of non-Agency MBS, are substantially similar to securities that either are currently actively traded or have been recently traded in their respective market. Their fair values are derived from an average of multiple dealer quotes and thus are considered Level 2 fair value measurements. The Company's remaining non-Agency MBS are comprised of securities for which there are not substantially similar securities that trade frequently, and their fair values are therefore considered Level 3 measurements. The Company determines the fair value of its Level 3 securities by discounting the estimated future cash flows derived from cash flow models using pricing indicators or assumptions determined by the Company. Significant inputs into those pricing models are Level 3 in nature due to the lack of readily available market quotes. Information utilized in those pricing models include the security's credit rating, coupon rate, estimated prepayment speeds, expected weighted average life, collateral composition, estimated future interest rates, expected credit losses, and credit enhancement as well as certain other relevant information. Significant changes in any of these inputs in isolation would result in a significantly different fair value measurement. Level 3 assets are generally most sensitive to the default rate and severity assumptions.

The table below presents information about the significant unobservable inputs used in the fair value measurement for the Company's Level 3 non-Agency CMBS and RMBS as of June 30, 2016:

	Quantitative Information about Level 3 Fair Value Measurements (1)			
	Prepayment Speed	**Default Rate**	**Severity**	**Discount Rate**
Non-Agency CMBS	20 CPY	2.0%	35.0%	9.3%
Non-Agency RMBS	10 CPR	1.0%	20.0%	5.8%

(1) Data presented are weighted averages.

The activity of the instruments measured at fair value on a recurring basis using Level 3 inputs is presented in the following table for the period indicated:

	Level 3 Fair Value		
	Non-Agency CMBS	**Non-Agency RMBS**	**Total assets**
Balance as of December 31, 2015	$ 14,903	$ 1,532	$ 16,435
Unrealized (loss) gain included in OCI	(157)	15	(142)
Principal payments	(2,780)	(140)	(2,920)
Accretion	522	—	522
Balance as of June 30, 2016	$ 12,488	$ 1,407	$ 13,895

($ in thousands except per share data)

The following table presents a summary of the carrying value and estimated fair values of the Company's financial instruments as of the dates indicated:

	June 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Mortgage-backed securities	$ 3,208,735	$ 3,208,735	$ 3,493,701	$ 3,493,701
Mortgage loans held for investment, net (1)	21,815	18,415	24,145	20,849
Investment in FHLB stock	5,260	5,260	11,475	11,475
Derivative assets	18,421	18,421	7,835	7,835
Liabilities:				
Repurchase agreements (2)	$ 2,600,480	$ 2,600,480	$ 2,589,420	$ 2,589,420
FHLB advances (2)	263,000	263,000	520,000	520,000
Non-recourse collateralized financing (1)	7,520	7,215	8,442	8,102
Derivative liabilities	90,260	90,260	41,205	41,205

(1) The Company determines the fair value of its mortgage loans held for investment, net and its non-recourse collateralized financing using internally developed cash flow models with inputs similar to those used to estimate the fair value of the Company's Level 3 non-Agency MBS.
(2) The carrying value of repurchase agreements and FHLB advances generally approximates fair value due to their short term maturities.

NOTE 7 – SHAREHOLDERS' EQUITY

Preferred Stock

The Company has 2,300,000 shares of its 8.50% Series A Preferred Stock and 2,250,000 shares of its 7.625% Series B Preferred Stock issued and outstanding as of June 30, 2016 (collectively, the "Preferred Stock"). The Preferred Stock has no maturity and will remain outstanding indefinitely unless redeemed or otherwise repurchased or converted into common stock pursuant to the terms of the Preferred Stock. Except under certain limited circumstances intended to preserve the Company's REIT status, upon the occurrence of a change in control as defined in Article IIIA, Section 7(d) of the Company's Articles of Incorporation, or to avoid the direct or indirect imposition of a penalty tax in respect of, or to protect the tax status of, any of the Company's real estate mortgage investment conduits ("REMIC") interests or a REMIC in which the Company may acquire an interest (as permitted by the Company's Articles of Incorporation), the Company may not redeem the Series A Preferred Stock prior to July 31, 2017 or the Series B Preferred Stock prior to April 30, 2018. On or after these dates, at any time and from time to time, the Preferred Stock may be redeemed in whole, or in part, at the Company's option at a cash redemption price of $25.00 per share plus any accumulated and unpaid dividends. The Series A Preferred Stock pays a cumulative cash dividend equivalent to 8.50% of the $25.00 liquidation preference per share each year and the Series B Preferred Stock pays a cumulative cash dividend equivalent to 7.625% of the $25.00 liquidation preference per share each year. Because the Preferred Stock is redeemable only at the option of the issuer, it is classified as equity on the Company's consolidated balance sheet. The Company announced that it will pay its regular quarterly dividends on its Preferred Stock for the second quarter on July 15, 2016 to shareholders of record as of July 1, 2016.

Common Stock

The following table presents a summary of the changes in the number of common shares outstanding for the periods presented:

($ in thousands except per share data)

	Six Months Ended June 30,	
	2016	2015
Balance as of beginning of period	49,047,335	54,739,111
Common stock issued under DRIP	12,206	9,688
Common stock issued under stock and incentive plans	214,878	263,829
Common stock forfeited for tax withholding on share-based compensation	(80,888)	(67,296)
Common stock repurchased during the period	(48,444)	(860,721)
Balance as of end of period	49,145,087	54,084,611

The Company had 7,416,520 shares of common stock that remain available to offer and sell through its sales agent, JMP Securities LLC, under its "at the market", or "ATM" program, as of June 30, 2016.

The Company's Dividend Reinvestment and Share Purchase Plan ("DRIP") allows registered shareholders to automatically reinvest some or all of their quarterly common stock dividends in shares of the Company's common stock and provides an opportunity for investors to purchase shares of the Company's common stock, potentially at a discount to the prevailing market price. Of the 3,000,000 shares reserved for issuance under the Company's DRIP, there were 2,415,332 shares remaining for issuance as of June 30, 2016. The Company declared a second quarter common stock dividend of $0.21 per share payable on July 29, 2016 to shareholders of record as of July 6, 2016. There was no discount for shares purchased through the DRIP during the second quarter of 2016.

Of the $50,000 authorized by the Company's Board of Directors for the repurchase of its common stock through December 31, 2016, approximately $8,518 remains available for repurchase at the Company's option as of June 30, 2016.

2009 Stock and Incentive Plan. Of the 2,500,000 shares of common stock authorized for issuance under its 2009 Stock and Incentive Plan, the Company had 860,106 available for issuance as of June 30, 2016. Total stock-based compensation expense recognized by the Company for the three and six months ended June 30, 2016 was $614 and $1,443 compared to $782 and $1,475 for the three and six months ended June 30, 2015.

The following table presents a rollforward of the restricted stock activity for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Restricted stock outstanding as of beginning of period	547,486	696,819	696,597	731,809
Restricted stock granted	46,158	32,555	214,878	263,829
Restricted stock vested	(32,555)	(32,777)	(350,386)	(299,041)
Restricted stock outstanding as of end of period	561,089	696,597	561,089	696,597

The combined grant date fair value of the restricted stock issued by the Company for the three and six months ended June 30, 2016 was $300 and $1,349 compared to $250 and $2,167 for the three and six months ended June 30, 2015. As of June 30, 2016, the fair value of the Company's outstanding restricted stock remaining to be amortized into compensation expense is $3,404 which will be recognized over a weighted average period of 1.7 years.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated events and circumstances occurring as of and through the date this Quarterly Report on Form 10-Q was filed with the SEC and has determined that there have been no significant events or circumstances that qualify as a "recognized" or "nonrecognized" subsequent event as defined by ASC Topic 855.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our unaudited financial statements and the accompanying notes included in Part 1, Item 1. "Financial Statements" in this Quarterly Report on Form 10-Q and our audited financial statements and the accompanying notes included in Part II, Item 8 in our Annual Report on Form 10-K for the year ended December 31, 2015. References herein to "Dynex," the "Company," "we," "us," and "our" include Dynex Capital, Inc. and its consolidated subsidiaries, unless the context otherwise requires. In addition to current and historical information, the following discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our future business, financial condition or results of operations. For a description of certain factors that may have a significant impact on our future business, financial condition or results of operations, see "Forward-Looking Statements" at the end of this discussion and analysis.

For a complete description of our business including our operating policies, investment philosophy and strategy, financing and hedging strategies, and other important information, please refer to Part I, Item 1 of our Annual Report on Form 10-K for the year ended December 31, 2015.

EXECUTIVE OVERVIEW

Company Overview

We are an internally managed mortgage real estate investment trust, or mortgage REIT, which invests in residential and commercial mortgage-backed securities on a leveraged basis. Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "DX". We also have two series of preferred stock outstanding, our 8.50% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock") which is traded on the NYSE under the symbol "DXPRA", and our 7.625% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred Stock") which is traded on the NYSE under the symbol "DXPRB". Our objective is to provide attractive risk-adjusted returns to our shareholders over the long term that are reflective of a leveraged, high quality fixed income portfolio with a focus on capital preservation. We seek to provide returns to our shareholders primarily through regular quarterly dividends, and also through capital appreciation.

We invest in Agency and non-Agency mortgage-backed securities ("MBS") consisting of residential MBS ("RMBS"), commercial MBS ("CMBS") and CMBS interest-only ("IO") securities. Agency MBS have a guaranty of principal payment by an agency of the U.S. government or a U.S. government-sponsored entity ("GSE") such as Fannie Mae and Freddie Mac. Non-Agency MBS have no such guaranty of payment. Due to the guaranty of principal payment by a GSE, Agency MBS are the highest credit quality MBS available for investment. We seek to invest in Agency MBS and higher quality non-Agency MBS (typically rated 'A' or better by one or more of the nationally recognized statistical rating organizations) to limit our exposure to credit losses and to minimize fluctuations in fair value from widening in credit spreads. In addition, Agency MBS and higher-rated non-Agency MBS are typically more liquid (i.e., they are more easily converted into cash either through sales or pledges as collateral for repurchase agreement borrowings) than lower-rated MBS.

Our primary source of income is net interest income, which is the excess of the interest income earned on our investments over the cost of financing these investments. We invest our capital pursuant to our Operating Policies as approved by our Board of Directors which include an Investment Policy and Investment Risk Policy. We use leverage to enhance the returns on our invested capital by pledging our investments as collateral for borrowings such as repurchase agreements as discussed further below.

RMBS. Our Agency RMBS investments include MBS collateralized by adjustable-rate mortgage loans ("ARMs"), which have interest rates that generally will adjust at least annually to an increment over a specified interest rate index, and hybrid adjustable-rate mortgage loans ("hybrid ARMs"), which are loans that have a fixed rate of interest for a specified period (typically three to ten years) and then adjust their interest rate at least annually to an increment over a specified interest rate index. Agency ARMs also include hybrid Agency ARMs that are past their fixed-rate periods or within twelve months of their initial reset period. We may also invest in fixed-rate Agency RMBS from time to time.

We also invest in non-Agency RMBS, which do not carry a principal guarantee from the U.S. government or a GSE. Non-Agency RMBS are collateralized by non-conforming residential mortgage loans and are tranched into different credit classes of securities with payments to junior classes subordinate to senior classes. Some of the non-Agency RMBS that we invest in may be collateralized by loans which are delinquent, the repayment of which is expected to come from foreclosure and liquidation of the underlying real estate. We generally invest in senior classes of non-Agency RMBS which may include unrated securities. We seek to invest in non-Agency RMBS that we judge to have sufficiently high collateralization to be likely to protect the principal balance of our investment from credit losses on the underlying loans.

CMBS. Our Agency and non-Agency CMBS are collateralized by first mortgage loans and are primarily fixed-rate securities backed by multifamily housing and other commercial real estate property types such as office building, retail, hospitality, and health care. Loans underlying CMBS generally are geographically diverse, are fixed-rate, mature in ten to twelve years and have amortization terms of up to 30 years. Typically these loans have some form of prepayment protection provisions (such as prepayment lock-out) or prepayment compensation provisions (such as yield maintenance or prepayment penalty). Yield maintenance and prepayment penalty requirements are intended to create an economic disincentive for the loans to prepay. Non-Agency CMBS also includes securities that are backed by pools of single-family rental homes which have variable-rates that reset monthly based on an index rate, such as LIBOR.

CMBS IO. CMBS IO are interest-only securities issued as part of a CMBS securitization and represent the right to receive a portion of the monthly interest payments (but not principal cash flows) on the unpaid principal balance of the underlying pool of commercial mortgage loans. We invest in both Agency-issued and non-Agency issued CMBS IO. The loans collateralizing CMBS IO pools are very similar in composition to the pools of loans that generally collateralize CMBS as discussed above. Since CMBS IO securities have no principal associated with them, the interest payments received are based on the unpaid principal balance of the underlying pool of mortgage loans, which is often referred to as the notional amount. Because CMBS IO receive no principal payments, these securities generally have some form of prepayment protection from early repayment of the loan including absolute loan prepayment lock-outs, loan prepayment penalties, or yield maintenance requirements associated with the underlying loans similar to CMBS described above. There are no prepayment protections, however, if the loan defaults and is partially or wholly repaid earlier as a result of loss mitigation actions taken by the underlying loan servicer, and therefore yields on CMBS IO investments are dependent upon the underlying loan performance.

Financing. We finance our investments primarily through the use of uncommitted repurchase agreements. We pledge our MBS as collateral to secure the loans and advances made by the counterparty. Repurchase agreements carry a rate of interest which is usually based on a spread to LIBOR and fixed for the term of the borrowing which is typically 30-180 days. Repurchase agreement financing is provided principally by major financial institutions and broker-dealers.

Our captive insurance subsidiary, Mackinaw Insurance Company, LLC ("Mackinaw"), is a member of the Federal Home Loan Bank ("FHLB") of Indianapolis and as such has access to FHLB advances. In January 2016, the Federal Housing Finance Administration ("FHFA") released a final rule on FHLB membership which excludes captive insurance entities from FHLB membership on a going-forward basis and provides termination rules for current captive insurance members. Under the final rule, Mackinaw's membership in the FHLB of Indianapolis will be terminated in February 2017. As of June 30, 2016, Mackinaw had one remaining advance outstanding of $263.0 million which must be repaid in full at its maturity in October 2016.

Hedging. We use derivative instruments to mitigate our exposure to fluctuations in interest rates which could impact our earnings, cash flow or book value. Currently, we use interest rate swap agreements and Eurodollar futures as our principal hedging instruments. Given the nature of our investing and financing activities, in a period of rising interest rates our earnings and cash flow may be negatively impacted by borrowing costs increasing faster than income from our assets, and our book value may decline as a result of declining market values of our MBS. We enter into derivative instruments in an attempt to partially or fully mitigate our exposure to these events.

Factors that Affect Our Results of Operations and Financial Condition

Our financial performance is driven by the performance of our investment portfolio and related funding and derivative hedging activity which are impacted by multiple factors, many of which are related to macroeconomic conditions, geopolitical conditions, central bank and government policy, and other factors beyond our control. These factors include, but are not limited to, the absolute level of interest rates, the relative steepness of interest rate curves, changes in market expectations of future interest rates, actual and estimated future prepayment rates on our investments, competition for investments, economic conditions and their impact on the credit performance of our investments, and market required yields as reflected by market credit spreads. All of these factors are influenced by market forces and generally are exacerbated during periods of market volatility.

The performance of our investment portfolio, the cost and availability of financing and the availability of investments at acceptable risk-adjusted returns could also be influenced by regulatory actions and regulatory policy measures of the U.S. government including, but not limited to, the FHFA, the U. S. Department of the Treasury (the "Treasury"), and the Board of Governors of the Federal Reserve System (the "Federal Reserve") and could also be influenced by reactions in U.S. markets from activities of central banks around the world.

Our business model may also be impacted by other factors such as the availability and cost of financing and the state of the overall credit markets. Reductions in the availability of financing for our investments could significantly impact our business and force us to sell assets that we otherwise would not sell, potentially at losses depending on market conditions. Regulatory developments since the 2008 financial crisis have impacted large U.S. domiciled banks and their broker dealer subsidiaries by requiring such entities to hold more capital against their assets, including reverse repurchase agreements. In general, this has led to reduced lending capacity in the repurchase agreement market and higher costs. We have not yet experienced a reduction in the availability of repurchase agreement financing but have seen indications of higher costs from several lenders. Other factors that could also impact our business include changes in regulatory requirements, including requirements to qualify for registration under the 1940 Act, and REIT requirements.

We believe that regulatory impacts on financial institutions, many of which are our trading and financing counterparties, continue to pose a threat to the overall liquidity in the capital markets. In particular, higher capital requirements under U.S. banking regulations adopted in 2013 and 2014 and limitations on the proprietary trading activities of large U.S. financial institutions under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("the "Dodd-Frank Act") could result in reduced liquidity in times of market stress. U.S. federal banking regulators continue to explore further increasing regulatory and capital requirements for large U.S. financial institutions. While the Federal Reserve continues to reinvest principal payments received on its Agency RMBS portfolio, it is unlikely that this activity will provide enough liquidity to the market in times of stress, which could result in volatile asset prices. Further, the impact on market liquidity of our investments and the financing markets could be negatively impacted if the Federal Reserve's Federal Open Market Committee (or "FOMC") suddenly changes market expectations of the targeted Federal Funds Rate or takes other actions which have the effect of tightening monetary policy.

As discussed above, investing in mortgage-related securities on a leveraged basis subjects us to a number of risks including interest rate risk, prepayment and reinvestment risk, credit risk, market value risk and liquidity risk, which are discussed in "Liquidity and Capital Resources" within this Item 2 and in Part I, Item 3 of this Quarterly Report on Form 10-Q as well as in Item 1A, "Risk Factors" of Part I of our Annual Report on Form 10-K for the year ended December 31, 2015. Please see these Items for a detailed discussion of these risks and the potential impact on our results of operations and financial condition.

Highlights of the Second Quarter of 2016

Lower interest rates and reduced volatility in the credit markets favorably impacted comprehensive income to common shareholders for the second quarter of 2016, which was $17.4 million compared to $2.0 million for the first quarter of 2016. Management views comprehensive income as a better estimate of economic return to our shareholders and as a more complete measure of performance under GAAP than net income (loss) because the latter measure includes changes in the fair value of derivative instruments but excludes changes in the fair value of MBS.

Comprehensive income to common shareholders for the second quarter of 2016 consisted of net loss to common shareholders of $(5.5) million and other comprehensive income of $22.9 million. Net loss to common shareholders for the second quarter of 2016 included net interest income of $16.7 million, a decline of $(2.1) million compared to the first quarter of 2016. This decline in net interest income resulted primarily from having a smaller investment portfolio and lower prepayment penalty income from CMBS versus the first quarter of 2016. Net loss to common shareholders for the second quarter of 2016 also included a net loss on derivatives of $(16.3) million, general and administrative expenses of $(3.7) million, and preferred dividends of $(2.3) million. Net loss to common shareholders for the first quarter of 2016 of $(39.7) million principally included net interest income of $18.8 million and a net loss on derivatives of $(48.3) million. Other comprehensive income for the second quarter of 2016 consisted primarily of net unrealized gains on MBS of $23.0 million. The increase in fair value of MBS was primarily due to lower interest rates and reduced volatility in the credit markets mentioned previously.

