UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2019

or

☐ **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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $.01 par value	DX	New York Stock Exchange
8.50% Series A Cumulative Redeemable Preferred Stock, par value $0.01 per share	DXPRA	New York Stock Exchange
7.625% Series B Cumulative Redeemable Preferred Stock, par value $0.01 per share	DXPRB	New York Stock Exchange

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).
Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

On November 1, 2019, the registrant had 22,945,993 shares outstanding of common stock, $0.01 par value, which is the registrant’s only class of common stock.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2019	December 31, 2018
ASSETS	*(unaudited)*	
Mortgage-backed securities (including pledged of $5,144,034 and $3,511,604 respectively)	$ 5,302,926	$ 3,749,464
Mortgage loans held for investment, net	9,836	11,527
Cash and cash equivalents	41,781	34,598
Restricted cash	97,154	54,106
Derivative assets	4,845	6,563
Accrued interest receivable	24,094	21,019
Other assets, net	6,765	8,812
Total assets	$ 5,487,401	$ 3,886,089
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Repurchase agreements	$ 4,872,869	$ 3,267,984
Payable for unsettled securities	10,429	58,915
Non-recourse collateralized financing	2,950	3,458
Derivative liabilities	439	1,218
Accrued interest payable	7,186	10,308
Accrued dividends payable	6,280	13,810
Other liabilities	2,801	3,243
Total liabilities	4,902,954	3,358,936
Shareholders' equity:		
Preferred stock, par value $.01 per share; 50,000,000 shares authorized; 6,788,330 and 5,954,594 shares issued and outstanding, respectively ($169,708 and $148,865 aggregate liquidation preference, respectively)	$ 162,807	$ 142,883
Common stock, par value $.01 per share, 90,000,000 shares authorized; 22,945,993 and 20,939,073 shares issued and outstanding, respectively	229	209
Additional paid-in capital	858,050	818,861
Accumulated other comprehensive income (loss)	217,010	(35,779)
Accumulated deficit	(653,649)	(399,021)
Total shareholders' equity	584,447	527,153
Total liabilities and shareholders' equity	$ 5,487,401	$ 3,886,089

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 September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
Interest income	$	44,502	$	26,925	$	128,207	$	78,037
Interest expense		31,256		14,751		88,345		40,521
Net interest income		13,246		12,174		39,862		37,516
(Loss) gain on derivative instruments, net		(50,709)		19,499		(229,941)		78,520
Gain (loss) on sale of investments, net		4,605		(1,726)		(5,755)		(17,945)
Fair value adjustments, net		(13)		12		(42)		68
Other operating income (expense), net		25		(409)		50		(1,001)
General and administrative expenses:								
Compensation and benefits		(1,786)		(1,712)		(5,430)		(5,425)
Other general and administrative		(1,972)		(2,252)		(6,547)		(6,188)
Net (loss) income		(36,604)		25,586		(207,803)		85,545
Preferred stock dividends		(3,341)		(2,956)		(9,606)		(8,838)
Net (loss) income to common shareholders	$	(39,945)	$	22,630	$	(217,409)	$	76,707
Other comprehensive income:								
Unrealized gain (loss) on available-for-sale investments, net	$	59,800	$	(23,574)	$	247,199	$	(94,919)
Reclassification adjustment for (gain) loss on sale of investments, net		(4,605)		1,726		5,755		17,945
Reclassification adjustment for de-designated cash flow hedges		—		(66)		(165)		(162)
Total other comprehensive income (loss)		55,195		(21,914)		252,789		(77,136)
Comprehensive income (loss) to common shareholders	$	15,250	$	716	$	35,380	$	(429)
Net (loss) income per common share-basic and diluted	$	(1.65)	$	1.18	$	(9.12)	$	4.06
Weighted average common shares-basic and diluted		24,174		19,242		23,847		18,879

See notes to the unaudited consolidated financial statements.

DYNEX CAPITAL, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(unaudited)
($ in thousands)