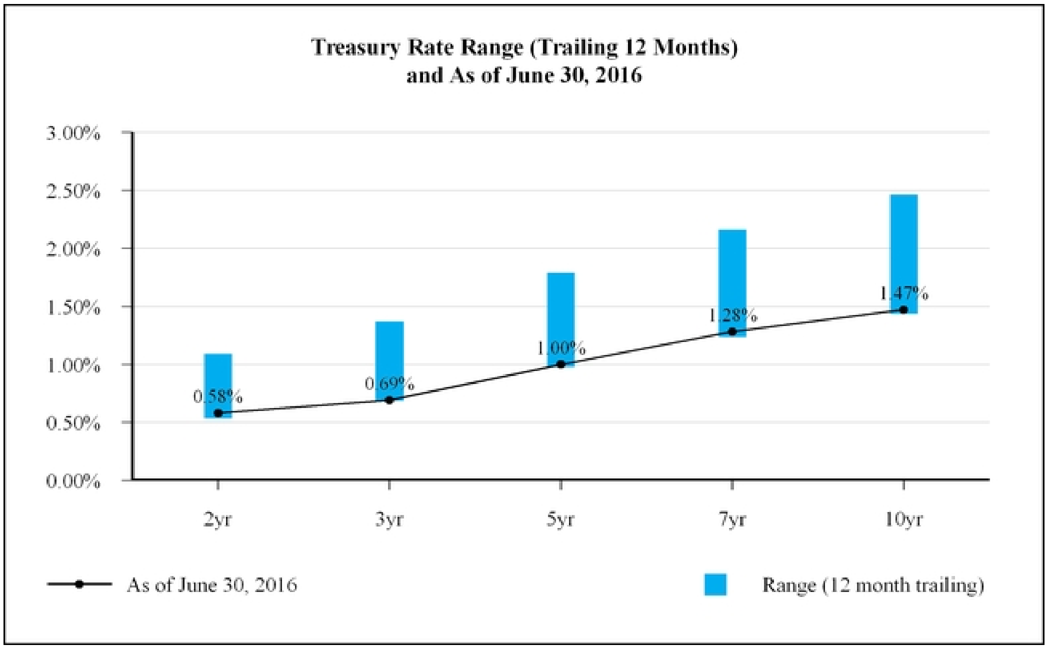
Core net operating income to common shareholders is a non-GAAP measure management uses as an estimate of the net interest earnings of the Company's investments, including net periodic interest costs of effective derivative instruments, after operating expenses. Core net operating income declined $(0.3) million to $10.5 million for the second quarter of 2016 from $10.8 million for the first quarter of 2016, primarily due to the decline in net interest income as discussed above. Lower net periodic interest costs on derivative instruments partially offset the decline in net interest income as the Company terminated $500.0 million in net pay-fixed interest rate swaps. Please see "Non-GAAP Financial Measures" at the end of "Executive Overview" of Part 1, Item 2 of this Quarterly Report on Form 10-Q for additional important information about non-GAAP measures as well as a reconciliation of core net operating income to GAAP net loss for the periods discussed.

We continued to reduce leverage during the second quarter, using paydowns on our investments and to a lesser extent proceeds from sales of investments to repay borrowings and modestly deleverage the balance sheet to build our liquidity. As further discussed below under "*Market Conditions"*, we have been anticipating bouts of market volatility and management viewed that more liquidity was desirable given the potential fluctuations in asset and derivatives prices. We maintained our dividend of $0.21 for the second quarter of 2016, even though a portion of such dividend is a return of capital for tax purposes from prior period losses on terminated derivative hedge instruments. In setting the quarterly dividend, the Board considers, among other things, the long term outlook for the Company, dividend yields of other comparable REITs, as well as the expectations of our shareholders. While the dividend is partly a return of capital today, in the past we have retained taxable income to build our capital base in lieu of payment of a dividend.

Market Conditions

For most of the second quarter credit markets returned to a period of calm following the volatility in the first quarter. At the very end of the quarter, however, markets were buffeted by the unexpected results of the Brexit vote (i.e., United Kingdom's decision to leave the European Union) causing U.S. interest rates to rally sharply as the yield curve flattened. Moreover, continued concerns over the global economic growth put further pressure on interest rates in the U.S. and abroad. Many global rates now stand at or near all time lows, and yields on many assets are also at or near all time lows.

The chart below shows the highest and lowest rates during the twelve month period ended June 30, 2016 as well as the rates as of June 30, 2016 for the indicated Treasuries:



Despite the volatility at the end of the quarter and the low rate environment, during the quarter credit spreads tightened on certain of our investments (e.g., CMBS IOs) and widened for others (e.g., Agency RMBS and Agency CMBS), with little impact on our book value per share on a net basis. The table below shows examples of credit spreads in basis points for certain investment types in our MBS portfolio as of the end of each quarter since June 30, 2015:

Investment Type:	6/30/2015	9/30/2015	12/31/2015	3/31/2016	6/30/2016
Agency ARM 5/1 (Agency RMBS)	16	26	22	32	38
Agency DUS (Agency CMBS)	60	76	89	86	94
Freddie K AAA IO (Agency CMBS IO)	150	200	225	260	255
AAA CMBS IO (Non-Agency CMBS IO)	175	225	240	265	240
Freddie K B (Non-Agency CMBS)	157	305	350	420	325

As we have noted over the last several quarters, there are many factors impacting global capital markets. Globally, the amount of public and private debt continues to inhibit economic performance, and extraordinary government involvement via central bank policy interventions has led to a de facto currency war which is having unintended consequences. Regulatory changes have reduced the market making activities of major investment banks in the U.S., and we have observed reduced liquidity in times of market stress. Technology has connected us globally and virtually seamless flows of capital globally have contributed to the extreme market volatility recently experienced. Geopolitical factors also are playing a role in market volatility as evidenced by the reaction to the Brexit vote in June. Given these issues and the interconnectedness of global capital markets, we believe that the chance of a significant increase in U.S. interest rates in the near term is limited. The Federal Reserve may view positive economic data in the U.S. to be insufficient justification to raise interest rates in light of international conditions, which may lead to further flattening of the yield curve. Further, we continue to expect intermittent periods of market volatility for the foreseeable future. These factors have led us to reduce our leverage over the last several quarters and build our liquidity position.

Management Outlook

Given our view on U.S. interest rates noted above, we believe that this environment remains attractive for us to continue to generate net interest income, but disciplined risk management and capital allocation are extremely important. We have positioned our portfolio to take advantage of such a continuing low interest rate environment, and we continue to maintain a long-duration portfolio and hedge position. As a result, we have benefited from a lower interest rate environment, which has helped to partially offset losses resulting from credit spread widening. This benefited book value per common share which recovered to $7.69 as of June 30, 2016, very near the $7.71 per common share at the beginning of 2016. If interest rates do rise, we may be willing to reduce our hedging position further and to add to our duration position. We believe that our diversified asset strategy will benefit us in the long run, allowing us to earn higher net interest income while cushioning the portfolio in a variety of different environments.

Non-GAAP Financial Measures

In addition to the Company's operating results presented in accordance with GAAP, the information presented within "Executive Overview" and "Results of Operations" contains the following non-GAAP financial measures: core net operating income to common shareholders (including per common share), adjusted interest expense and adjusted cost of funds, and adjusted net interest income and spread. Management uses core net operating income (including per common share) as an estimate of the net interest earnings from our investments after operating expenses. In connection with core net operating income, management uses adjusted interest expense, adjusted cost of funds, adjusted net interest income, and adjusted net interest spread because management considers net periodic interest costs related to the Company's derivative instruments as an additional cost of using repurchase agreements to finance investments. Because these measures are used in the Company's internal analysis of financial and operating performance, management believes that they provide greater transparency to our investors of management's view of our economic performance. Management also believes that the presentation of these measures, when analyzed in conjunction with the Company's GAAP operating results, allows investors to more effectively evaluate and compare the performance of the Company to that of its peers even though peer companies may present non-GAAP measures on a different basis than the Company's. Because these non-GAAP financial measures exclude certain items used to compute GAAP net income to common shareholders and GAAP interest expense, these non-GAAP financial measures should be considered as a supplement to, and not as a substitute for, the Company's GAAP results as reported on its consolidated statements of comprehensive income. In addition, because not all companies use identical calculations, the Company's presentation of non-GAAP financial measures may not be comparable to other similarly-titled measures of other companies.

Schedules reconciling adjusted interest expense, adjusted cost of funds, adjusted net interest income, and adjusted net interest spread to their related GAAP financial measures are provided within "Results of Operations". Core net operating income is discussed above. The following table presents a reconciliation of our GAAP net loss to our core net operating income for the periods presented:

	Three Months Ended	
($ in thousands, except per share amounts)	**June 30, 2016**	**March 31, 2016**
GAAP net loss to common shareholders	$ (5,525)	$ (39,725)
Amortization of de-designated cash flow hedges [(1)]	(80)	27
Change in fair value of derivative instruments, net	15,811	46,584
Loss on sale of investments, net	297	3,941
Fair value adjustments, net	(28)	(24)
Core net operating income to common shareholders	$ 10,475	$ 10,803
Weighted average common shares outstanding	49,119	49,041
Core net operating income per common share	$ 0.21	$ 0.22

(1) Amount recorded as a portion of "interest expense" in accordance with GAAP related to the amortization of the balance

remaining in accumulated other comprehensive loss as of June 30, 2013 as a result of our discontinuation of cash flow hedge accounting.

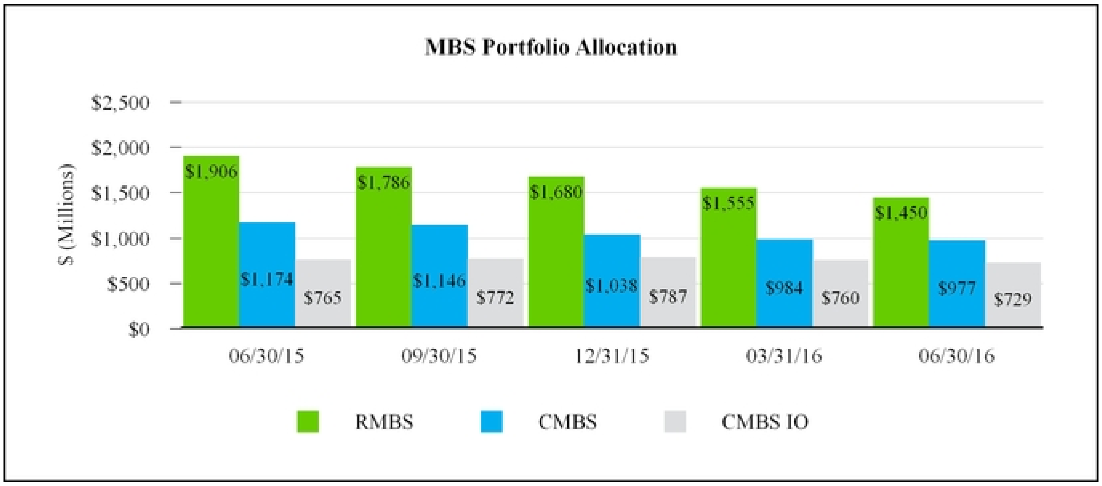
CRITICAL ACCOUNTING POLICIES

The discussion and analysis of our financial condition and results of operations are based in large part upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of our consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. We base these estimates and judgments on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual results, however, may differ from the estimated amounts we have recorded. The discussion and analysis of our financial condition and results of operations also consider certain non-GAAP financial measures as described in "Non-GAAP Financial Measures" in this Part I, Item 2.

Critical accounting policies are defined as those that require management's most difficult, subjective or complex judgments, and which may result in materially different results under different assumptions and conditions. Our accounting policies that require the most significant management estimates, judgments, or assumptions, or that management believes includes the most significant uncertainties, and are considered most critical to our results of operations or financial position relate to fair value measurements, amortization of investment premiums, and other-than-temporary impairments. Our critical accounting policies are discussed in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year ended December 31, 2015 under “Critical Accounting Policies”. There have been no significant changes in our critical accounting policies during the six months ended June 30, 2016.

FINANCIAL CONDITION

Over recent quarters, we have been using principal payments on our investments and proceeds from sales to reduce balance sheet leverage as discussed above. We have also been selectively selling certain assets that we believed would underperform in an environment in which interest rates are likely to remain range-bound for an extended period and where asset prices are likely to remain volatile within that range. We have favored investing in prepayment protected CMBS and CMBS IO as opposed to RMBS which carry a higher risk of prepayment in the current low interest rate environment. The chart below presents the amortized cost of our MBS investments by collateral type as of the end of each period presented:



In addition to the sections below, please refer to Note 2 of the Unaudited Notes to the Consolidated Financial Statements contained within Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information relating to our MBS. The following sections provide additional information on our investment portfolio as well as related financing.

RMBS

Activity related to our RMBS for the six months ended June 30, 2016 is as follows:

($ in thousands)	Agency RMBS	Non-Agency RMBS	Total
Balance as of December 31, 2015	$ 1,598,522	$ 65,210	$ 1,663,732
Purchases	—	—	—
Principal payments	(154,616)	(10,400)	(165,016)
Sales	(57,188)	—	(57,188)
Net (amortization) accretion	(7,828)	16	(7,812)
Change in fair value	14,313	412	14,725
Balance as of June 30, 2016	$ 1,393,203	$ 55,238	$ 1,448,441

Agency RMBS. As of June 30, 2016, the majority of our variable-rate Agency RMBS portfolio resets based on one-year LIBOR, which was approximately 1.23% as of June 30, 2016 compared to 1.18% as of December 31, 2015. Of these investments, approximately 25% will reset their coupon within the next twelve months at a weighted average margin of 1.80% above one-year LIBOR. During the six months ended June 30, 2016, we sold certain lower yielding Agency ARMs that were at or near their interest rate reset periods and which were expected to reset at interest rates lower than their current coupon.

The underlying mortgage loans for variable-rate RMBS are subject to periodic interest rate caps which limit the amount by which the security's interest yield may change during any given period and lifetime interest rate caps which limit the maximum interest rate on the loans. As shown in the table below, our variable-rate Agency RMBS are generally well within their periodic and lifetime interest rate caps. The following table presents certain interest rate information for these investments by weighted average months to reset ("MTR") as of the dates indicated:

($ in thousands)	June 30, 2016				
	Par Value	Reset Margin to LIBOR	WAC	WAVG Periodic Interest Cap	WAVG Life Interest Cap
0-12 MTR	$ 328,807	1.80%	3.05%	2.72%	9.77%
13-36 MTR	316,388	1.79%	3.21%	5.00%	8.21%
37-60 MTR	72,992	1.80%	3.61%	5.00%	8.61%
61-84 MTR	577,574	1.72%	2.86%	5.00%	7.86%
85-120 MTR	33,398	1.59%	3.06%	5.00%	8.06%
Total	$ 1,329,159	1.76%	3.03%	4.44%	8.46%

	December 31, 2015				
	Par Value	Reset Margin to LIBOR	WAC	WAVG Periodic Interest Cap	WAVG Life Interest Cap
0-12 MTR	$ 309,826	1.79%	2.75%	2.40%	10.00%
13-36 MTR	380,455	1.79%	3.47%	5.00%	9.01%
37-60 MTR	91,769	1.80%	2.97%	5.00%	8.35%
61-84 MTR	541,720	1.76%	3.09%	5.00%	8.48%
85-120 MTR	197,473	1.62%	2.56%	5.00%	7.78%
ARMs and Hybrid ARMs	1,521,243	1.76%	3.04%	4.47%	8.82%
Fixed	15,490	n/a	2.50%	n/a	n/a
Total	$ 1,536,733		3.03%		

Non-Agency RMBS. Our non-Agency RMBS portfolio consists primarily of senior tranches of securitizations collateralized by non-performing loans and re-performing loans which receive monthly principal and interest payments and have estimated average lives remaining in a range of one and two years. These securities have coupon step-up features of 3.0% if the securities are not fully repaid or redeemed by their expected maturity date which is generally three years from issuance. Although these investments do not have a credit rating issued by any of the nationally recognized statistical ratings organization, they have substantial credit enhancement within the securitization structure, and we believe that they offer an attractive return profile with relatively stable cash flows.

CMBS

Activity related to our CMBS for the six months ended June 30, 2016 is as follows:

($ in thousands)	Agency CMBS	Non-Agency CMBS	Total
Balance as of December 31, 2015	$ 885,931	$ 154,183	$ 1,040,114
Purchases	—	—	—
Principal payments	(20,399)	(3,622)	(24,021)
Sales	—	(34,868)	(34,868)
Premium/discount (amortization)/accretion, net	(2,539)	430	(2,109)
Change in fair value	41,319	2,413	43,732
Balance as of June 30, 2016	$ 904,312	$ 118,536	$ 1,022,848

Our Agency CMBS are collateralized primarily by fixed rate mortgage loans secured by multifamily properties. Our non-Agency CMBS are collateralized by fixed rate mortgage loans secured by properties such as office, single-family rental, retail, and multifamily. Both Agency and non-Agency CMBS will generally have some form of prepayment protection provisions (such as prepayment lock-outs) or prepayment compensation provisions (such as yield maintenance or prepayment penalties) to prevent early voluntary prepayment of principal. During the first quarter of 2016, we sold certain non-Agency CMBS which had shorter cash flow duration and yields lower than our average portfolio.

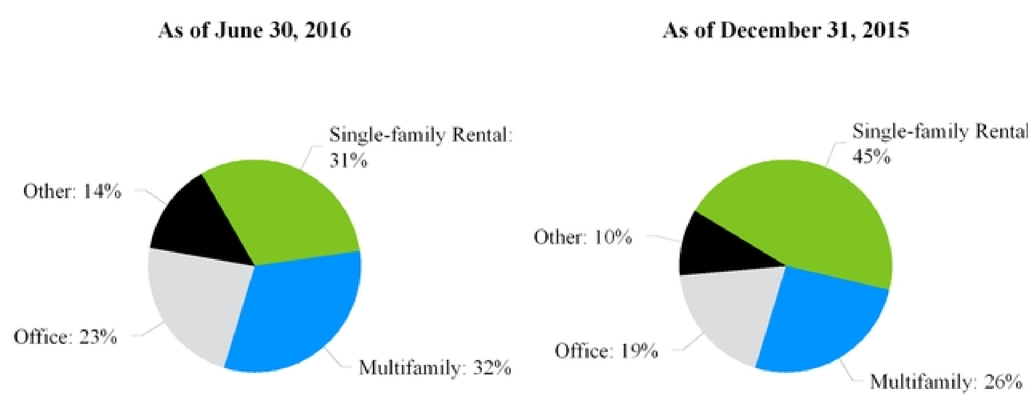
The majority of our CMBS investments are collateralized by mortgages underwritten since 2009, which we believe are higher credit quality than prior years, in particular those originated prior to 2008. Since Agency CMBS are guaranteed by the GSEs with respect to return of principal, our credit exposure is limited to any premium on those securities. Non-Agency CMBS are not guaranteed and therefore our entire investment is exposed to credit losses from the underlying loans collateralizing the CMBS. The following table presents the par value, amortized cost, and weighted average months to estimated maturity of our CMBS investments as of the dates indicated by year of origination:

	June 30, 2016			December 31, 2015		
($ in thousands)	Par Value	Amortized Cost	Months to Estimated Maturity (1)	Par Value	Amortized Cost	Months to Estimated Maturity (1)
Year of Origination:						
2008 and prior	$ 73,117	$ 68,194	35	$ 83,396	$ 78,765	38
2009 to 2012	245,022	252,499	34	254,870	264,087	40
2013 to 2014	43,178	43,622	101	78,501	78,931	63
2015	612,731	612,775	114	616,202	616,304	120
	$ 974,048	$ 977,090	87	$ 1,032,969	$ 1,038,087	89

(1) Months to estimated maturity is an average weighted by the amortized cost of the investment.

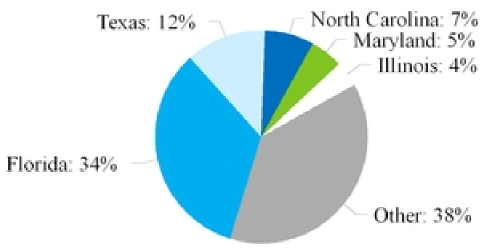
The majority of the collateral underlying our non-Agency CMBS is comprised of single-family rental and multi-family properties. The percentage of our non-Agency CMBS collateralized with single-family rental properties declined approximately 14% due to sales of these securities since December 31, 2015.