	For the Nine Months Ended September 30, 2019							
	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2018	5,954,594	$ 142,883	20,939,073	$ 209	$ 818,861	$ (35,779)	$ (399,021)	$ 527,153
Stock issuance	213,468	5,015	3,109,047	31	53,841	—	—	58,887
Restricted stock granted, net of amortization	—	—	50,821	1	297	—	—	298
Adjustments for tax withholding on share-based compensation	—	—	(16,231)	—	(296)	—	—	(296)
Stock issuance costs	—	—	—	—	(212)	—	—	(212)
Net loss	—	—	—	—	—	—	(52,214)	(52,214)
Dividends on preferred stock	—	—	—	—	—	—	(3,059)	(3,059)
Dividends on common stock	—	—	—	—	—	—	(12,350)	(12,350)
Other comprehensive income	—	—	—	—	—	86,467	—	86,467
Balance as of March 31, 2019	6,168,062	$ 147,898	24,082,710	$ 241	$ 872,491	$ 50,688	$ (466,644)	$ 604,674
Stock issuance	346,068	8,173	547,071	5	9,874	—	—	18,052
Restricted stock granted, net of amortization	—	—	17,183	—	296	—	—	296
Stock issuance costs	—	—	—	—	(28)	—	—	(28)
Net loss	—	—	—	—	—	—	(118,985)	(118,985)
Dividends on preferred stock	—	—	—	—	—	—	(3,206)	(3,206)
Dividends on common stock	—	—	—	—	—	—	(13,292)	(13,292)
Other comprehensive income	—	—	—	—	—	111,127	—	111,127
Balance as of June 30, 2019	6,514,130	$ 156,071	24,646,964	$ 246	$ 882,633	$ 161,815	$ (602,127)	$ 598,638
Stock issuance	274,200	6,736	8,300	—	137	—	—	6,873
Restricted stock granted, net of amortization	—	—	—	—	306	—	—	306
Stock repurchase	—	—	(1,709,271)	(17)	(25,017)	—	—	(25,034)
Stock issuance costs	—	—	—	—	(9)	—	—	(9)
Net loss	—	—	—	—	—	—	(36,604)	(36,604)
Dividends on preferred stock	—	—	—	—	—	—	(3,341)	(3,341)
Dividends on common stock	—	—	—	—	—	—	(11,577)	(11,577)
Other comprehensive income	—	—	—	—	—	55,195	—	55,195
Balance as of September 30, 2019	6,788,330	$ 162,807	22,945,993	$ 229	$ 858,050	$ 217,010	$ (653,649)	$ 584,447

	For the Nine Months Ended September 30, 2018							
	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2017	5,888,680	$ 141,294	18,610,516	$ 186	$ 776,245	$ (8,697)	$ (351,970)	$ 557,058
Stock issuance	20,319	494	15,133	—	294	—	—	788
Restricted stock granted, net of amortization	—	—	58,745	1	334	—	—	335
Adjustments for tax withholding on share-based compensation	—	—	(19,045)	—	(364)	—	—	(364)
Stock issuance costs	—	—	—	—	(19)	—	—	(19)
Net income	—	—	—	—	—	—	44,307	44,307
Dividends on preferred stock	—	—	—	—	—	—	(2,940)	(2,940)
Dividends on common stock	—	—	—	—	—	—	(10,079)	(10,079)
Other comprehensive loss	—	—	—	—	—	(45,462)	—	(45,462)
Balance as of March 31, 2018	5,908,999	$ 141,788	18,665,349	$ 187	$ 776,490	$ (54,159)	$ (320,682)	$ 543,624
Stock issuance	—	—	291,076	3	5,617	—	—	5,620
Restricted stock granted, net of amortization	—	—	12,308	—	294	—	—	294
Stock issuance costs	—	—	—	—	(11)	—	—	(11)
Net income	—	—	—	—	—	—	15,652	15,652
Dividends on preferred stock	—	—	—	—	—	—	(2,942)	(2,942)
Dividends on common stock	—	—	—	—	—	—	(10,243)	(10,243)
Other comprehensive loss	—	—	—	—	—	(9,760)	—	(9,760)
Balance as of June 30, 2018	5,908,999	$ 141,788	18,968,733	$ 190	$ 782,390	$ (63,919)	$ (318,215)	$ 542,234
Stock issuance	32,660	796	703,452	7	13,360	—	—	14,163
Restricted stock granted, net of amortization	—	—	—	—	301	—	—	301
Stock issuance costs	—	(10)		—	(28)	—	—	(38)
Net income	—	—	—	—	—	—	25,586	25,586
Dividends on preferred stock	—	—	—	—	—	—	(2,956)	(2,956)
Dividends on common stock	—	—	—	—	—	—	(10,623)	(10,623)
Other comprehensive loss	—	—	—	—	—	(21,914)	—	(21,914)
Balance as of September 30, 2018	5,941,659	$ 142,574	19,672,185	$ 197	$ 796,023	$ (85,833)	$ (306,208)	$ 546,753

See notes to the unaudited consolidated financial statements.