The following charts present the collateral underlying our non-Agency CMBS by property type as of the dates indicated:

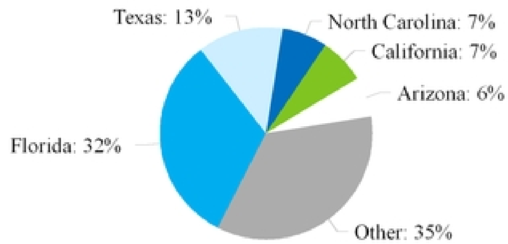


The collateral underlying our non-Agency CMBS investments is geographically dispersed in order to mitigate exposure to any particular region of the country. The U.S. state with the largest percentage of collateral underlying our non-Agency CMBS was Florida at 34% and 32% as of June 30, 2016 and December 31, 2015, respectively, with no other state exceeding 13% as of those dates. The following charts present the geographic diversification of the collateral underlying our non-Agency CMBS by the top 5 states as of the dates indicated:

As of June 30, 2016



As of December 31, 2015



CMBS IO

Activity related to our CMBS IO for the six months ended June 30, 2016 is as follows:

($ in thousands) [(1)]	Agency CMBS IO	Non-Agency CMBS IO	Total
Balance as of December 31, 2015	$ 426,128	$ 363,727	$ 789,855
Purchases	1,349	3,621	4,970
Sales	—	—	—
Premium amortization, net	(36,578)	(27,074)	(63,652)
Change in fair value	2,572	3,701	6,273
Balance as of June 30, 2016	$ 393,471	$ 343,975	$ 737,446

(1) Amounts shown for CMBS IO represent premium only and exclude underlying notional balances.

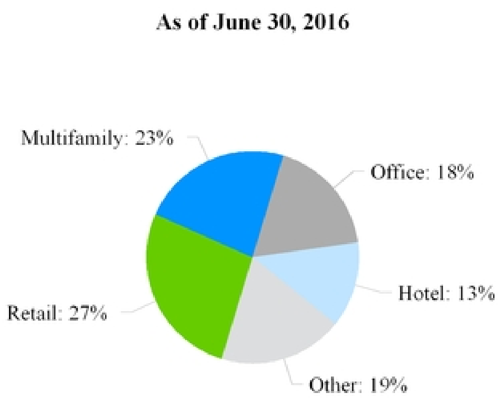
The majority of our CMBS IO investments are collateralized primarily by fixed rate mortgage loans. Agency CMBS IO are exclusively collateralized by multifamily properties and are issued by securitization trusts sponsored by one of the GSEs. Non-Agency CMBS IO are secured by properties such as office, retail, and hotel. Both types of CMBS IO have some form of prepayment protection (such as prepayment lock-outs) or prepayment compensation provisions (such as yield maintenance or prepayment penalties). Our CMBS IO investments are investment grade-rated with the majority rated 'AAA' by at least one of the nationally recognized statistical ratings organizations.

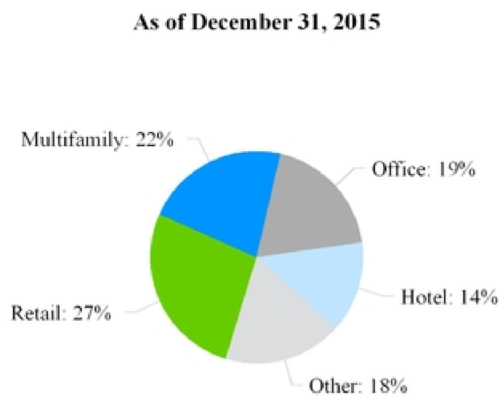
Because income earned from CMBS IO is based on interest payments received on the underlying commercial mortgage loan pools, our return on these investments is negatively impacted by defaults, foreclosures, and liquidations on or of the underlying mortgage loans that result in involuntary prepayments. In order to manage our exposure to credit performance, we generally invest in senior tranches of these securities and where we have evaluated the credit profile of the underlying loan pool and can monitor credit performance. In addition, because underwriting standards vary over time, we consider the year of origination of the loans underlying CMBS IO in our selection of investments. The following table presents our CMBS IO investments as of June 30, 2016 by year of origination:

($ in thousands)	June 30, 2016 Amortized Cost	Fair Value	WAL (1)	December 31, 2015 Amortized Cost	Fair Value	WAL (1)
Year of Origination:						
2010	$ 11,145	$ 11,618	21	$ 12,843	$ 13,472	24
2011	40,171	42,682	26	45,731	48,482	28
2012	116,742	119,684	29	131,085	133,086	31
2013	141,802	144,247	36	154,445	155,299	38
2014	208,448	209,028	42	223,542	221,933	44
2015	210,421	210,187	48	219,765	217,583	50
	$ 728,729	$ 737,446	39	$ 787,411	$ 789,855	41

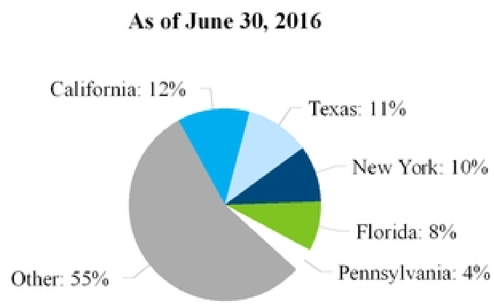
(1) Weighted average life ("WAL") represents an estimate of the number of months of interest earnings remaining for the investments by year of origination.

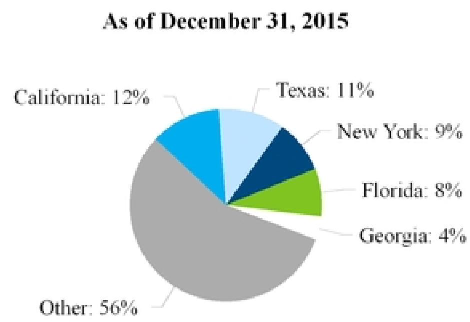
Approximately half of the collateral underlying our non-Agency CMBS IO is comprised of retail and multifamily properties. The following charts present the property type of the collateral underlying our non-Agency CMBS IO as of the dates indicated:





The collateral underlying our non-Agency CMBS IO investments is geographically dispersed in order to mitigate exposure to any particular region of the country. The U.S. state with the largest percentage of collateral underlying our non-Agency CMBS IO was California at 12% as of June 30, 2016 and December 31, 2015. The following charts present the geographic diversification of the collateral underlying our non-Agency CMBS IO by the top 5 states as of the dates indicated:

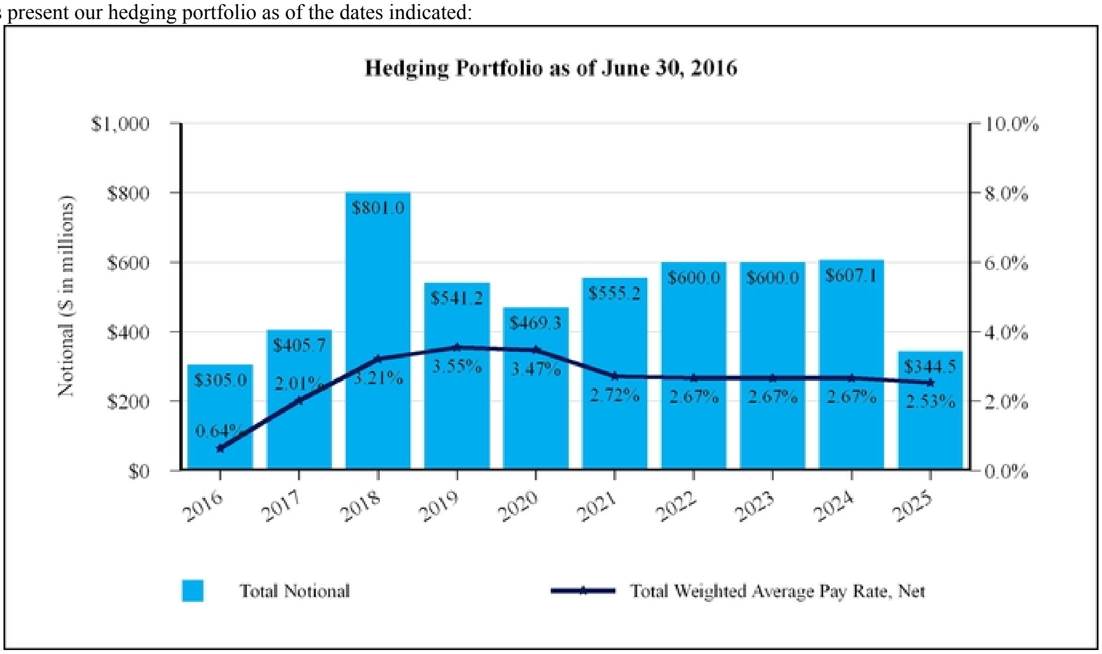


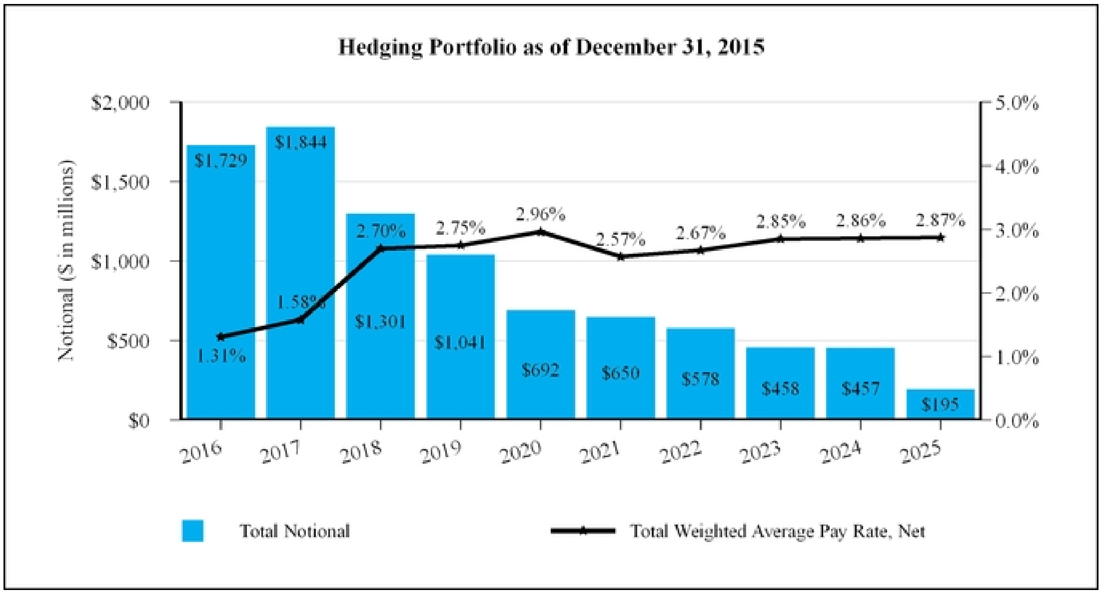


Derivative Assets and Liabilities

Our derivative assets and liabilities consist of interest rate swap agreements and Eurodollar futures, which we use to hedge our earnings and book value exposure to fluctuations in interest rates. Eurodollar futures represent forward starting 3-month LIBOR contracts and allow us to synthetically replicate swap curves and/or hedge specific points on the swap curve where we may have duration risk by shorting contracts at various points of the LIBOR curve. We use both pay-fixed and receive-fixed interest rate swaps to manage our overall hedge position.

The following graphs present our hedging portfolio as of the dates indicated:





During the six months ended June 30, 2016, we substantially reduced the notional balance of our derivatives position given our outlook for interest rates. We terminated a notional of $2.9 billion in pay-fixed interest rate swaps with a weighted average pay-fixed rate of 1.18% and added interest rate swaps with a combined notional of $1.3 billion at a net weighted average pay-fixed rate of 0.97%. These transactions reduced our hedges of interest rate risk for the remainder of 2016 through 2021 and modestly increased hedges of interest rate risk in 2022 through 2025. We regularly monitor and adjust our hedging portfolio in response to many factors including, but not limited to, changes in our investment portfolio, shifts in the yield curve, and our expectations with respect to the future path of interest rates and interest rate volatility.

Secured Borrowings

Our secured borrowings have declined approximately 8% since December 31, 2015 because we have used a portion of sale proceeds and principal payments from MBS to pay down our borrowings in lieu of reinvesting. Our repurchase agreement borrowings increased slightly since December 31, 2015 because we replaced our FHLB advances that matured during the first quarter of 2016 with repurchase agreement financing. Due to the final rule issued by the FHFA in January 2016, we cannot obtain new FHLB advances or renewals of existing advances. Our remaining FHLB advances of $263.0 million mature in October 2016. The FHLB advances bear interest at a fixed rate of 0.51% as of June 30, 2016 and are collateralized by Agency MBS, principally Agency CMBS, with a fair value of approximately $283.3 million.

The majority of our repurchase agreement borrowings are collateralized with Agency MBS which have historically had lower liquidity risk than non-Agency MBS. The following table presents the amount pledged and leverage against the fair value of our non-Agency MBS investments by credit rating as of June 30, 2016 and December 31, 2015:

($ in thousands)	June 30, 2016 Fair Value	June 30, 2016 Amount Pledged	June 30, 2016 Related Borrowings	December 31, 2015 Fair Value	December 31, 2015 Amount Pledged	December 31, 2015 Related Borrowings
Non-Agency CMBS:						
AAA	$ 37,432	$ 36,674	$ 33,520	$ 60,192	$ 53,589	$ 48,400
AA	35,112	34,998	31,744	51,599	51,599	45,870
A	31,745	31,822	26,811	34,771	34,771	29,211
Below A/Not Rated	14,247	14,070	9,720	7,621	3,826	2,897
	$ 118,536	$ 117,564	$ 101,795	$ 154,183	$ 143,785	$ 126,378
Non-Agency CMBS IO:						
AAA	$ 286,966	$ 282,162	$ 236,022	$ 294,712	$ 303,659	$ 255,652
AA	51,137	50,256	42,839	53,974	53,111	44,940
Below A/Not Rated	5,872	5,939	5,045	15,041	2,581	2,180
	$ 343,975	$ 338,357	$ 283,906	$ 363,727	$ 359,351	$ 302,772
Non-Agency RMBS:						
Below A/Not Rated	$ 55,238	$ 54,577	$ 45,581	$ 65,210	$ 64,286	$ 52,128
	$ 55,238	$ 54,577	$ 45,581	$ 65,210	$ 64,286	$ 52,128

Please refer to Note 3 of the Notes to the Unaudited Consolidated Financial Statements contained within Part I of this Quarterly Report on Form 10-Q as well as "Interest Expense and Cost of Funds" within "Results of Operations" and “Liquidity and Capital Resources” contained within this Item 2 for additional information relating to our borrowings.

RESULTS OF OPERATIONS

The discussions below provide information on items on our consolidated statements of comprehensive income (loss). These discussions include both GAAP and non-GAAP financial measures which management utilizes in its internal analysis of financial and operating performance. Please read the section "Non-GAAP Financial Measures" at the end of "Executive Overview" in Part 1, Item 2 of this Quarterly Report on Form 10-Q for additional important information about these measures.

Net Interest Income and Net Interest Spread

The tables below present GAAP net interest income and related net interest spread for our interest-earning assets and interest-bearing liabilities and also present adjusted net interest income and adjusted net interest spread, which are non-GAAP measures. Adjusted net interest income and adjusted net interest spread include net periodic interest costs of derivative instruments as part of interest expense ("adjusted interest expense" which is discussed and reconciled later in this section) whereas GAAP net interest income and GAAP net interest spread do not.

	Three Months Ended June 30,			
	2016		2015	
($ in thousands)	Amount	Yield	Amount	Yield
GAAP interest income	$ 22,816	2.77 %	$ 24,527	2.63 %
GAAP interest expense	6,100	0.83 %	5,542	0.66 %
GAAP net interest income/spread	16,716	1.94 %	18,985	1.97 %
Amortization of de-designated cash flow hedges (1)	(80)	— %	857	0.10 %
Net periodic interest costs of derivative instruments	(486)	(0.07)%	(1,793)	(0.21)%
Adjusted net interest income/spread	$ 16,150	1.87 %	$ 18,049	1.86 %
Average interest earning assets (2)	$ 3,242,413		$ 3,749,528	
Average balance of borrowings (3)	$ 2,916,432		$ 3,320,760	

	Six Months Ended June 30,			
	2016		2015	
($ in thousands)	Amount	Yield	Amount	Yield
GAAP interest income	$ 47,905	2.81 %	$ 48,626	2.63 %
GAAP interest expense	12,410	0.82 %	10,913	0.67 %
GAAP net interest income/spread	35,495	1.99 %	37,713	1.96 %
Amortization of de-designated cash flow hedges (1)	(53)	— %	1,914	0.12 %
Net periodic interest costs of derivative instruments	(2,166)	(0.14)%	(2,655)	(0.16)%
Adjusted net interest income/spread	$ 33,276	1.85 %	$ 36,972	1.92 %
Average interest earning assets (2)	$ 3,336,146		$ 3,664,062	
Average balance of borrowings (3)	$ 3,005,961		$ 3,216,849	

(1) Amount recorded as a portion of "interest expense" in accordance with GAAP related to the amortization of the balance remaining in accumulated other comprehensive loss as of June 30, 2013 as a result of our discontinuation of cash flow hedge accounting.

(2) Average balances are calculated as a simple average of the daily amortized cost and exclude unrealized gains and losses as well as securities pending settlement if applicable.

(3) Average balances are calculated as a simple average of the daily borrowings outstanding for both repurchase agreement and non-recourse collateralized financing.

Net interest income and adjusted net interest income decreased for the three and six months ended June 30, 2016 compared to the same periods in 2015 primarily due to a smaller investment portfolio and higher borrowing costs during the three and six months ended June 30, 2016. These impacts offset increased yields on our investment portfolio that are largely due to our decision to shift a higher percentage of our MBS portfolio to higher-yielding CMBS and CMBS IO. Details on the factors impacting the net interest earnings of our investment portfolio are provided below.

Interest Income and Effective Yields on MBS. Interest income includes gross interest earned from the coupon rate on the securities, premium amortization and discount accretion, and other interest income resulting from prepayment penalty income or other yield maintenance items on CMBS and CMBS IO securities. Effective yields are calculated by dividing gross interest income and scheduled premium amortization/discount accretion (both of which are annualized for any reporting period less than 12 months) by the average balance of investments outstanding during the reporting period. Effective yields also include effective interest amortization adjustments to premiums, which are related to actual versus projected prepayments and changes in projected prepayments, and prepayment penalty income (collectively, "prepayment adjustments"); however, because these amounts are not annualized, they receive less weight when calculating effective yield as a percentage of the average balance than gross interest income and scheduled amortization.

The following table presents information regarding interest income earned and effective yield on our MBS by investment type for the periods indicated:

	Three Months Ended June 30,					
	2016			2015		
($ in thousands)	Interest Income	Average Balance [1]	Effective Yield	Interest Income	Average Balance [1]	Effective Yield
RMBS:						
Agency	$ 6,360	$ 1,436,582	1.83%	$ 7,932	$ 1,978,302	1.75%
Non-Agency	534	59,037	3.62%	687	75,436	3.63%
	6,894	1,495,619	1.90%	8,619	2,053,738	1.82%
CMBS:						
Agency	6,478	869,271	2.92%	5,772	705,410	3.07%
Non-Agency	1,671	110,393	6.06%	2,312	207,530	4.46%
	8,149	979,664	3.28%	8,084	912,940	3.38%
CMBS IO:						
Agency	3,943	395,468	3.75%	4,169	418,476	3.83%
Non-Agency	3,597	348,832	3.91%	3,324	331,801	3.89%
	7,540	744,300	3.83%	7,493	750,277	3.86%
Total MBS portfolio:	$ 22,583	$ 3,219,583	2.76%	$ 24,196	$ 3,716,955	2.62%

	Six Months Ended June 30,					
	2016			2015		
	Interest Income	Average Balance [1]	Effective Yield	Interest Income	Average Balance [1]	Effective Yield
RMBS:						
Agency	$ 13,601	$ 1,492,831	1.83%	$ 18,370	$ 2,057,763	1.79%
Non-Agency	1,113	61,531	3.63%	1,054	57,357	3.67%
	14,714	1,554,362	1.90%	19,424	2,115,120	1.85%
CMBS:						
Agency	13,794	872,537	2.93%	9,368	562,895	3.21%
Non-Agency	3,714	124,130	5.78%	4,623	205,880	4.48%
	17,508	996,667	3.28%	13,991	768,775	3.55%
CMBS IO:						
Agency	7,990	406,246	4.03%	8,041	420,303	3.81%
Non-Agency	7,211	355,560	3.96%	6,467	326,170	3.92%
	15,201	761,806	4.00%	14,508	746,473	3.86%
Total MBS portfolio:	$ 47,423	$ 3,312,835	2.80%	$ 47,923	$ 3,630,368	2.62%

(1) Average balances are calculated as a simple average of the daily amortized cost and exclude unrealized gains and losses as well as securities pending settlement if applicable.

The following tables present the estimated impact of changes in average balances, yields, and prepayment adjustments on interest income for the periods indicated:

	Three Months Ended June 30, 2016 vs. June 30, 2015			
		Due to Change In		
($ in thousands)	Increase (Decrease) in Interest Income	Average Balance	Coupon and Scheduled Amortization	Prepayment Adjustments (1)
RMBS	$ (1,725)	$ (2,372)	$ (68)	$ 715
CMBS	65	227	165	(327)
CMBS IO	47	(259)	95	211
Total	$ (1,613)	$ (2,404)	$ 192	$ 599

	Six Months Ended June 30, 2016 vs. June 30, 2015			
		Due to Change In		
	Increase (Decrease) in Interest Income	Average Balance	Coupon and Scheduled Amortization	Prepayment Adjustments (1)
RMBS	$ (4,710)	$ (5,201)	$ 420	$ 71
CMBS	3,517	3,968	(1,017)	566
CMBS IO	693	293	(190)	590
Total	$ (500)	$ (940)	$ (787)	$ 1,227

(1) Prepayment adjustments represent effective interest amortization adjustments related to changes in actual and projected prepayment speeds for RMBS and net prepayment compensation for CMBS and CMBS IO.

Interest income from MBS for the three months ended June 30, 2016 decreased compared to the same period in 2015 primarily due to our lower average balance of investments. Partially offsetting the decline in interest income resulting from the lower average balance of investments, our Agency RMBS had lower premium amortization expense related to changes in projected and actual prepayments in the second quarter of 2016 compared to the same period in 2015.

Interest income from MBS for the six months ended June 30, 2016 decreased compared to the same period in 2015 primarily due to our lower average balance of investments. The impact on our results from a lower average balance was partially offset by an increase in the effective yield earned by our MBS portfolio of 18 basis points for the six months ended June 30, 2016 compared to the same period in 2015. This increase in effective yield was due mainly to the shift in the composition of our MBS portfolio toward higher yielding CMBS and CMBS IO relative to RMBS. In addition, we received $1.2 million more in prepayment penalty income from CMBS and CMBS IO for the six months ended June 30, 2016 compared to the same period in 2015. The increase in prepayment penalty income favorably impacted our overall effective yield for the six months ended June 30, 2016 by 6 basis points, net of retrospective premium amortization expense from RMBS for the six months ended June 30, 2016. The majority of prepayments on RMBS for the six months ended June 30, 2016 occurred during the first quarter.

The following table presents details on the calculation of effective yields shown in the prior table for the periods indicated:

	Three Months Ended June 30,			
	2016		2015	
($ in thousands)	$	%	$	%
RMBS:				
Coupon and scheduled amortization	$ 7,163	1.92 %	$ 9,603	1.87 %
Prepayment adjustments [1]	(269)	(0.02)%	(984)	(0.05)%
	6,894	1.90 %	8,619	1.82 %
CMBS:				
Coupon and scheduled amortization	8,072	3.27 %	7,680	3.34 %
Prepayment adjustments [1]	77	0.01 %	404	0.04 %
	8,149	3.28 %	8,084	3.38 %
CMBS IO:				
Coupon and scheduled amortization	6,980	3.75 %	7,144	3.81 %
Prepayment adjustments [1]	560	0.08 %	349	0.05 %
	7,540	3.83 %	7,493	3.86 %
Total MBS portfolio:	$ 22,583	2.76 %	$ 24,196	2.62 %

	Six Months Ended June 30,			
	2016		2015	
	$	%	$	%
RMBS:				
Coupon and scheduled amortization	$ 14,836	1.91 %	$ 19,617	1.85 %
Prepayment adjustments [1]	(122)	(0.01)%	(193)	— %
	14,714	1.90 %	19,424	1.85 %
CMBS:				
Coupon and scheduled amortization	16,338	3.25 %	13,387	3.47 %
Prepayment adjustments [1]	1,170	0.03 %	604	0.08 %
	17,508	3.28 %	13,991	3.55 %
CMBS IO:				
Coupon and scheduled amortization	14,384	3.79 %	14,281	3.83 %
Prepayment adjustments [1]	817	0.21 %	227	0.03 %
	15,201	4.00 %	14,508	3.86 %
Total MBS portfolio:	$ 47,423	2.80 %	$ 47,923	2.62 %

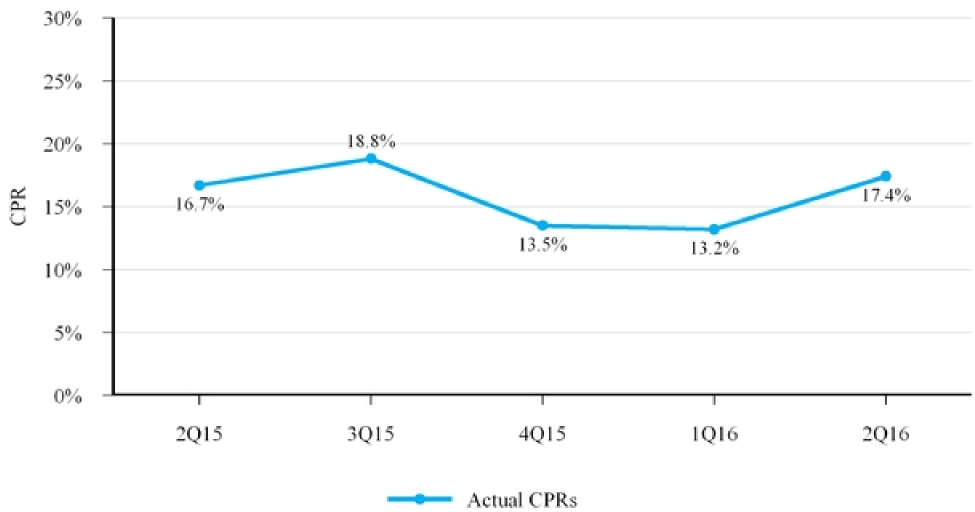
(1) Prepayment adjustments represent effective interest amortization adjustments related to changes in actual and projected prepayment speeds for RMBS and net prepayment compensation for CMBS and CMBS IO.

Effective yield on RMBS for the three and six months ended June 30, 2016 increased 8 and 5 basis points, respectively, compared to the same periods in 2015 primarily because we have sold lower yielding RMBS over the past twelve months.

Effective yield on CMBS for the three and six months ended June 30, 2016 declined 10 and 27 basis points, respectively, compared to the same periods in 2015 primarily because the purchases of CMBS over the past year were primarily new issue or recent vintage and originated in a lower interest rate environment than the CMBS we held in our portfolio during the same periods in 2015. The weighted average gross coupon rate earned on our CMBS for the three and six months ended June 30, 2016 was 3.58% and 3.56%, respectively, compared to 3.83% and 4.07%, respectively, for the same periods in 2015.

Effective yield on CMBS IO for the six months ended June 30, 2016 increased 14 basis points compared to the same period in 2015 primarily because of the increase in prepayment penalty income of $0.6 million received in the past six months compared to the same period in 2015.

The rate at which we amortize the premiums we pay for our investments is impacted by actual and forecasted prepayments, which is measured by the constant prepayment rate ("CPR") for Agency RMBS. We are projecting a 3 month CPR of 19.6% on our Agency RMBS for the third quarter of 2016. The following graph shows our actual CPRs for Agency RMBS for the periods indicated:



Interest Expense and Cost of Funds. The following table summarizes the components of interest expense as well as average balances and cost of funds for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in thousands)	**2016**	**2015**	**2016**	**2015**
Interest expense on repurchase agreement borrowings	$ 5,813	$ 4,643	$ 11,641	$ 8,932
Interest expense on FHLB advances	339	6	775	6
Amortization of de-designated cash flow hedges (1)	(80)	857	(53)	1,914
Non-recourse collateralized financing and other interest expense	28	36	47	61
Total interest expense	$ 6,100	$ 5,542	$ 12,410	$ 10,913
Average balance of repurchase agreements	$ 2,645,431	$ 3,301,590	$ 2,667,032	$ 3,201,915
Average balance of FHLB advances	263,000	9,667	330,780	4,860
Average balance of non-recourse collateralized financing	8,001	9,503	8,149	10,074
Average balance of borrowings	$ 2,916,432	$ 3,320,760	$ 3,005,961	$ 3,216,849
Cost of funds (2)	0.83%	0.66%	0.82%	0.67%

(1) Amount recorded in accordance with GAAP related to the amortization of the balance remaining in accumulated other comprehensive loss as of June 30, 2013 as a result of our discontinuation of cash flow hedge accounting.
(2) Cost of funds is calculated by dividing annualized interest expense by the average balance of borrowings outstanding during the period.

The following table presents the estimated impact of the change in average balances and borrowing rates of repurchase agreement and FHLB borrowings as well as other differences in interest expense for the comparative periods presented:

($ in thousands)	**Three Months Ended June 30, 2016 vs. June 30, 2015**	**Six Months Ended June 30, 2016 vs. June 30, 2015**
Change in borrowing rates on repurchase agreements and FHLB advances	$ 2,069	$ 4,060
Change in average balance of repurchase agreements and FHLB advances	(566)	(582)
Decrease in amortization of de-designated cash flow hedges	(937)	(1,967)
Decrease in non-recourse collateralized financing and other interest expense	(8)	(14)
Total change in interest expense	$ 558	$ 1,497

The increase in our interest expense for the three and six months ended June 30, 2016 compared to the same periods in 2015 was due to higher borrowing rates on our repurchase agreement financings. Our average borrowing rate on our repurchase agreements increased 31 basis points to 0.87% for the second quarter of 2016 compared to 0.56% for the second quarter of 2015 and increased 31 basis points to 0.86% for the six months ended June 30, 2016 compared to 0.55% for the same period in 2015.

Because we use derivative instruments as economic hedges of our interest rate risk exposure, management considers net periodic interest costs from derivative instruments to be an additional cost of financing investments. As such, management utilizes a non-GAAP financial measure "adjusted interest expense" which includes the net periodic interest costs of our effective derivative instruments excluded from GAAP interest expense. The table below presents the reconciliation of GAAP interest expense and cost of funds to our adjusted interest expense and adjusted cost of funds for the periods indicated:

	Three Months Ended June 30,			
	2016		**2015**	
($ in thousands)	**Amount**	**Rate**	**Amount**	**Rate**
Interest expense/cost of funds	$ 6,100	0.83%	$ 5,542	0.66 %
Amortization of de-designated cash flow hedges (1)	80	—%	(857)	(0.10)%
Net periodic interest costs of derivative instruments	486	0.07%	1,793	0.21 %
Adjusted interest expense/adjusted cost of funds	$ 6,666	0.90%	$ 6,478	0.77 %

	Six Months Ended June 30,			
	2016		**2015**	
	Amount	**Rate**	**Amount**	**Rate**
Interest expense/cost of funds	$ 12,410	0.82%	$ 10,913	0.67 %
Amortization of de-designated cash flow hedges (1)	53	—%	(1,914)	(0.12)%
Net periodic interest costs of derivative instruments	2,166	0.14%	2,655	0.16 %
Adjusted interest expense/adjusted cost of funds	$ 14,629	0.96%	$ 11,654	0.71 %

(1) Amount recorded as a portion of "interest expense" in accordance with GAAP and is related to the amortization of the balance in accumulated other comprehensive loss as of June 30, 2013 related to the derivatives for which we discontinued cash flow hedge accounting.

The increase in adjusted interest expense of $0.2 million and $3.0 million for the three and six months ended June 30, 2016, respectively, versus the same periods in 2015 is due to higher repurchase agreement borrowing rates as discussed above, partially offset by lower net periodic interest costs of $1.3 million and $0.5 million, respectively, from our effective interest rate swaps which are discussed below.

(Loss) Gain on Derivative Instruments, Net

The following table provides information on the components of our "(loss) gain on derivative instruments, net" for the periods indicated:

($ in thousands)	Three Months Ended June 30,					
	2016			2015		
Type of Derivative Instrument	**Net Periodic Interest Costs**	**Change in Fair Value (1)**	**Total**	**Net Periodic Interest Costs**	**Change in Fair Value (1)**	**Total**
Receive-fixed interest rate swaps	$ 1,321	$ 2,422	$ 3,743	$ 1,176	$ (2,922)	$ (1,746)
Pay-fixed interest rate swaps	(1,807)	(14,047)	(15,854)	(2,969)	19,232	16,263
Eurodollar futures	—	(4,186)	(4,186)	—	2,573	2,573
(Loss) gain on derivative instruments, net	$ (486)	$ (15,811)	$ (16,297)	$ (1,793)	$ 18,883	$ 17,090

	Six Months Ended June 30,					
	2016			2015		
	Net Periodic Interest Costs	**Change in Fair Value (1)**	**Total**	**Net Periodic Interest Costs**	**Change in Fair Value (1)**	**Total**
Receive-fixed interest rate swaps	$ 2,744	$ 11,533	$ 14,277	$ 2,372	$ 410	$ 2,782
Pay-fixed interest rate swaps	(4,910)	(57,556)	(62,466)	(5,027)	7,927	2,900
Eurodollar futures	—	(16,372)	(16,372)	—	(13,915)	(13,915)
Loss on derivative instruments, net	$ (2,166)	$ (62,395)	$ (64,561)	$ (2,655)	$ (5,578)	$ (8,233)

(1) Amount shown is inclusive of realized gains (losses) from terminated instruments.

The majority of decline in the fair value of derivatives for the three and six months ended June 30, 2016 is due to the decline in interest rates primarily from volatile market conditions which lowered interest rates significantly at the two year and longer points on the curve compared to the same periods in 2015. Net periodic interest costs for three and six months ended decreased primarily due to the termination of $500 million notional pay-fixed swaps early in the second quarter with an average rate of 1.89%. The notional activity of our derivative instruments from period to period fluctuate based on the composition of our investment portfolio and the current interest rate environment as well as management's expectations of future interest rates.

($ in thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Average notional balance	$ 409,945	$ 658,407	$ 673,269	$ 520,635
Weighted average net pay-fixed rate	0.93%	1.23%	1.15%	0.97%

Loss on Sale of Investments, Net

Sales of our investments occur in the ordinary course of business as we manage our risk profile, manage liquidity, reduce leverage, and as we allocate capital to preferred investment opportunities. The following tables provide information related to our loss on sale of investments, net for the periods indicated:

($ in thousands)	Three Months Ended June 30, 2016 Amortized cost basis sold	Three Months Ended June 30, 2016 (Loss) gain on sale of investments, net	Three Months Ended June 30, 2015 Amortized cost basis sold	Three Months Ended June 30, 2015 (Loss) gain on sale of investments, net
Agency RMBS	$ 10,584	$ (297)	$ 97,900	$ (1,875)
Agency CMBS	—	—	99,709	(822)
Non-Agency CMBS IO	—	—	30,766	1,206
	$ 10,584	$ (297)	$ 228,375	$ (1,491)

	Six Months Ended June 30, 2016 Amortized cost basis sold	Six Months Ended June 30, 2016 (Loss) gain on sale of investments, net	Six Months Ended June 30, 2015 Amortized cost basis sold	Six Months Ended June 30, 2015 (Loss) gain on sale of investments, net
Agency RMBS	$ 57,187	$ (3,010)	$ 158,566	$ (2,196)
Agency CMBS	—	—	99,709	(822)
Non-Agency CMBS	34,868	(1,228)	—	—
Agency CMBS IO	—	—	27,911	1,474
Non-Agency CMBS IO	—	—	43,403	1,361
	$ 92,055	$ (4,238)	$ 329,589	$ (183)

The Agency RMBS we sold during the first six months of 2016 were lower yielding ARMs that were at or near their interest rate reset periods and which were expected to reset at interest rates lower than their current coupon. Non-Agency CMBS sold during the first six months of 2016 were yielding significantly below the portfolio average. Sale proceeds were used to pay down repurchase agreement borrowings during the six months ended June 30, 2016.

General and Administrative Expenses

Compensation and benefits expense for the three and six months ended June 30, 2016 was $0.5 million and $0.4 million lower compared to the same periods in 2015 primarily due to lower employee costs. Other general and administrative expenses were $0.6 million and $0.9 million lower for the three and six months ended June 30, 2016 compare to the same period in 2015 due primarily to lower professional fees.

Other Comprehensive Income

The following table provides detail on the changes in fair value by type of MBS which are recorded as unrealized gains (losses) in other comprehensive income on our consolidated statements of operations for the periods indicated:

($ in thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Agency RMBS	$ 3,178	$ (7,164)	$ 14,314	4,775
Non-Agency RMBS	214	(16)	412	14
Agency CMBS	12,738	(21,813)	41,319	(16,961)
Non-Agency CMBS	821	(1,138)	2,413	(101)
Agency CMBS IO	1,574	(4,481)	2,570	(3,409)
Non-Agency CMBS IO	4,502	(5,924)	3,701	(2,857)
Unrealized gain (loss) on available-for-sale investments	$ 23,027	$ (40,536)	$ 64,729	$ (18,539)

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity include borrowings under repurchase arrangements, monthly principal and interest payments we receive on our investments, and cash generated from our operating results. Additional sources may also include proceeds from the sale of investments, equity offerings, and payments received from counterparties from interest rate swap agreements. We use our liquidity to manage our business including funding investment purchases and other operating costs, repaying borrowings and meeting margin calls from our lenders, making payments to counterparties as required under interest rate swap agreements, and to pay dividends on our preferred and common stock. We may also use liquidity to repurchase shares of our stock.

Our liquid assets fluctuate based on our investment activities and changes in the fair value of our MBS and derivative instruments. We seek to maintain sufficient liquidity to support our operations and to meet our anticipated liquidity needs, including potential margin calls from lenders (as discussed further below). We measure, manage, and forecast our liquidity on a daily basis. Our available liquid assets include unrestricted cash and cash equivalents, unencumbered Agency MBS, and certain unencumbered non-Agency MBS that can be pledged as collateral for margin calls or converted reasonably quickly into cash. As of June 30, 2016, our available liquid assets were $181.6 million, which consisted of unrestricted cash and cash equivalents of $96.9 million and unencumbered Agency MBS of $84.7 million, compared to $150.3 million as of December 31, 2015.

We perform sensitivity analysis on our liquidity based on changes in the fair value of our investments due to changes in interest rates, credit spreads, lender haircuts and prepayment speeds. In performing this analysis we will also consider the current state of the fixed income markets and the repurchase agreement markets in order to determine if market forces such as supply-demand imbalances or structural changes to these markets could change the liquidity of MBS or the availability of financing. The objective of our analysis is to assess the adequacy of our liquidity to withstand potential adverse events. We may change our leverage targets based on market conditions and our perceptions of the liquidity of our investments.

We closely monitor our debt-to-invested equity ratio (which is the ratio of debt financing to invested equity for any investment) as part of our liquidity management process as well as our overall enterprise level debt-to-equity ratio. We also monitor the ratio of our available liquidity to outstanding repurchase agreement borrowings, which fluctuates due to changes in the fair value of collateral we have pledged to our lenders. On an enterprise level basis, our current operating policies limit our total liabilities-to-shareholders' equity to 7 times our shareholders' equity. At the individual investment level, our targeted leverage ranges from 3 to 10 times our invested equity capital depending on the investment type. The maximum targets represent fixed limits for leveraging our investment capital. Our total liabilities decreased to 6.1 times shareholders' equity as of June 30, 2016 from 6.5 times as of December 31, 2015. We used principal payments received on MBS and proceeds received from sales of MBS to pay down borrowings instead of reinvesting during the six months ended June 30, 2016. This ratio may be impacted by changes in our shareholders' equity which can fluctuate based on market conditions as we record our investments and derivatives at fair value.