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

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Operating activities:		
Net (loss) income	$ (207,803)	$ 85,545
Adjustments to reconcile net (loss) income to cash provided by operating activities:		
(Increase) decrease in accrued interest receivable	(3,075)	244
(Decrease) increase in accrued interest payable	(3,122)	1,942
Loss (gain) on derivative instruments, net	229,941	(78,520)
Loss on sale of investments, net	5,755	17,945
Fair value adjustments, net	42	(68)
Amortization of investment premiums, net	98,327	110,501
Other amortization and depreciation, net	1,186	937
Stock-based compensation expense	899	930
Change in other assets and liabilities, net	(6)	(896)
Net cash and cash equivalents provided by operating activities	122,144	138,560
Investing activities:		
Purchase of investments	(2,833,348)	(1,080,485)
Principal payments received on investments	347,565	137,362
Proceeds from sales of investments	1,033,066	642,900
Principal payments received on mortgage loans held for investment, net	1,677	3,375
Net (payments) receipts on derivatives, including terminations	(229,001)	80,618
Other investing activities	(183)	(72)
Net cash and cash equivalents used in investing activities	(1,680,224)	(216,302)
Financing activities:		
Borrowings under repurchase agreements	93,107,875	76,890,349
Repayments of repurchase agreement borrowings	(91,502,990)	(76,765,393)
Principal payments on non-recourse collateralized financing	(517)	(1,838)
Proceeds from issuance of preferred stock	19,924	1,290
Proceeds from issuance of common stock	63,889	19,281
Cash paid for stock issuance costs	(185)	(10)
Cash paid for common stock repurchases	(25,034)	—
Payments related to tax withholding for stock-based compensation	(296)	(364)
Dividends paid	(54,355)	(39,188)
Net cash and cash equivalents provided by financing activities	1,608,311	104,127
Net increase in cash, cash equivalents, and restricted cash	50,231	26,385
Cash, cash equivalents, and restricted cash at beginning of period	88,704	87,200
Cash, cash equivalents, and restricted cash at end of period	$ 138,935	$ 113,585
Supplemental Disclosure of Cash Activity:		
Cash paid for interest	$ 91,624	$ 38,713

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 debt securities, the majority of which are specified pools of Agency and non-Agency mortgage-backed securities ("MBS") consisting of residential MBS ("RMBS"), commercial MBS ("CMBS") and CMBS interest-only ("IO") securities that are issued or guaranteed by U.S. Government sponsored agencies ("Agency MBS") and MBS issued by others ("non-Agency MBS"). The Company also invests in other types of mortgage-related securities, such as to-be-announced securities ("TBAs" or "TBA securities").

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 nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for any other interim periods or for the entire year ending December 31, 2019. 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, 2018 (the "2018 Form 10-K") filed with the SEC.

All references to common shares, per common share amounts, and restricted stock have been adjusted to reflect the effect of the Company's 1-for-3 reverse stock split effected on June 20, 2019 for all periods presented. Please refer to Note 6 for additional information.

Consolidation and Variable Interest Entities

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. All intercompany accounts and transactions have been eliminated in consolidation.

The Company consolidates a VIE if the Company is determined to be the VIE's primary beneficiary, which is defined as the party that has both: (i) the power to control the activities that most significantly impact the VIE's financial performance and (ii) the right to receive benefits or absorb losses that could potentially be significant to the VIE. The Company reconsiders its evaluation of whether to consolidate a VIE on an ongoing basis, based on changes in the facts and circumstances pertaining to the VIE.

The Company consolidates a securitization trust, which has residential mortgage loans included in "mortgage loans held for investment, net" on its consolidated balance sheet, of which a portion is pledged as collateral for one remaining bond recorded as "non-recourse collateralized financing" on its consolidated balance sheet. The Company owns the subordinate class in the trust and has been deemed the primary beneficiary.

Though the Company invests in Agency and non-Agency MBS which are generally considered to be interests in VIEs, the Company does not consolidate these entities because it does not meet the criteria necessary to be deemed a primary beneficiary. Please refer to Note 2 for financial information regarding the Company's investments in these debt securities.

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, amortization of premiums and discounts, fair value measurements of its investments, and other-than-temporary impairments. 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 per common share by dividing net income 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 and nine months ended September 30, 2019 or September 30, 2018.

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 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 represents one unrestricted 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 per common share.

On June 20, 2019, the Company effected a 1-for-3 reverse stock split of its common stock whereby every three common shares issued and outstanding as of the close of market on that date were converted into one common share. The Company's weighted average common shares outstanding and net income (loss) per common share amounts presented on its consolidated statements of comprehensive income (loss) have been restated to reflect the effect of the reverse stock split for all periods presented. Please refer to Note 6 for additional information about the Company's reverse stock split.