We have historically had ample sources of liquidity to fund our activities and operations. The ability to fund our operations in the future depends in large measure on the availability of credit through repurchase agreement financing and the liquidity of our investments. Credit markets have historically experienced brief periods of extreme volatility such as what occurred in 2008 and 2009. Such events are typically marked by concerns regarding counterparty credit, severe market illiquidity, and steep declines in asset prices. At other times, credit markets have experienced lesser volatility, only modestly impacting liquidity and asset prices. In addition, in recent periods U.S. financial regulatory agencies (such as the Office of Financial Research in the U.S. Treasury and the Federal Reserve) have expressed some concern about the stability of repurchase agreement financing for mortgage REITs in a rising interest rate environment, and regulatory reform in the form of certain provisions of the Basel III capital framework (and supplemental bank capital rules) and the Dodd-Frank Wall Street Reform and Consumer Protection Act could impact the overall availability of credit by restricting the number of repurchase agreement lenders and the credit made available by such lenders. In times of severe market stress, repurchase agreement availability could be rapidly reduced and the terms on which we can borrow could be materially altered, particularly given the focus on these markets by the federal financial and banking regulators. Competition from other REITs, banks, hedge funds, and the federal government for capacity with our repurchase agreement lenders could also reduce our repurchase agreement availability. While we do not anticipate such events in the near term, a reduction in our borrowing capacity could force us to sell assets in order to repay our lenders or could otherwise restrict our ability to operate our business.

Depending on our liquidity levels, the condition of the credit markets, and other factors, we may from time to time consider the issuance of debt, equity, or other securities, or sell investments, the proceeds of which could provide additional liquidity for our operations. While we will attempt to avoid dilutive or otherwise costly issuances, depending on market conditions, in order to manage our liquidity we could be forced to issue equity or debt securities which are dilutive to our capital base or our profitability.

Repurchase Agreements

The following table presents information regarding the balances of our repurchase agreement borrowings for the periods indicated:

($ in thousands)	Balance Outstanding As of Quarter End	Average Balance Outstanding For the Quarter Ended	Maximum Balance Outstanding During the Quarter Ended
June 30, 2016	$ 2,600,480	$ 2,645,431	$ 2,772,019
March 31, 2016	2,722,019	2,688,633	2,838,607
December 31, 2015	2,589,420	2,766,755	3,097,492
September 30, 2015	3,055,069	3,220,391	3,405,692
June 30, 2015	3,402,964	3,301,590	3,447,628

Our repurchase agreement borrowings are generally renewable at the discretion of our lenders without guaranteed roll-over terms. Given the short-term and uncommitted nature of most of our repurchase agreement financing, we attempt to maintain unused capacity under our existing repurchase agreement credit lines with multiple counterparties which helps protect us in the event of a counterparty's failure to renew existing repurchase agreements either with favorable terms or at all. As of June 30, 2016, we had repurchase agreement borrowings outstanding with 19 of our 32 available repurchase agreement counterparties at a weighted average borrowing rate of 0.88% compared to 0.75% as of December 31, 2015. Our repurchase agreement borrowings generally carry a rate of interest based on a spread to an index such as LIBOR.

For our repurchase agreement borrowings, we are required to post and maintain margin to the lender (i.e., collateral in excess of the repurchase agreement financing) in order to support the amount of the financing. This excess collateral is often referred to as a "haircut" (and which we also refer to as equity at risk). As the collateral pledged is generally MBS, the fair value of the collateral can fluctuate with changes in market conditions. If the fair value of the collateral falls below the haircut required by the lender, the lender has the right to demand additional margin, or collateral, to increase the haircut back to the initial amount. These demands are typically referred to as "margin calls". Declines in the value of investments occur for any number of reasons including but not limited to changes in interest rates, changes in ratings on an investment, changes in actual or perceived liquidity of the investment, or changes in overall market risk perceptions. Additionally, values in Agency RMBS will also decline from the payment delay feature of those securities. Agency RMBS have a payment delay feature whereby Fannie Mae and Freddie Mac announce principal payments on Agency RMBS but do not remit the actual principal payments and interest for 20 days in the case of Fannie Mae and 40 days in the case of Freddie Mac. Because these securities are financed with repurchase agreements, the repurchase agreement lender generally makes a margin call for an amount equal to the product of their advance rate on the repurchase agreement and the announced principal payments on the Agency RMBS. This causes a temporary use of our liquidity to meet the margin call until we receive the principal payments and interest 20 to 40 days later.

The following table presents the weighted average minimum haircut contractually required by our counterparties for MBS pledged as collateral for our repurchase agreement borrowings as of the dates indicated:

	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Agency RMBS and CMBS	4.9%	5.1%	5.0%	5.0%	5.1%
Non-Agency RMBS and CMBS	15.8%	16.0%	14.5%	14.1%	13.5%
CMBS IO	15.5%	15.4%	15.4%	15.3%	15.3%

The counterparties with whom we have the greatest amounts of equity at risk may vary significantly during any given period due to the short-term and generally uncommitted nature of the repurchase agreement borrowings. Equity at risk is defined as the amount pledged as collateral to the counterparty in excess of the borrowed amount outstanding. This equity at risk represents the potential loss to the Company if the counterparty is unable or unwilling to return collateral securing the repurchase agreement borrowing at its maturity. The following tables present the five counterparties with whom we had the greatest amounts of equity at risk as of June 30, 2016 and as of December 31, 2015:

($ in thousands)	June 30, 2016	
	Amount Outstanding	Equity at Risk
Well Fargo Bank, N.A. and affiliates	$ 281,421	$ 52,582
JP Morgan Securities, LLC	293,086	45,861
South Street Financial Corporation	450,057	22,781
Royal Bank of Canada	146,584	20,107
Goldman Sachs	156,144	16,654
Remaining counterparties	1,273,188	74,620
	$ 2,600,480	$ 232,605

($ in thousands)	December 31, 2015	
	Amount Outstanding	Equity at Risk
Well Fargo Bank, N.A. and affiliates	$ 297,916	$ 56,193
JP Morgan Securities, LLC	298,823	46,197
South Street Financial Corporation	431,950	25,952
Royal Bank of Canada	187,993	23,091
BNP Paribas	102,211	15,038
Remaining counterparties	1,270,527	69,750
	$ 2,589,420	$ 236,221

The following table discloses our repurchase agreement amounts outstanding and the value of the related collateral pledged by geographic region of our counterparties as of June 30, 2016:

($ in thousands)	Amount Outstanding	Market Value of Collateral Pledged
North America	$ 1,849,114	$ 2,034,597
Asia	492,605	518,123
Europe	258,761	280,365
	$ 2,600,480	$ 2,833,085

Certain of our repurchase agreement counterparties require us to comply with various operating and financial covenants. The financial covenants include requirements that we maintain minimum shareholders' equity (usually a set minimum, or a percentage of the highest amount of shareholders' equity since the date of the agreement), maximum decline in shareholders' equity (expressed as a percentage decline in any given period), and limits on maximum leverage (as a multiple of shareholders' equity). Operating requirements include, among other things, requirements to maintain our status as a REIT and to maintain our listing on the NYSE. Violations of one or more of these covenants could result in the lender declaring an event of default which would result in the termination of the repurchase agreement and immediate acceleration of amounts due thereunder. In addition, some of the agreements contain cross default features, whereby default with one lender simultaneously causes default under agreements with other lenders. Violations could also restrict us from paying dividends or engaging in other transactions that are necessary for us to maintain our REIT status.

We monitor and evaluate on an ongoing basis the impact these customary financial covenants may have on our operating and financing flexibility. Currently, we do not believe we are subject to any covenants that materially restrict our financing flexibility.

FHLB Advances

For information on FHLB advances obtained by our wholly-owned captive insurance subsidiary, Mackinaw, see "Financial Condition - Repurchase Agreements and FHLB Advances" in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2015. As a result of the final rule issued by the FHFA in January 2016, we will not be able to renew these FHLB advances as they mature in 2016. Because we maintain excess borrowing capacity at our financing counterparties, we do not anticipate any difficulties in replacing the FHLB advances at or before their respective maturities.

Derivative Instruments

Our derivative instruments require us to post initial margin at inception and variation margin based on subsequent changes in the fair value of the derivatives. The collateral posted as margin by us is typically in the form of cash or Agency MBS. Generally, as interest rates decline due to market changes, we will be required to post collateral with counterparties on our pay-fixed derivative instruments and receive collateral from our counterparties on our receive-fixed derivative instruments, and vice versa as interest rates increase. As of June 30, 2016, we had Agency MBS with a fair value of $7.1 million and cash of $83.7 million posted as credit support under these agreements.

Approximately $370 million of the Company's interest rate swaps were entered into under bilateral agreements which contain cross-default provisions with other agreements between the parties. In addition, these bilateral agreements contain financial and operational covenants similar to those contained in our repurchase agreements, as described above.

Dividends

As a REIT, we are required to distribute to our shareholders amounts equal to at least 90% of our REIT taxable income for each taxable year after consideration of our tax NOL carryforwards. We generally fund our dividend distributions through our cash flows from operations. If we make dividend distributions in excess of our operating cash flows during the period, whether for purposes of meeting our REIT distribution requirements or other strategic reasons, those distributions are generally funded either through our existing cash balances or through the return of principal from our investments (either through repayment or sale).

We have a net operating tax loss ("NOL") carryforward that we could use to offset our REIT taxable income distribution requirement. This NOL carryforward had an estimated balance of approximately $89.8 million as of June 30, 2016. We also have deferred tax hedge losses on terminated derivative instruments, which will be recognized over the original periods that were being hedged by the terminated derivatives. These losses have already been recognized in our GAAP earnings but will reduce taxable income over the next ten years as noted in the following table:

($ in thousands)	**Tax Hedge Loss Deduction**
2016	$ 30,804
2017	18,321
2018	7,675
2019 - 2026	15,387
	$ 72,187

If any of the deferred tax hedge losses for the years noted in the table above result in dividend distributions to our shareholders in excess of REIT taxable income, the excess dividends distributed will be considered a return of capital to the shareholder. We estimate that approximately $15.9 million of our common stock dividends declared during the first six months of 2016 will represent a return of capital to shareholders and not a distribution of REIT taxable income, principally as a result of the amount of the tax hedge loss deduction for the six month period.

Contractual Obligations

The following table summarizes our contractual obligations by payment due date as of June 30, 2016:

($ in thousands)	**Payments due by period**				
Contractual Obligations:	**Total**	**< 1 year**	**1-3 years**	**3-5 years**	**> 5 years**
Repurchase agreements [1]	$ 2,602,350	$ 2,602,350	$ —	$ —	$ —
FHLB advances [1]	263,415	263,415	—	—	—
Non-recourse collateralized financing [2]	7,633	2,082	2,776	1,559	1,216
Operating lease obligations	807	206	433	168	—
Total	$ 2,874,205	$ 2,868,053	$ 3,209	$ 1,727	$ 1,216

(1) Includes estimated interest payments calculated using interest rates in effect as of June 30, 2016.
(2) Amounts shown are for principal only and exclude interest obligations as those amounts are not significant. Non-recourse collateralized financing represents securitization financing that is payable solely from loans and securities pledged as collateral. Payments due by period were estimated based on the principal repayments forecasted for the underlying loans and securities, substantially all of which is used to repay the associated financing outstanding.

Other Matters

As of June 30, 2016, we do not believe that any off-balance sheet arrangements exist that are reasonably likely to have a material effect on our current or future financial condition, results of operations, or liquidity. In addition, we do not have any material commitments for capital expenditures and have not obtained any commitments for funds to fulfill any capital obligations.

RECENT ACCOUNTING PRONOUNCEMENTS

There are no recently issued accounting pronouncements which have had or are expected to have a material impact on the Company's consolidated financial statements. Please refer to Note 1 to the Notes to Unaudited Consolidated Financial Statements contained in Part 1, Item 1 of this Quarterly Report on Form 10-Q for information regarding recently issued accounting pronouncements.

FORWARD-LOOKING STATEMENTS

Certain written statements in this Quarterly Report on Form 10-Q that are not historical facts constitute “forward-looking statements” within the meaning of Section 27A of the 1933 Act and Section 21E of the Exchange Act . Statements in this report addressing expectations, assumptions, beliefs, projections, future plans and strategies, future events, developments that we expect or anticipate will occur in the future, and future operating results are forward-looking statements. Forward-looking statements are based upon management’s beliefs, assumptions, and expectations as of the date of this report regarding future events and operating performance, taking into account all information currently available to us, and are applicable only as of the date of this report. Forward-looking statements generally can be identified by use of words such as “believe”, “expect”, “anticipate”, “estimate”, “plan” “may”, “will”, “intend”, “should”, “could” or similar expressions. We caution readers not to place undue reliance on our forward-looking statements, which are not historical facts and may be based on projections, assumptions, expectations, and anticipated events that do not materialize. Except as required by law, we are not obligated to, and do not intend to, update or revise any forward-looking statement whether as a result of new information, future events, or otherwise.

Forward-looking statements in this Quarterly Report on Form 10-Q may include, but are not limited to:

- Our business and investment strategy including our ability to generate acceptable risk-adjusted returns and our target investment allocations;
- Monetary policy and regulatory initiatives of the Federal Reserve (including the FOMC) and other financial regulators;
- Our financing strategy including our target leverage ratios and anticipated trends in financing costs, and our hedging strategy including changes to the derivative instruments to which we are a party, and changes to government regulation of hedging instruments and our use of these instruments;
- Our investment portfolio composition and target investments;
- Our investment portfolio performance, including the fair value, yields, and forecasted prepayment speeds of our investments;
- Our liquidity and ability to access financing, including with respect to maturity and replacement of FHLB advances, and the anticipated availability and cost of financing;
- Our stock repurchase activity and the impact of stock repurchases;
- Our use of and restrictions on using our tax NOL carryforward;
- The status of pending litigation;
- The competitive environment in the future, including competition for investments and the availability of financing;
- Estimates of future interest expenses, including related to the Company's repurchase agreements and derivative instruments;
- The status of regulatory rule-making or review processes and the status of reform efforts and other business developments in the repurchase agreement financing market;

- Market, industry and economic trends, how these trends and related economic data may impact the behavior of market participants and financial regulators; and
- Interest rates.

Forward-looking statements are inherently subject to risks, uncertainties and other factors that could cause our actual results to differ materially from historical results or from any results expressed or implied by such forward-looking statements. Not all of these risks and other factors are known to us. New risks and uncertainties arise over time, and it is not possible to predict those events 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 or other factors. If such a risk or other factor materializes in future periods, our business, financial condition, liquidity and results of operations may vary 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 forward-looking statements, or that may cause our projections, assumptions, expectations or beliefs to change, include the following:

- the risks and uncertainties referenced in this Quarterly Report on Form 10-Q, particularly those set forth under and incorporated by reference into Part II, Item 1A, “Risk Factors”;
- our ability to find suitable reinvestment opportunities;
- changes in economic conditions;
- changes in interest rates and interest rate spreads, including the repricing of interest-earning assets and interest-bearing liabilities;
- our investment portfolio performance particularly as it relates to cash flow, prepayment rates and credit performance;
- actual or anticipated changes in Federal Reserve monetary policy;
- adverse reactions in financial markets related to the budget deficit or national debt of the United States government; potential or actual default by the United States government on Treasury securities; and potential or actual downgrades to the sovereign credit rating of the United States;
- the cost and availability of financing, including the future availability of financing due to changes to regulation of, and capital requirements imposed upon, financial institutions;
- the cost and availability of new equity capital;
- changes in our use of leverage;
- changes to our investment strategy, operating policies, dividend policy or asset allocations;
- the quality of performance of third-party servicer providers of our loans and loans underlying our securities;
- the level of defaults by borrowers on loans we have securitized;
- changes in our industry;
- increased competition;
- changes in government regulations affecting our business;
- changes in the repurchase agreement financing markets and other credit markets;
- changes to the market for interest rate swaps and other derivative instruments, including changes to margin requirements on derivative instruments;
- government initiatives to support the U.S financial system and U.S. housing and real estate markets; or to reform the U.S. housing finance system including by imposing standards for originating residential mortgage loans;
- GSE reform or other government policies and actions;
- ownership shifts under Section 382 that further limit the use of our tax NOL carryforward; and
- exposure to current and future claims and litigation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We seek to manage various risks inherent in our business strategy, which include interest rate, prepayment, reinvestment, market value, credit, and liquidity risks. These risks can and do cause fluctuations in our shareholders' equity, comprehensive income, and book value. We attempt to manage these risks and earn an acceptable return for our shareholders as discussed below.

Interest Rate Risk

Investing in interest-rate sensitive investments on a leveraged basis subjects our results to interest rate risk primarily from the mismatch between interest-rate reset dates (or maturity) of our assets and the maturity of our liabilities. Borrowing costs on our liabilities are generally based on prevailing market rates and reset more frequently than interest rates on our assets. During a period of rising interest rates (particularly short term rates in a flattening yield curve environment), our borrowing costs will increase faster than our asset yields, negatively impacting our net interest income. The amount of the impact will depend on the composition of portfolio and on the effectiveness of our hedging instruments at the time, as well as the magnitude and the duration of the increase in interest rates. In addition, our adjustable rate assets may have limits or caps on the amount that an interest rate may reset while our liabilities do not have interest rate reset caps. Because we are long duration as of June 30, 2016, increases in interest rates, particularly rapid changes, will also negatively impact the market value of our investments, thereby reducing our book value. In addition to the information set forth in the tables below, see "Market Value Risk" below for further discussion of the risks to the market value of our investments.

While having interest rate risk is a basic tenet of our investment strategy, we attempt to manage our exposure to changes in interest rates by investing in instruments that have short maturities/interest reset dates, entering into derivative instruments (such as interest rate swaps and Eurodollar futures) to hedge this risk and by managing our investment portfolio within interest rate risk tolerances set by our Board of Directors. Our current goal is to maintain net portfolio duration (a measure of interest rate risk) within a range of 0.5 to 1.5 years. Our portfolio duration may drift outside of this target range at various times based on the composition of our investment portfolio including derivative instruments, and in light of our expectations with respect to interest rates and FOMC monetary policy. In addition, duration is driven by model inputs, and in the case of Agency RMBS, the most important inputs include anticipated prepayment speeds. Estimates of prepayment speeds can vary significantly by investor for the same security and therefore estimates of security and portfolio duration can vary significantly.

Effect of Changes in Interest Rates on Adjusted Net Interest Income and Market Value. The table below shows the projected sensitivity of our adjusted net interest income and the market value of our investments and derivative instruments carried at fair value as they existed as of June 30, 2016 based on an instantaneous parallel shift in market interest rates as set forth in the table below. In light of the low interest rate environment at June 30, 2016, the only declining rate scenario that we present is a downward shift of 25 basis points. In order to include the impact of changes in interest rates on our effective derivative instruments, we are presenting the percentage change in adjusted net interest income (instead of net interest income) because net interest income does not include the net interest payments/receipts on these instruments.

The "percentage change in adjusted net interest income" includes the impact of changes in expected prepayment speeds on our investments and assumes that net proceeds received from pay downs on the investment portfolio are reinvested in MBS in amounts proportionate to the portfolio composition that existed as of June 30, 2016 and at yields consistent with those as of that date, adjusted for the parallel shift in the rates below. Changes in types of investments, the returns earned on these investments, future interest rates, credit spreads, the shape of the yield curve, the availability of financing, and/or the mix of our investments and financings including derivative instruments may cause actual results to differ significantly from the modeled results. There can be no assurance that assumed events used for the model below will occur, or that other events will not occur, that will affect the outcomes; therefore, the tables below and all related disclosures constitute forward-looking statements.

Parallel Shift in Interest Rates	Percentage change in market value (1)	Percentage change in adjusted net interest income
+100	(1.3)%	(31.5)%
+50	(0.6)%	(15.2)%
-25	0.3%	6.8%

(1) *Includes changes in market value of our investments and derivative instruments, 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.*

The values in the table above reflect a greater exposure to a parallel shift in interest rates than at March 31, 2016 because our terminations of a portion of our derivatives changed our interest rate hedge positioning during the second quarter of 2016.

Management also considers changes in the shape of the interest rate curves in assessing and managing portfolio interest rate risk. Often interest rates do not move in a parallel fashion from quarter to quarter. The table below shows the projected change in market value of our investment portfolio net of derivative hedge instruments for instantaneous changes in the shape of the U.S. Treasury ("UST") curve (with similar changes to the interest rate swap and Eurodollar curves) as of June 30, 2016.

Basis point change in 2-year UST	**Basis point change in 10-year UST**	**Percentage change in market value (1)**
0	+25	0.09%
+10	+50	0.06%
+25	+75	(0.05)%
+25	+0	(0.26)%
+50	+0	(0.52)%
-10	-50	(0.10)%

(1) *Includes changes in market value of our investments and derivative instruments, 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.*

As noted in the table above, our interest rate exposure is more concentrated in the 2-year part of the UST curve versus the 10-year UST consistent with our hedge position after the terminations of derivative instruments during the second quarter. In the case of a downward shift of 10 basis points in the 2-year yield and a downward shift of 50 basis points in 10-year yield leads to a projected decrease in our aggregate market value of (0.1)% because as the yield curve flattens, the negative impact of faster prepayments on our RMBS outstrips the benefit of lower interest rates on our long duration position.

Our adjustable rate investments have interest rates which are predominantly based on one-year LIBOR and contain periodic (or interim) and lifetime interest rate caps which limit the amount by which the interest rate may reset on the investment. Please refer to "Financial Condition-RMBS" within Part 1, Item 2 of this Quarterly Report on Form 10-Q for details.

Market Value Risk

Our investments fluctuate in market value due to changes in credit spreads, spot and forward interest rates, actual and anticipated prepayments and other factors. Changes in the market values of our investments are reflected in other comprehensive income, shareholders' equity, and book value per common share. Changes in credit spreads represent the market's valuation of the perceived riskiness of assets relative to risk-free rates, and widening credit spreads reduces the market value of our investments as market participants require additional yield to hold riskier assets. Credit spreads could change based on macroeconomic or systemic factors as well as the factors specific to a particular security such as prepayment performance or credit performance. Other factors that could impact credit spreads include technical issues such as supply and demand for a particular type of security or FOMC monetary policy. Likewise, most of our investments are fixed rate or reset in rate over a period of time, and as interest rates rise, we would expect the market value of these investments to decrease. We use derivative instruments to hedge our exposure to rising interest rates, though often not on a one-to-one basis. We do not seek to hedge our exposure to credit spreads, prepayments or other factors other than through asset selection.

Fluctuations in credit spreads typically vary based on the type of investment. Though market conditions and technical factors such as FOMC monetary policy may impact Agency MBS credit spreads, Agency MBS credit spreads will generally have less volatility than non-Agency MBS credit spreads. This is due to the fact that market participants generally view Agency MBS, given their guarantee of principal by GSEs, as more liquid (i.e., more easily converted into cash) than non-Agency MBS.

The table below is an estimate of the projected change in our portfolio market value given the indicated change in market credit spreads as of June 30, 2016:

Basis Point Change in Market Credit Spreads	Percentage change in market value of investments
+50	(1.9)%
+25	(1.0)%
-25	1.0%
-50	2.0%

Prepayment and Reinvestment Risk

Prepayment risk is the risk of an early, unscheduled return of principal on an investment. We are subject to prepayment risk from premiums paid on investments which we acquire. Purchase premiums on our investments are amortized as a reduction in interest income using the effective yield method under GAAP, adjusted for the actual and anticipated prepayment activity of the investment. An increase in the actual or expected rate of prepayment will typically accelerate the amortization of purchase premiums, thereby reducing the yield/interest income earned on such assets. Principal prepayments on our investments are influenced by changes in market interest rates and a variety of economic, geographic, government policy and other factors beyond our control.

We have prepayment risk for all of our investments which we own at a premium to their par value. The majority of the loans underlying our RMBS are ARMs or hybrid ARMs and do not have any specific prepayment protection. Prepayments on these loans generally accelerate in a declining interest rate environment, as the loans age, and as the loans near their respective interest rate reset dates, particularly the initial reset date. Our prepayment models anticipate acceleration of prepayments in these events. To the extent the actual prepayments exceed our modeled prepayments, or if we change our future prepayment expectations, we will record adjustments to our premium amortization which may negatively impact our net interest income and could impact the fair value of our RMBS.

As an indication of our prepayment risk on our RMBS portfolio, the following table summarizes information for our Agency RMBS portfolio regarding the net premium and weighted average coupon by months until interest rate reset ("MTR") or until maturity in the case of fixed-rate securities as of the end of the past four quarters:

	June 30, 2016		March 31, 2016		December 31, 2015		September 30, 2015	
($ in thousands)	**Net Premium**	**WAC**	**Net Premium**	**WAC**	**Net Premium**	**WAC**	**Net Premium**	**WAC**
0-12 MTR	$ 18,456	3.05%	$ 14,715	2.65%	$ 18,098	2.75%	$ 20,234	2.70%
13-36 MTR	17,910	3.21%	24,000	3.32%	23,401	3.47%	24,039	3.54%
37-60 MTR	6,141	3.61%	3,630	3.68%	4,202	2.97%	5,128	2.94%
> 60 MTR	23,051	2.87%	27,911	2.91%	31,924	2.95%	34,068	2.96%
Fixed rate	—	—%	—	—%	(8)	2.50%	(8)	2.50%
Total	$ 65,558	3.03%	$ 70,256	3.01%	$ 77,617	3.03%	$ 83,461	3.04%
Par balance	$ 1,329,159		$ 1,423,270		$ 1,536,733		$ 1,631,942	
Premium, net as a % of par value	4.9%		4.9%		5.1%		5.1%	

Loans underlying our CMBS and CMBS IO securities typically have some form of prepayment protection provisions (such as prepayment lock-outs) or prepayment compensation provisions (such as yield maintenance or prepayment penalties). Yield maintenance and prepayment penalty requirements are intended to create an economic disincentive for the loans to prepay; however, the amount of the prepayment penalty required to be paid may decline over time, and as loans age, interest rates decline, or market values of collateral supporting the loans increase, prepayment penalties may lessen as an economic disincentive to the borrower. Generally, our experience has been that prepayment lock-out and yield maintenance provisions result in stable prepayment performance from period to period. There are no prepayment protections, however, if the loan defaults and is partially or wholly repaid earlier as a result of loss mitigation actions taken by the underlying loan servicer. Historically, we have experienced low default rates on loans underlying CMBS and CMBS IO.

Because CMBS IO consist of rights to interest on the underlying commercial mortgage loan pools and do not have rights to principal payments on the underlying loans, prepayment risk on these securities would be particularly acute without these prepayment protection provisions. CMBS IO prepayment protection and compensation provisions vary by issuer of the security (i.e. Freddie Mac, Fannie Mae, Ginnie Mae, or non-Agency). The majority of our Agency CMBS IO are issued by Freddie Mac and these securities generally have initial prepayment lock-outs followed by a defeasance period which on average extends to within six months of the stated maturities of the underlying loans. Non-Agency CMBS IO generally have prepayment protection in the form of prepayment lock-outs and defeasance provisions. The following table details the fair value of our CMBS IO portfolio by issuer as of the end of the periods indicated:

($ in thousands)	June 30, 2016	December 31, 2015
Fannie Mae	$ 22,410	$ 24,177
Freddie Mac	371,061	401,951
Non-Agency CMBS IO	343,975	363,727
	$ 737,446	$ 789,855

We seek to manage our prepayment risk on our MBS by diversifying our investments, seeking investments which we believe will have superior prepayment performance, and investing in securities which have some sort of prepayment prohibition or yield maintenance (as is the case with CMBS and CMBS IO). With respect to RMBS, we will seek to invest in RMBS where we believe the underlying loans have favorable prepayment characteristics such as lower loan balances or favorable origination, borrower or geographic characteristics.

We are also subject to reinvestment risk as a result of the prepayment, repayment and sales of our investments. In order to maintain our investment portfolio size and our earnings, we need to reinvest capital received from these events into new interest-earning assets. Yields on assets in which we have reinvested in recent periods have generally been lower than yields on existing assets due to lower overall interest rates and more competition for these as investment assets. As a result, our interest income has declined in recent periods and may continue to decline in the future, thereby reducing earnings per share. If we are unable to find suitable reinvestment opportunities, interest income on our investment portfolio and investment cash flows could be negatively impacted. In addition, based on market conditions, our leverage, and our liquidity profile, we may decide to not reinvest the cash flows we receive from our investment portfolio even when attractive reinvestment opportunities are available, or we may decide to reinvest in assets with lower yield but greater liquidity. If we retain rather than reinvest capital as in the first six months of 2016, or if we invest it in lower yielding assets for liquidity reasons, the size of our investment portfolio and the amount of net interest income generated by our investment portfolio will likely decline.

Credit Risk

Credit risk is the risk that we will not receive all contractual amounts due on investments that we own due to default by the borrower or due to a deficiency in proceeds from the liquidation of the collateral securing the obligation. We are also particularly exposed to credit risk on investments that we own at a premium. For investments owned at premiums, defaults on the underlying loan typically result in the complete loss of any remaining unamortized premium we paid.

We attempt to mitigate our credit risk by purchasing Agency MBS and higher quality non-Agency MBS. Agency MBS have credit risk to the extent that Fannie Mae or Freddie Mac fails to remit payments on the MBS for which they have issued a guaranty of payment. Given the improved financial performance and conservatorship of these entities and the continued support of the U.S. government, we believe this risk is low. For our non-Agency MBS, we seek to purchase investment grade securities (rated 'BBB' or better by a least one of the nationally recognized statistical ratings organizations) or securities that we believe are short-duration and which will have strong credit performance. We do not currently seek to purchase heavily discounted, credit sensitive MBS.

The majority of our non-Agency securities are CMBS and CMBS IO. The return we earn on these securities is dependent on the credit performance of the underlying commercial loans. In particular, since investments in CMBS IO pay interest from the underlying commercial mortgage loan pools, returns are more negatively impacted by liquidations of loans in the underlying loan pool.

In order to manage our exposure to credit performance, we generally invest in securities with higher credit ratings and in securities where we have evaluated the credit profile of the underlying loan pool and can monitor its credit performance. With respect to non-Agency RMBS, our purchases have been very short duration MBS backed by pools of re-performing or non-performing loans.

The following table presents information on our non-Agency MBS by credit rating as of June 30, 2016:

	June 30, 2016				
($ in thousands)	**CMBS**	**CMBS IO**	**RMBS**	**Total**	**Percentage**
AAA	$ 37,432	$ 286,966	$ —	$ 324,398	62.6%
AA	35,112	51,137	—	86,249	16.7%
A	31,745	—	—	31,745	6.1%
Below A or not rated	14,247	5,872	55,238	75,357	14.6%
	$ 118,536	$ 343,975	$ 55,238	$ 517,749	100.0%

Liquidity Risk

We have liquidity risk principally from the use of recourse repurchase agreements to finance our ownership of securities. In general, our repurchase agreements provide a source of uncommitted short-term financing that finances a longer-term asset, thereby creating a mismatch between the maturity of the asset and of the associated financing. Our repurchase agreements are renewable at the discretion of our lenders and do not contain guaranteed roll-over terms. If we fail to repay the lender at maturity, the lender has the right to immediately sell the collateral and pursue us for any shortfall if the sales proceeds are inadequate to cover the repurchase agreement financing. In addition, repurchase agreements are collateral based and declines in the market value of our investments subject us to liquidity risk.

For further information, including how we attempt to mitigate liquidity risk and monitor our liquidity position, please refer to "Liquidity and Capital Resources" in Part 1, Item 2 of this Quarterly Report on Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures.

Our management evaluated, with the participation of our Principal Executive Officer and Principal Financial Officer, the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of the end of the period covered by this report. Based on that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2016 to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting.

Our management is also responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13a-15(f). There were no changes in our internal control over financial reporting during the three months ended June 30, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to various legal proceedings. Although the ultimate outcome of these legal proceedings cannot be ascertained at this time, and the results of legal proceedings cannot be predicted with certainty, the Company believes, based on current knowledge, that the resolution of any of these proceedings will not have a material adverse effect on the Company's consolidated financial condition or liquidity. However, the resolution of any of the proceedings could have a material impact on consolidated results of operations or cash flows in a given future reporting period as the proceedings are resolved.

There have been no material changes during the three months ended June 30, 2016 with regard to the legal proceedings discussed in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2016.

ITEM 1A. RISK FACTORS

Risks and uncertainties identified in our forward-looking statements contained in this Quarterly Report on Form 10-Q together with those previously disclosed in the Annual Report on Form 10-K for the year ended December 31, 2015 or those that are presently unforeseen could result in significant adverse effects on our financial condition, results of operations and cash flows. See "Forward-Looking Statements" contained in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" within this Quarterly Report on Form 10-Q as well as Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The Company has been authorized by its Board of Directors to repurchase up to $50 million of its outstanding shares of common stock through December 31, 2016. Subject to applicable securities laws and the terms of the Series A Preferred Stock designation and the Series B Preferred Stock designation, both of which are contained in our Articles of Incorporation, future repurchases of common stock will be made at times and in amounts as the Company deems appropriate, provided that the repurchase price per share is less than the Company's estimate of the current net book value of a share of common stock. Repurchases may be suspended or discontinued at any time.

There were no repurchases of the Company's common stock during the three months ended June 30, 2016.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Restated Articles of Incorporation, effective June 2, 2014 (incorporated herein by reference to Exhibit 3.1 to Dynex's Registration Statement on Form S-8 filed September 17, 2014).
3.2	Amended and Restated Bylaws, adopted as of May 17, 2016 (filed herewith).
10.23.3	Amendment No. 3 to Master Repurchase and Securities Contract dated as of April 29, 2016 between Issued Holdings Capital Corporation, Dynex Capital, Inc. (as guarantor) and Wells Fargo Bank, N.A. (incorporated herein by reference to Exhibit 10.23.3 to Dynex’s Current Report on Form 8-K filed May 3, 2016).
10.25	Form of Restricted Stock Agreement for Non-Employee Directors under the Dynex Capital, Inc. 2009 Stock and Incentive Plan (filed herewith).
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	The following materials from Dynex Capital, Inc.'s Quarterly Report on Form 10-Q for the three months ended June 30, 2016, formatted in XBRL (Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Comprehensive Income (unaudited), (iii) Consolidated Statement of Shareholders' Equity (unaudited), (iv) Consolidated Statements of Cash Flows (unaudited), and (v) Notes to the Unaudited Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DYNEX CAPITAL, INC.

Date:	August 5, 2016	/s/ Byron L. Boston
		Byron L. Boston Chief Executive Officer, President, Co-Chief Investment Officer, and Director (Principal Executive Officer)
Date:	August 5, 2016	/s/ Stephen J. Benedetti
		Stephen J. Benedetti Executive Vice President, Chief Financial Officer and Chief Operating Officer (Principal Financial Officer)

Exhibit 3.2

AMENDED AND RESTATED BYLAWS

OF

DYNEX CAPITAL, INC.,
a Virginia corporation

Adopted as of May 17, 2016

TABLE OF CONTENTS

ARTICLE V

Officers

ARTICLE VI

Capital Stock

ARTICLE VII

Miscellaneous

ARTICLE I

Offices and Fiscal Year

SECTION 1.01 Principal Office. The principal office of the Corporation shall be located at 4991 Lake Brook Drive, Suite 100, Glen Allen, Virginia 23060, until otherwise established by a vote of a majority of the Board of Directors.

SECTION 1.02 Other Offices. The Corporation also may have offices at such places within or without the Commonwealth of Virginia as the Board of Directors may from time to time designate or the business of the Corporation may require.

SECTION 1.03 Fiscal Year. The fiscal year of the Corporation shall begin on the first day of January and end on the 31st day of December.

ARTICLE II

Meetings of Shareholders

SECTION 2.01 Places of Meeting. All meetings of the shareholders of the Corporation shall be held at such place, either within or without the Commonwealth of Virginia, as from time to time may be fixed by the President or by the Board of Directors in the notice of such meeting.

SECTION 2.02 Annual Meetings. The President or the Board of Directors may fix the date and time of the annual meeting of the shareholders, but if no such date and time is fixed by the President or the Board of Directors, the meeting for any calendar year shall be held on the fourth Monday in April in such year, if not a legal holiday under the laws of Virginia, and, if a legal holiday, then on the next succeeding business day, at 10:00 a.m., and at such meeting the shareholders then entitled to vote shall elect directors and shall transact such other business as may properly be brought before the meeting. Failure to hold an annual meeting does not invalidate the Corporation's existence or affect any otherwise valid corporate acts.

SECTION 2.03 Special Meetings. Special meetings of the shareholders of the Corporation for any purpose or purposes may be called at any time by the President, the Chairman of the Board of Directors, by a majority of the Board of Directors, by a majority of the Independent Directors (as defined in Section 3.02 hereof), or by shareholders entitled to cast at least twenty-five percent (25%) of the votes which all shareholders are entitled to cast at the particular meeting.

At any time, upon the written request of any person or persons who have duly called a special meeting, which written request shall state the object of the meeting, it shall be the duty of the Secretary to fix the date of the meeting to be held at such date and time as the Secretary may fix, not less than ten nor more than sixty days after the receipt of the request, and to give due notice thereof. If the Secretary shall neglect or refuse to fix the date and time of such meeting and give notice thereof, the person or persons calling the meeting may do so.

SECTION 2.04 Notice of Meetings. Written notice of every meeting of the shareholders, whether annual or special, shall be given to each shareholder of record entitled to vote at the meeting, at least ten and not more than sixty days prior to the day named for the meeting, except that notice of a meeting of shareholders to act on an amendment to the Articles of Incorporation, a plan of merger or share exchange, a proposed sale of assets pursuant to Va. Code § 13.1-724, or the dissolution of the Corporation shall be given not less than twenty-five nor more than sixty days prior to the day named for the meeting. Every notice of a special meeting shall state briefly the purpose or purposes thereof, and no business, other than that specified in such notice and matters germane thereto, shall be transacted at any special meeting without further notice to shareholders not present in person or by proxy.

Whenever the language of a proposed resolution is included in a written notice of a meeting of shareholders, the resolution may be adopted at such meeting with such clarifying or other amendments as do not enlarge its original purpose without further notice to shareholders not present in person or by proxy.

SECTION 2.05 Quorum, Manner of Acting and Adjournment. The presence in person or by proxy of shareholders entitled to cast a majority of the votes which all shareholders are entitled to cast on the particular matter shall constitute a quorum for the purpose of considering such matter. The shareholders present in person or by proxy at a duly organized meeting can continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders from the meeting so that less than a quorum remains.

In the absence of a quorum or for any other reason, the chairman of the meeting or the Board of Directors or the shareholders present in person or by proxy acting by a majority vote and without notice other than by announcement at the meeting may adjourn the meeting from time to time but not for a period exceeding 120 days after the original meeting date.

Except as otherwise specified in the Articles of Incorporation or these Bylaws or provided by applicable law, at a duly organized meeting at which a quorum is present in person or by proxy, action on any matter (other than the election of directors) is approved by the shareholders if the votes cast favoring the matter exceed the votes cast opposing the matter.

SECTION 2.06 Organization. Every meeting of shareholders shall be conducted by a director or officer of the Corporation appointed by the Board of Directors or the Chairman of the Board to be chairman of the meeting or, in the absence of such appointment, by the Chairman of the Board or, in the case of a vacancy in the office or absence of the Chairman of the Board, by one of the following officers present at the meeting in the order stated: the Vice Chairman of the Board, if there be one, the President, the Vice Presidents in their order of rank and seniority, or, in the absence of such officers, a chairman chosen by the shareholders by the vote of a majority of the votes cast by shareholders present in person or by proxy. The Secretary, or, in the Secretary's absence, an assistant secretary, or in the absence of both the Secretary and assistant secretaries, an individual appointed by the Board of Directors or, in the absence of such appointment, an individual appointed by the chairman of the meeting shall act as secretary. In the event that the Secretary presides as chairman at a meeting of shareholders, an assistant secretary, or in the absence of an assistant secretary, an individual appointed by the Board of Directors or the chairman of the meeting, shall record the minutes of the meeting.

At any meeting of shareholders of the Corporation, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting, including, without limitation, the establishment of procedures for the dismissal of business not properly presented, the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the Corporation, restrictions on entry to such meeting after the time prescribed for the commencement thereof and the opening and closing of the voting polls. Unless otherwise determined by the chairman of the meeting, meetings of shareholders shall not be required to be held in accordance with the rules of parliamentary procedure. This Section 2.06 shall not limit the right of shareholders to speak at meetings of shareholders on matters germane to the Corporation's business, subject to any rules for the orderly conduct of the meeting imposed by the chairman of the meeting.

SECTION 2.07 Voting. Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy. Every proxy shall be executed in writing by the shareholder or by his duly authorized attorney-in-fact and filed with the Secretary of the Corporation. A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until notice thereof has been given to the Secretary. No unrevoked proxy shall be valid after eleven months from the date of its execution, unless a longer time is expressly provided therein. A proxy shall not be revoked by the death or incapacity of the maker unless, before the authority is exercised, written notice of such death or incapacity is given to the Secretary. A shareholder shall not sell his vote or execute a proxy to any person for any sum of money or anything of value.

Except as provided in Article III of the Articles of Incorporation, each shareholder of record, except the holder of shares which have been called for redemption and with respect to which an irrevocable deposit of funds has been made, shall have the right, at every shareholder meeting, to one vote for every share, and to a fraction of a vote equal to every fractional share.

SECTION 2.08 Voting Lists. After the Board of Directors fixes a record date for a shareholder meeting, the officer or agent of the Corporation having charge of the share transfer books of the Corporation shall prepare an alphabetical list of the shareholders entitled to notice of such meeting. The shareholders' list for notice shall be available for inspection by any shareholder beginning two business days after notice of the meeting is given for which the list was prepared and continuing through the meeting, at the Corporation's principal office or at a place identified in the meeting notice in the county or city where the meeting shall be held. Such shareholders' list shall be arranged by voting group, and within each voting group by class or series of shares, and show the address of and number of shares held by each shareholder. In the event the Board of Directors has fixed a different record date to determine which shareholders are entitled to vote at such meeting, a shareholders' list for voting, prepared in the same manner as the shareholders' list for notice, shall be similarly available for inspection promptly after the record date for voting. The Corporation shall make the list of shareholders entitled to vote available at the meeting, and any shareholder, or the shareholder's agent or attorney, is entitled to inspect the list at any time during the meeting or any adjournment.

The original share transfer books, or a duplicate thereof, shall be prima facie evidence as to who are the shareholders entitled to examine such list or to vote, in person or by proxy, at any meeting of shareholders.

SECTION 2.09 Judges of Election. The vote upon any matter, including the election of directors, need not be by ballot. In advance of any meeting of shareholders the Board of Directors may appoint judges of election, who need not be shareholders, to act at such meeting or any adjournment thereof. If judges of election are not so appointed, the chairman of any such meeting may, and upon the demand of any shareholder or his proxy at the meeting and before voting begins shall, appoint judges of election. The number of judges shall be either one or three, as determined, in the case of judges appointed upon demand of a shareholder, by shareholders present entitled to cast a majority of the votes which all shareholders present are entitled to cast thereon. No person who is a candidate for office shall act as a judge. In case any person appointed as judge fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the Board of Directors in advance of the convening of the meeting, or at a meeting by the chairman of the meeting.

If judges of election are appointed as aforesaid, they shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the authenticity, validity and effect of proxies, receive votes or ballots, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes, determine the result, and do such acts as may be proper to conduct the election or vote with fairness to all shareholders. If there be three judges of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

On request of the chairman of the meeting or of any shareholder or his proxy, the judges shall make a report in writing of any challenge or question or matter determined by them and execute a certificate of any fact found by them.

SECTION 2.10 Determination of Shareholders of Record. The Board of Directors may fix a date, not more than seventy nor less than ten days preceding the date of any meeting of shareholders, and not more than seventy days preceding the date fixed for the payment of any dividend or distribution, or the date for the allotment of rights, or the date when any change or conversion or exchange of shares will be made or go into effect, as a record date for the determination of the shareholders entitled to notice of, or to vote at, any such meeting, or entitled to receive any such allotment of rights, or to exercise the rights in respect to any such change, conversion or exchange of shares; and in such case, if otherwise entitled to notice of, or to vote at, such meeting, or to receive payment of such dividend or distribution or to receive such allotment of rights, or exercise such rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after any such record date fixed as aforesaid.

Unless a record date is fixed by the Board of Directors for such purpose, transferees of shares which are transferred on the books within ten days next preceding the date of such meeting shall not be entitled to notice of, or to vote at, such meeting.

SECTION 2.11 Consent of Shareholders in Lieu of Meeting. Any action which may be taken at a meeting of the shareholders or a class of shareholders of the Corporation may be taken without a meeting if a consent or consents in writing, setting forth the actions so taken, shall be signed by all the shareholders who would be entitled to vote at a meeting of the shareholders or of a class of shareholders for such purpose and shall be filed with the Secretary.

SECTION 2.12 Order of Business. At any meeting of shareholders of the Corporation, only that business that is properly brought before the meeting may be presented to and acted upon by shareholders. To be properly brought before an annual meeting, business must be brought (a) by or at the direction of the Board of Directors or (b) by any shareholder of the Corporation who shall be entitled to vote at such meeting and who complies with the notice procedures set forth in this Section 2.12. At a special meeting of shareholders, no business shall be transacted and no corporate action taken other than that stated in the notice of the meeting.

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be given, either by personal delivery or by United States certified mail, postage prepaid, and received at the principal executive offices of the Corporation (i) not less than 90 days nor more than 180 days before the first anniversary of the date of the Corporation's proxy statement in connection with the last annual meeting of shareholders or (b) if no annual meeting was held in the previous year or the date of the applicable annual meeting has been changed by more than 30 days from the date contemplated at the time of the previous year's proxy statement, not less than 90 days before the date of the applicable annual meeting. A shareholder's notice to the Secretary must set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting, including the complete text of any resolutions to be presented at the annual meeting, and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's share transfer books, of such shareholder proposing such business, (c) a representation that such shareholder is a shareholder of record and intends to appear in person or by proxy at such meeting to bring the business before the meeting specified in the notice, (d) the class and number of shares of stock of the Corporation beneficially owned by the shareholder and (e) any material interest of the shareholder in such business. The Secretary of the Corporation shall deliver each such shareholder's notice that has been timely received to the Board of Directors or a committee designated by the Board of Directors for review.

Notwithstanding anything in the Bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 2.12. The chairman of a meeting shall, if the facts warrant, determine that the business was not brought before the meeting in accordance with the procedures prescribed by this Section 2.12, and if he should so determine, he shall so declare to the meeting and the business not properly brought before the meeting shall not be transacted.

In addition to the foregoing provisions of this Section 2.12, a shareholder seeking to have a proposal included in the Corporation's proxy statement must comply with the requirements of Regulation 14A under the Securities Exchange Act of 1934, as amended (including, but not limited to, Rule 14a-8 or its successor provision). The Corporation shall not have any obligation to communicate with shareholders regarding any business or director nomination submitted by a shareholder in accordance with this Section 2.12 unless otherwise required by law.

ARTICLE III

Board of Directors

SECTION 3.01 Powers. The Board of Directors shall have full power to conduct, manage, and direct the business and affairs of the Corporation, and all powers of the Corporation, except those specifically reserved or granted to the shareholders by statute or by the Articles of Incorporation or these Bylaws, are hereby granted to and vested in the Board of Directors.

SECTION 3.02 Number, Election and Term. The Board of Directors shall consist of seven directors, subject to automatic increase in accordance with the Articles of Incorporation. If the Corporation seeks to qualify as a real estate investment trust, the number of directors shall be increased or decreased from time to time by vote of a majority of the Board of Directors; provided, however, that the number of directors may not exceed fifteen nor be less than three except as permitted by law, and provided further, that the tenure of office of a director shall not be affected by any decrease or increase in the number of directors so made by the Board of Directors.

At all times, except in the case of a vacancy, a majority of the Board of Directors shall be Independent Directors (as hereinafter defined). For purposes of these Bylaws, "Independent Director" shall mean a director of the Corporation who meets the independence requirements under the rules and regulations of the stock exchange upon which the Corporation's common stock is then listed and the Securities and Exchange Commission, as then in effect and applicable to the Corporation. At each annual meeting, the shareholders shall elect directors to hold office until the next annual meeting or until their successors are elected and qualify. Directors need not be shareholders in the Corporation.

Except as provided in Article III of the Articles of Incorporation, no person shall be eligible for election as a director unless nominated in accordance with the procedures set forth in this Section 3.02. Nominations of persons for election to the Board of Directors may be made by the Board of Directors or any committee designated by the Board of Directors or by any shareholder entitled to vote for the election of directors at the applicable meeting of shareholders who complies with the notice procedures set forth in this Section 3.02. Such nominations, other than those made by the Board of Directors or any committee designated by the Board of Directors, may be made only if written notice of a shareholder's intent to nominate one or more persons for election as directors at the applicable meeting of shareholders has been given, either by personal delivery or by United States certified mail, postage prepaid, to the Secretary of the Corporation and received (a) not less than 90 days nor more than 180 days before the first anniversary of the date of the Corporation's proxy statement in connection with the last annual meeting of shareholders, or (b) if no annual meeting was held in the previous year or the date of the applicable annual meeting has been changed by more than 30 days from the date contemplated at the time of the previous year's proxy statement, not less than 90 days before the date of the applicable annual meeting. Each such shareholder's notice must set forth (i) as to the shareholder giving the notice, (1) the name and address, as they appear on the Corporation's share transfer books, of such shareholder, (2) a representation that such shareholder is a shareholder of record and intends to appear in person or by proxy at such meeting to nominate the person or persons specified in the notice, (3) the class and number of shares of stock of the Corporation beneficially owned by such shareholder, and (4) a description of all arrangements or understandings between such shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by such shareholder; and (ii) as to each person whom the shareholder proposes to nominate for election as a director, (1) the name, age, business address and, if known, residence address of such person, (2) the principal occupation or employment of such person, (3) the class and number of shares of stock of the Corporation which are beneficially owned by such person, (4) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors or is otherwise required by the rules and regulations of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended, and (5) the written consent of such person to be named in the proxy statement as a nominee and to serve as a director if elected. The Secretary of the Corporation shall deliver each such shareholder's notice that has been timely received to the Board of Directors or a committee designated by the Board of Directors for review. Any person nominated for election as director by the Board of Directors or any committee designated by the Board of Directors shall, upon the request of the Board of Directors or such committee, furnish to the Secretary of the Corporation all such information pertaining to such person that is required to be set forth in a shareholder's notice of nomination. The chairman of the meeting of shareholders shall, if the facts warrant, determine that a nomination was not made in accordance with the procedures prescribed by this Section 3.02, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

At any time when the Chairman of the Board is not an Independent Director, a lead Independent Director shall be designated by majority vote of the Independent Directors.

SECTION 3.03 Resignations. Any director or member of a committee may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or if no time be specified, at the time of the receipt by the Chairman of the Board, the President or the Secretary.

SECTION 3.04 Removal. At any meeting of shareholders, duly called and at which a quorum is present, the shareholders may, by the affirmative vote of the holders of a majority of the votes entitled to be cast thereon, remove any director or directors from office with or without cause, and may elect a successor or successors to fill any resulting vacancies for the unexpired terms of removed directors.

SECTION 3.05 Committees of the Board. The Board of Directors may appoint from among its members an executive committee and other committees comprised of three or more members. The composition of each committee, including the total number of members and the number of Independent Directors, shall at all times comply with the listing requirements and rules and regulations of the stock exchange upon which the Corporation's common stock is then listed and the rules and regulations of the Securities and Exchange Commission, in each case as then in effect and applicable to the Corporation. The Board of Directors may delegate to any committee any of the powers of the Board of Directors except the power to elect directors, declare dividends or distributions on stock, recommend to the shareholders any action which requires shareholder approval, amend the Articles of Incorporation, amend or repeal the Bylaws, approve any merger or share exchange which does not require shareholder approval or issue stock. However, if the Board of Directors has given general authorization for the issuance of stock, a committee of the Board, in accordance with a general formula or method specified by the Board of Directors by resolution or by adoption of a stock option plan, may fix the terms of stock subject to classification or reclassification and the terms on which any stock may be issued.

Notice of committee meetings shall be given in the same manner as notice for special meetings of the Board of Directors.

One-third, but not less than two, of the members of any committee shall be present in person at any meeting of such committee in order to constitute a quorum for the transaction of business at such meeting, and the act of a majority present shall be the act of such committee.

The Board of Directors may designate a chairman of any committee, and such chairman or any two members of any committee may fix the time and place of its meetings unless the Board shall otherwise provide. In the absence or disqualification of any member of any such committee, the members thereof present at any meeting and not disqualified from voting, whether or not they constitute a quorum, may unanimously appoint another member to act at the meeting in the place of such absent or disqualified members; provided, however, that in the event of the absence or disqualification of an Independent Director, such appointee shall be an Independent Director.

Each committee shall keep minutes of its proceedings and shall report the same to the Board of Directors at the meeting next succeeding and any action by the committees shall be subject to revision and alteration by the Board of Directors, provided that no rights of third persons shall be affected by any such revision or alteration.

Subject to the provisions hereof, the Board of Directors shall have the power at any time to change the membership of any committee, to fill all vacancies, to designate alternative members to replace any absent or disqualified member, or to dissolve any such committee.

SECTION 3.06 Meetings of the Board of Directors. Meetings of the Board of Directors, regular or special, may be held at any place in or out of the Commonwealth of Virginia as the Board may from time to time determine or as shall be specified in the notice of such meeting.

The first meeting of each newly elected Board of Directors shall be held as soon as practicable after the annual meeting of the shareholders at which the directors were elected. The meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by all of the directors as provided in Article IV, except that no notice shall be necessary if such meeting is held immediately after the adjournment, and at the site, of the annual meeting of shareholders.

Special meetings of the Board of Directors may be called at any time by two or more directors, by any lead independent director (if one has been designated) or by a majority of the members of the executive committee, if one be constituted, in writing with or without a meeting of such committee or by the Chairman of the Board or the President. The lead independent director (if one has been designated) may also call a separate meeting of the directors of the Corporation who are not employees of the Corporation. Special meetings may be held at such place or places in or out of the Commonwealth of Virginia as may be designated from time to time by the Board of Directors; in the absence of such designation, such meetings shall be held at such places as may be designated in the notice of meeting.

Notice of the place and time of every meeting of the Board of Directors shall be delivered by the Secretary to each director personally, by first-class mail, or by telephone, which shall also include voice-mail, or by electronic mail to any electronic address of the director or by any other electronic means, or by leaving the same at his residence or usual place of business at least twenty-four hours before the time at which such meeting is to be held, or if by first class mail, at least four days before the day on which such meeting is to be held. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the director at his post office address as it appears on the records of the Corporation, with postage thereon prepaid.

SECTION 3.07 Quorum and Voting. At all meetings of the Board, a majority of the Board of Directors shall constitute a quorum for the transaction of business, and the action of a majority of the directors present at any meeting at which a quorum is present shall be the action of the Board of Directors unless the concurrence of a greater proportion is required for such action by law, the Corporation's Articles of Incorporation or these Bylaws. If a quorum is not present at any meeting of directors, the directors present thereat may, by a majority vote, adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

Notwithstanding the first paragraph of this Section 3.07, and except as provided in the Company's Guidelines (as hereinafter defined) any action pertaining to a transaction involving the Corporation in which any advisor, any director or officer of the Corporation or any affiliate of any of the foregoing persons has an interest shall be approved by a majority of the Independent Directors even if the Independent Directors constitute less than a quorum.

SECTION 3.08 Organization. The Chairman of the Board shall preside at each meeting of the Board of Directors; provided, however, that the lead independent director (if one has been designated) shall preside at any separate meeting of directors of the Corporation who are not employees of the Corporation. In the absence or inability of the Chairman of the Board to preside at a meeting of the Board of Directors, the President, or, in his absence or inability to act, the lead independent director (if one has been designated), or in their absence or inability to act, another director chosen by a majority of the directors present, shall act as chairman of the meeting and preside thereat. The Secretary (or, in his absence or inability to act, any person appointed by the chairman of the meeting) shall act as secretary of the meeting and keep the minutes thereof.

SECTION 3.09 Meeting by Conference Telephone. Members of the Board of Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by such means constitutes presence in person at a meeting.

SECTION 3.10 Action Without Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if a written consent to such action is signed by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board or committee.

SECTION 3.11 Compensation of Directors. Non-employee Directors, in consideration of their serving as such, shall be entitled to receive from the Corporation such amount per annum or such fees for attendance at Board and committee meetings, or both, in cash or other property, including securities of the Corporation, as the Board shall from time to time determine, together with reimbursements for the reasonable expenses incurred by them in connection with the performance of their duties. Nothing contained herein shall preclude any director from serving the Corporation, or any subsidiary or affiliated corporation, in any other capacity and receiving proper compensation therefor. If the Board adopts a resolution to that effect, any non-employee Director may elect to defer all or any part of the annual and other fees hereinabove referred to for such period and on such terms and conditions as may be permitted by such resolution.

SECTION 3.12 Investment Policies. It shall be the duty of the Board of Directors to ensure that the purchase, sale, retention and disposal of the Corporation's assets, and the investment policies of the Corporation and the limitations thereon are at all times in compliance with the restrictions applicable to real estate investment trusts pursuant to the Internal Revenue Code of 1986, as amended.

The Board of Directors, including a majority of the Independent Directors, shall promulgate and approve guidelines governing the investment policies of the Company (the "Guidelines"). The Guidelines and compliance therewith shall be reviewed by the Board of Directors at least annually to determine that the policies then being followed by the Corporation are in the best interest of the shareholders of the Corporation. Each such determination and the basis therefor shall be set forth in the minutes of the meeting of the Board of Directors.

ARTICLE IV

Notice - Waivers - Meetings

SECTION 4.01 What Constitutes Notice. Whenever written notice is required to be given to any person under the provisions of the Articles, these Bylaws, or the Virginia Stock Corporation Act, it may be given to such person, either personally or by sending a copy thereof through the mail, or by telegraph, charges prepaid, to his address appearing on the books of the Corporation, or supplied by him to the Corporation for the purpose of notice. If the notice is sent by mail or by telegraph, it shall be deemed to have been given to the person entitled thereto when deposited in the

United States mail or with a telegraph office for transmission to such person. A notice of a meeting shall specify the place, day and hour of the meeting.

SECTION 4.02 Waiver of Notice. Whenever any written notice is required to be given under the provisions of the articles, these Bylaws, or the Virginia Stock Corporation Act, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Except in the case of a special meeting of shareholders, neither the business to be transacted at, nor the purpose of, the meeting need be specified in the waiver of notice of such meeting.

Attendance of a person, either in person or by proxy, or by a telephone conference arrangement which complies with Section 3.09 hereof, at any meeting, shall constitute a waiver of notice of such meeting, except where a person attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened.

ARTICLE V

Officers

SECTION 5.01 Number, Qualifications and Designation. The officers of the Corporation shall be a President, one or more Vice Presidents, a Secretary, a Treasurer, and such other officers as may be elected in accordance with the provisions of Section 5.03 of this Article. One person may hold more than one office. Officers may, but need not be, directors or shareholders of the Corporation. The Board of Directors may elect from among the members of the Board, a Chairman of the Board and Vice Chairman of the Board, neither of whom will be an officer of the Company, unless so designated by the Board.

SECTION 5.02 Election and Term of Office. The officers of the Corporation, except those elected by delegated authority pursuant to Section 5.03 of this Article, shall be elected annually by the Board of Directors, and each officer shall hold his office until the next annual organizational meeting of the Board of Directors and until his successor shall have been duly chosen and qualified, or until his death, resignation, or removal.

SECTION 5.03 Subordinate Officers, Committees and Agents. The Board of Directors may from time to time elect such other officers and appoint such committees, employees or other agents as the business of the

Corporation may require, including one or more assistant secretaries, and one or more assistant treasurers, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws, or as the Board of Directors may from time to time determine. The directors may delegate to any officer or committee the power to elect subordinate officers and to retain or appoint employees or other agents.

SECTION 5.04 Resignations. Any officer or agent may resign at any time by giving written notice to the Board of Directors, or to the President or the Secretary of the Corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 5.05 Removal. Any officer, member of a committee, employee or other agent of the Corporation may be removed, either for or without cause, by the Board of Directors or other authority which elected or appointed such officer, member of a committee, employee or other agent whenever in the judgment of such authority the best interests of the Corporation will be served thereby.

SECTION 5.06 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause, shall be filled by the Board of Directors or by the officer or remaining members of the committee to which the power to fill such office has been delegated pursuant to Section 5.03 of this Article, as the case may be, and if the office is one for which these Bylaws prescribe a term, shall be filled for the unexpired portion of the term.

SECTION 5.07 General Powers. All officers of the Corporation as between themselves and the Corporation, shall, respectively, have such authority and perform such duties in the management of the property and affairs of the Corporation as may be determined by resolution of the Board of Directors, or in the absence of controlling provisions in a resolution of the Board of Directors, as may be provided in these Bylaws.

SECTION 5.08 The Chairman and Vice Chairman of the Board. The Chairman of the Board or in his absence, the Vice Chairman of the Board, shall preside at all meetings of the Board of Directors, and shall perform such other duties as may from time to time be requested of him by the Board of Directors.

SECTION 5.09 The President. The President shall be the chief executive officer of the Corporation and shall have general supervision over the business and operation of the Corporation, subject, to the control of the Board of Directors. He shall sign, execute, and acknowledge, in the name of the Corporation, deeds, mortgages, bonds, contracts or other instruments, authorized by the Board of Directors, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors, or by these Bylaws, to some other officer or agent of the Corporation, and, in general, shall perform all duties incident to the office of President, and such other duties as from time to time may be assigned to him by the Board of Directors.

SECTION 5.10 The Vice Presidents. The Vice Presidents shall perform the duties of the President in his absence and such other duties as may from time to time be assigned to them by the Board of Directors or by the President.

SECTION 5.11 The Secretary. The Secretary or an assistant secretary shall attend all meetings of the shareholders and of the Board of Directors and shall record all the votes of the shareholders and of the directors and the minutes of the meetings of the shareholders and of the Board of Directors and of committees of the Board in a book or books to be kept for that purpose; shall see that notices are given and records and reports properly kept and filed by the Corporation as required by law; shall be the custodian of the seal of the Corporation and see that it is affixed to all documents to be executed on behalf of the Corporation under its seal; and, in general, shall perform all duties incident to the office of Secretary, and such other duties as may from time to time be assigned to him by the Board of Directors or the President.

SECTION 5.12 The Treasurer. The Treasurer or an assistant treasurer shall have or provide for the custody of the funds or other property of the corporation and shall keep a separate book account of the same to his credit as Treasurer; shall collect and receive or provide for the collection and receipts of monies earned by or in any manner due to or received by the Corporation; shall deposit all funds in his custody as Treasurer in such banks or other places of deposit as the Board of Directors may from time to time designate; shall, whenever so required by the Board of Directors, render an account showing his transactions as Treasurer and the financial condition of the Corporation; and, in general, shall discharge such other duties as may from time to time be assigned to him by the Board of Directors or the President.

SECTION 5.13 Officers' Bonds. Any officer shall give a bond for the faithful discharge of his duties in such sum, if any, and with such surety or sureties as the Board of Directors shall require.

SECTION 5.14 Salaries. The salaries of the officers elected by the Board of Directors shall be fixed from time to time by the Board of Directors or by such officer as may be designated by resolution of the Board. The salaries or other compensation of any other officers, employees and other agents shall be fixed from time to time by the officer or committee to which the power to elect such officers or to retain or appoint such employees or other agents has been delegated pursuant to Section 5.03 of this Article. No officer shall be prevented from receiving such salary or other compensation by reason of the fact that he is also a director of the Corporation.

ARTICLE VI

Capital Stock

SECTION 6.01 Shares of Stock. The shares of all classes and series of stock of the Corporation may be certificated or uncertificated as provided under Virginia law, and shall be entered in the share transfer books of the Corporation and registered as they are issued.

When shares of stock of the Corporation are represented by certificates, such certificates shall represent and certify the number and kind and class of shares owned by the shareholder in the Corporation and shall be in such form as may be required by law and approved by the Board of Directors. Each certificate shall be signed by the Chairman of the Board or the President or a Vice President and countersigned by the Secretary or an assistant secretary or the Treasurer or an assistant treasurer and may be sealed with the corporate seal or a facsimile thereof. The signatures of the officers upon a share certificate may be facsimiles if the certificate is countersigned by a transfer agent, or registered by a registrar, other than the Corporation itself or an employee of the Corporation. In case any officer who has signed any certificate ceases to be an officer of the Corporation before the certificate is issued, the certificate may nevertheless be issued by the Corporation with the same effect as if the officer had not ceased to be such officer as of the date of its issue. All certificates for the Corporation's shares shall be consecutively numbered or otherwise identified.

Each stock certificate shall include on its face (i) the name of the Corporation, (ii) that the Corporation is organized under the laws of the Commonwealth of Virginia, (iii) the name of the shareholder, (iv) the number and class or series, if any, of the shares represented by the certificate, and (v) any additional information required by the Virginia

Stock Corporation Act to be included on certificates. If the Corporation has authority to issue stock of more than one class, or of more than one series within a class, the stock certificate shall contain on its face or back a full statement or summary of the designations and any preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption of the stock of each class which the Corporation is authorized to issue and if the Corporation is authorized to issue any preferred or special class in series, the differences in the relative rights, preferences and limitations between the shares of each series to the extent they have been set, and the authority of the Board of Directors to set the relative rights and preferences of subsequent series. In lieu of such full statement or summary, there may be set forth upon the face or back of the certificate a statement that the Corporation will furnish to any shareholder upon request and without charge, a full statement of such information. A summary of such information included in a registration statement permitted to become effective under the federal Securities Act of 1933, as amended, shall be an acceptable summary for the purposes of this section. Every stock certificate representing shares of stock which are restricted as to transferability by the Corporation shall contain a full statement of the restriction or state that the Corporation will furnish information about the restriction to the shareholder on request and without charge. A stock certificate may not be issued until the stock represented by it is fully paid, except in the case of stock purchased under an option plan as permitted by law.

When shares of stock of the Corporation are not represented by certificates, then within a reasonable time after the issuance or transfer of such shares, the Corporation shall send, or cause to be sent, to the shareholder to whom such shares have been issued or transferred a written notice that shall set forth (i) the name of the Corporation, (ii) that the Corporation is organized under the laws of the Commonwealth of Virginia, (iii) the name of the shareholder, (iv) the number and class or series, if any, of the shares so held, and (v) any additional information required by the Virginia Stock Corporation Act to be included on certificates. If the Corporation has authority to issue stock of more than one class, or of more than one series within a class, the written notice shall contain the information required by the previous paragraph with respect to each class or series, or shall contain a statement that the Corporation will furnish such information to any shareholder upon request and without charge. In the event the shares are restricted as to transferability by the Corporation, then the written notice shall contain a full statement of the restriction or state that the Corporation will furnish information about the restriction to the shareholder on request and without charge.

Blank share certificates shall be kept by the Secretary or by a transfer agent or by a registrar or by any other officer or agent designated by the Board of Directors.

SECTION 6.02 Stolen, Lost or Destroyed Certificates. The Board of Directors may direct that a new certificate or certificates be issued, or evidence of the holder's ownership of shares in uncertificated form be delivered, in place of any certificate or certificates theretofore issued by the Corporation alleged to have been stolen, lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be stolen, lost or destroyed. When authorizing such issuance of a new certificate or certificates or delivery of evidence of the holder's ownership of such shares in uncertificated form, the Board of Directors may, in its discretion and as a condition precedent to the issuance or delivery thereof, require the owner of such stolen, lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require, to give the Corporation a bond, with sufficient surety, to the Corporation to indemnify it against any loss or claim which may arise by reason of the issuance of a new certificate or delivery of evidence of the holder's ownership of such shares in uncertificated form, and to comply with any other terms the Board of Directors may lawfully prescribe.

SECTION 6.03 Transfer Agents and Registrars. The Board of Directors shall appoint one or more transfer agents and/or registrars of the shares of stock of the Corporation; and, upon such appointments being made, no certificate representing shares shall be valid until countersigned by one of such transfer agents and registered by one of such registrars.

SECTION 6.04 Transfer of Stock. The Corporation, or its designated transfer agent or other agent, shall keep a book or set of books to be known as the share transfer books of the Corporation, containing the name of each shareholder of record, together with such shareholder's address and the number and class or series of shares held by such shareholder. Such information may be stored or retained on discs, tapes, cards or any other approved storage device relating to data processing equipment; provided that such device is capable of reproducing all information contained therein in legible and understandable form, for inspection by shareholders or for any other corporate purpose.

No transfers of shares of stock of the Corporation shall be made if (i) void ab initio pursuant to any Article of the Corporation's Articles of Incorporation, (ii) the Board of Directors, pursuant to such Article, shall have refused to tender such shares, or (iii) the transferee is a nonresident alien individual or foreign entity. A permitted transfer of shares shall be made and recorded on the share transfer books of the Corporation upon the receipt of proper transfer instructions as prescribed by the Board of Directors, the payment of all taxes thereon, and, in the case of transfers of shares which are represented by one or more certificates, only upon receipt of such certificate(s) with proper endorsement or duly executed stock transfer power, from the registered holder of record or from such holder's attorney thereunto authorized by power of attorney duly executed and filed with the Secretary or with a transfer agent or transfer clerk. In the event a certificate representing shares to be transferred cannot be surrendered because it has been stolen, lost, or destroyed, the transferor shall comply with the requirements imposed by the Board of Directors as set forth in Section 6.02 of these Bylaws in lieu of surrendering a properly endorsed certificate. Upon satisfactory completion by the transferor of the requirements set forth in this Section 6.04, as to any transfer not prohibited by the Articles of Incorporation or by action of the Board of Directors thereunder, all certificates for the transferred shares shall be cancelled, new certificates representing the transferred shares (or evidence of the transferee's ownership of the transferred shares in uncertificated form) shall be delivered to the transferee, and the transaction shall be recorded on the share transfer books of the Corporation. Except as otherwise provided by law, no transfer of shares shall be valid as against the Corporation, its shareholders or creditors, for any purpose, until it shall have been entered in the share transfer books of the Corporation by an entry showing from and to whom transferred.

SECTION 6.05 Registered Shareholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its share transfer books as the owner of shares (whether or not such shares are represented by certificates) to receive dividends, and to vote as such owner, and to hold liable for calls and assessments, if any, a person registered on its share transfer books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

SECTION 6.06 Regulations. The Board of Directors may make such additional rules and regulations, not inconsistent with these Bylaws, as it may deem expedient concerning the issue, transfer and registration of shares of stock of the Corporation (whether or not such shares are represented by certificates).

ARTICLE VII

Miscellaneous

SECTION 7.01 Corporate Seal. The Corporation shall have a corporate seal in the form of a circle containing the name of the Corporation and such other details as may be required by the Board of Directors.

SECTION 7.02 Checks. All checks, notes, bills of exchange or other orders in writing shall be signed by such person or persons as the Board of Directors may from time to time designate.

SECTION 7.03 Contracts. Except as otherwise provided in these Bylaws, the Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or to execute or deliver any instrument on behalf of the Corporation, and such authority may be general or confined to specific instances.

SECTION 7.04 Deposits. All funds of the Corporation shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories as the Board of Directors may approve or designate, and all such funds shall be withdrawn only upon checks signed by such one or more officers or employees as the Board of Directors shall from time to time determine.

SECTION 7.05 Corporate Records. There shall be kept at the principal office of the Corporation an original or duplicate record of the proceedings of the shareholders and of the directors, and the original or a copy of the Bylaws including all amendments or alterations thereto to date, certified by the Secretary. An original or duplicate share transfer book shall also be kept at the registered office or principal place of business of the Corporation, or at the office of a transfer agent or registrar, giving the names of the shareholders, their respective addresses and the number and class of shares held by each. The Corporation shall also keep appropriate, complete and accurate books or records of account, which may be kept at its registered office or at its principal place of business.

SECTION 7.06 Amendment of Bylaws. These Bylaws may be amended or replaced, or new Bylaws may be adopted, either (1) by the vote of the shareholders entitled to cast at least a majority of the votes which all shareholders are entitled to cast thereon at any duly organized annual or special meeting of shareholders, or (2), with respect to those matters which are not by statute reserved exclusively to the shareholders, by vote of a majority of the Board of Directors, including a majority of the Independent Directors of the Corporation in office at any regular or special meeting of directors. It shall not be necessary to set forth such proposed amendment, repeal or new Bylaws, or a summary thereof, in any notice of such meeting, whether annual, regular or special.

SECTION 7.07 Exclusive Forum. Unless the Corporation consents in writing to the selection of an alternative forum, the United States District Court for the Eastern District of Virginia, Richmond Division, or in the event that court lacks jurisdiction to hear such action, the Circuit Court of the City of Richmond, Virginia, shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a legal duty owed by any current or former director, officer or other employee or agent of the Corporation to the Corporation or the Corporation's shareholders, (iii) any action asserting a claim against the Corporation or any director or officer or other employee of the Corporation arising pursuant to any provision of the Virginia Stock Corporation Act or the Articles of Incorporation or these Bylaws (as any may be amended from time to time), or (iv) any action asserting a claim against the Corporation or any current or former director or officer or other employee or agent of the Corporation governed by the internal affairs doctrine.

Exhibit 10.25

DYNEX CAPITAL, INC.
2009 STOCK AND INCENTIVE PLAN

FORM OF
RESTRICTED STOCK AGREEMENT
FOR NON-EMPLOYEE DIRECTORS

THIS AGREEMENT, dated this <<grant date>> is entered into by and between DYNEX CAPITAL, INC. (the “Company”), and <<name>> (“Participant”). Capitalized terms used in this Agreement shall have the meanings assigned to such terms in the Dynex Capital, Inc. 2009 Stock and Incentive Plan (the “Plan”).

WHEREAS, pursuant to the Plan, the Committee wishes to enable Participant to participate in its future success and to associate his or her interests with those of the Company and its shareholders by the award of restricted shares of the Company’s Common stock, par value $0.01 per share (“Common Stock”); and

WHEREAS, Participant desires to accept said award in accordance with the terms and provisions of the Plan and this Agreement.

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements hereinafter set forth, the Company and Participant agree as follows:

1. Award of Restricted Stock.

Subject to the terms and conditions of the Plan and to the terms and conditions set forth herein, the Company hereby awards to Participant effective as of the date of this Agreement (“Date of Award”), <<number of shares>> shares of Common Stock (“Restricted Stock”).

2. Vesting of Restricted Stock.

(a) Except as otherwise provided in this Agreement, the Restricted Stock is nontransferable and is subject to a substantial risk of forfeiture.

(b) Subject to subsections (c), (d), (e) and (f) of this Section 2, the Restricted Stock shall become fully transferable and nonforfeitable (“Vested”) on <<insert vesting schedule>>, provided Participant is a member of the Board of Directors of the Company on such date.

(c) The Restricted Stock, to the extent not already fully Vested, shall immediately be fully Vested upon a Change in Control of the Company as that term is defined in the Plan.

(d) The Restricted Stock, to the extent not already fully Vested, shall immediately be fully Vested upon Participant’s termination of his or her membership on the Board of Directors of the Company because of his or her disability, as determined by the Company in its sole discretion, or upon the death of Participant, in each case only if such disability or death occurs while Participant is a member of the Board of Directors of the Company. In the event of Participant's death, Participant's designated beneficiary or, if none, the executor or administrator of Participant's estate shall have the right to direct delivery of the Restricted Stock in accordance with Section 3 below.

(e) The Restricted Stock, to the extent not already fully Vested, shall immediately be fully Vested upon the "retirement" of Participant from the Board of Directors as may be provided in the Company's Corporate Governance Guidelines adopted by the Board of Directors initially on June 2, 2004 and as may be updated or restated from time-to-time.

(f) To the extent the Restricted Stock is not already fully Vested pursuant to subsections (b), (c), (d) or (e) of this Section 2 on or prior to such date, the Restricted Stock shall be fully forfeited and Participant shall have no further rights hereunder on the date Participant ceases to be a member of the Board of Directors of the Company.

3. Custody of Certificates.

If the Restricted Stock is issued in certificated form, custody of the certificate(s) evidencing the Restricted Stock shall be retained by the Company so long as the Restricted Stock is not Vested. The Company reserves the right to place a legend on each certificate noting the restrictions on the transferability of the shares evidenced by the certificate. Upon vesting, Participant will have the right, but not the obligation, to direct the Company to deliver the Vested shares in certificated form to Participant, or in book-entry form to a registered broker-dealer of his or her choice. Notices directing such delivery should be delivered to Dynex Capital, Inc., at its Corporate headquarters, Attention: Chief Financial Officer.

4. Shareholders Rights.

Beginning on the Date of Award, Participant will have all the rights of a shareholder of the Company with respect to the Restricted Stock, including the right to receive currently dividends on and to vote the Restricted Stock; provided, however, that until the Restricted Stock becomes Vested (i) Participant may not sell, transfer, pledge, exchange, hypothecate or otherwise dispose of the Restricted Stock, (ii) the Company shall retain custody of the certificates evidencing the shares of Restricted Stock as provided in Section 3, and (iii) the stock power set forth in Section 5 shall apply.

5. Stock Power.

By execution of this Agreement (which shall constitute the stock power contemplated in the Plan), Participant hereby appoints the Secretary of the Company, with full power of substitution, as Participant's attorney in fact with power and authority in the name and on behalf of Participant to take any action and execute all documents and instruments, including without limitation stock powers, which may be necessary to cancel any shares of Restricted Stock that do not become Vested.

6. Certain Tax Matters.

Participant shall provide the Company with a copy of any election made pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code"), and similar provision of state law (collectively, an "83(b) Election"). If Participant decides to make an 83(b) Election, he or she must do so within a limited period of time. (For federal tax purposes, currently, an 83(b) Election must be filed within 30 days of the Date of Award of the Restricted Stock.) Participant should contact his or her tax advisor to determine if an 83(b) Election is appropriate.

Participant acknowledges by signing this Agreement that he or she is solely responsible for determining whether or not to make an 83(b) Election and for the payment of any taxes which may be due to any federal, state or local income tax authority, or employment tax authority, and the Company is under no obligation to ensure any such taxes are paid by Participant.

7. Nontransferability.

Unless Vested, the Restricted Stock shall be nontransferable except by will or the laws of descent and distribution.

8. No Rights to Continued Employment.

Nothing in this Agreement or in the Plan shall confer any right to continued employment or affiliation with the Company or its subsidiaries (including service on the Board of Directors of the Company or any Related Entity) nor shall it interfere with any right of the Company or any Related Entity to terminate Participant's affiliation with the Company at any time.

9. Resolution of Disputes.

Any dispute or disagreement which shall arise under, or as a result of, or pursuant to, this Agreement shall be determined by the Board of Directors (without participation by Participant) in its absolute discretion, and any determination by the Board pursuant to this Agreement and any interpretation by the Board of Directors of the terms of this Agreement shall be final, binding and conclusive on all persons affected thereby.

10. Amendments.

The Committee shall have the right, in its absolute discretion, to alter or amend this Agreement in any manner, and any alteration or amendment of the Agreement by the Committee shall, upon adoption thereof by the Committee, become and be binding and conclusive on all persons affected thereby without written notice to Participant of any alteration or amendment of this Agreement by the Committee as promptly as practical after the adoption thereof. Notwithstanding the foregoing provisions of this Section 10, no alteration or amendment of this

Agreement shall be made that would adversely affect the rights of Participant without Participant's consent.

11. Construction.

This Agreement has been entered into in accordance with the terms of the Plan, and wherever a conflict may arise between the terms of this Agreement and the terms of the Plan, the terms of the Plan shall control.

12. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the laws of the Commonwealth of Virginia.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer, and Participant has hereunto set his or her hand and seal, all on the day and year first above written.

DYNEX CAPITAL, INC.

By: ______________________________

PARTICIPANT

____

Exhibit 31.1

CERTIFICATIONS

I, Byron L. Boston, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dynex Capital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2016

/s/ Byron L. Boston

Byron L. Boston
Principal Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Stephen J. Benedetti, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dynex Capital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2016

/s/ Stephen J. Benedetti

Stephen J. Benedetti
Principal Financial Officer

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 906

In connection with the Quarterly Report on Form 10-Q of Dynex Capital, Inc. (the "Company") for the three months ended June 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, as the Principal Executive Officer of the Company and the Principal Financial Officer of the Company, respectively, certify, pursuant to and for purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to their knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2016	/s/ Byron L. Boston
	Byron L. Boston
	Principal Executive Officer

Date: August 5, 2016	/s/ Stephen J. Benedetti
	Stephen J. Benedetti
	Principal Financial Officer