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.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported on the Company's consolidated balance sheet as of September 30, 2019 that sum to the total of the same such amounts shown on the Company’s consolidated statement of cash flows for the nine months ended September 30, 2019:

	September 30, 2019
Cash and cash equivalents	$ 41,781
Restricted cash	97,154
Total cash, cash equivalents, and restricted cash shown on consolidated statement of cash flows	$ 138,935

Investments in Debt Securities

The Company’s investments in debt securities are designated as available-for-sale (“AFS”) and are recorded at fair value on the Company’s consolidated balance sheet. Changes in unrealized gain (loss) on the Company’s debt securities are reported in other comprehensive income (“OCI”) until the investment is sold, matures, or is 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 fair value of the Company’s debt securities pledged as collateral against repurchase agreements is disclosed parenthetically on the Company’s consolidated balance sheets.

Interest Income, Premium Amortization, and Discount Accretion. Interest income on debt securities 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 or discounts associated with the purchase of Agency MBS as well as any non-Agency MBS rated ‘AA’ and higher are amortized or accreted into interest income over the projected life of such securities using the effective yield method, and adjustments to premium amortization and discount accretion are made for actual cash payments. For its variable-rate MBS, the Company also adjusts premium amortization and discount accretion for changes in estimated future prepayments, but the Company does not estimate future prepayments on its fixed-rate securities. 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 loan prepayment rates, fluctuations in interest rates, credit losses, 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 based on 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 5 for further discussion of MBS fair value measurements.

Other-than-Temporary Impairment. An 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.

Repurchase Agreements

The Company's repurchase agreements, which are used to finance its purchases of debt securities, 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.

Derivative Instruments

The Company's derivative instruments generally include interest rate swaps, futures, options, and forward contracts for the purchase or sale of Agency RMBS on a non-specified pool basis, commonly referred to as to-be-announced ("TBA") securities. Derivative instruments are accounted for at the fair value of their unit of account. Derivative instruments in a gain position are reported as derivative assets and derivative instruments in a loss position are reported as derivative liabilities on the Company's consolidated balance sheet. All periodic interest benefits/costs and changes in fair value of derivative instruments, including gains and losses realized upon termination, maturity, or settlement are recorded in "gain (loss) on derivative instruments, net" on the Company's consolidated statement of comprehensive income. Cash receipts and payments related to derivative instruments are classified in the investing activities section of the consolidated statements of cash flows in accordance with the underlying nature or purpose of the derivative transactions.

Generally, the Company enters into pay-fixed interest rate swaps, which involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the interest rate swap without exchange of the underlying notional amount. From time to time the Company may also enter into receive-fixed interest rate swaps which involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the interest rate swap without exchange of the underlying notional amount. The Company's interest rate swap agreements are privately negotiated in the over-the-counter ("OTC") market. As of September 30, 2019, all of these agreements are centrally cleared through the Chicago Mercantile Exchange ("CME"). The Company's CME cleared swaps require that the Company post initial margin as determined by the CME, and in addition, variation margin is exchanged, typically in cash, for changes in the fair value of the CME cleared swaps. The exchange of variation margin for CME cleared swaps is legally considered to be the settlement of the derivative itself as opposed to a pledge of collateral. Accordingly, the Company accounts for the daily exchange of variation margin associated with its CME cleared interest rate swaps as a direct increase or decrease to the carrying value of the related derivative asset or liability. The carrying value of derivative instruments on the Company's consolidated balance sheet as of December 31, 2018 is the unsettled fair value of the instruments subject to bilateral agreements and not centrally cleared through the CME as of that date.

Interest rate swaptions provide the Company the option to enter into an interest rate swap agreement at a predetermined notional amount, stated term, and fixed pay (or receive) interest rates in the future. Typically, the Company pays a premium for the right but not the obligation to enter into the future interest rate swap at a specified future date. The Company may decide to not enter into the future interest rate swap agreement and allow swaptions to expire. As of September 30, 2019, the Company's swaptions are not centrally cleared. From time to time, the Company may also enter into Eurodollar and U.S. Treasury futures contracts which are valued based on exchange pricing with daily margin settlements. Upon expiration, realized gains or losses on these contracts are equal to the difference between the current fair value of the underlying asset and the contractual sale price of the futures contract.

A TBA security is a forward contract ("TBA contract") for the purchase ("long position") or sale ("short position") of a non-specified Agency MBS at a predetermined price with certain principal and interest terms and certain types of collateral, but the particular Agency securities to be delivered are not identified until shortly before the settlement date. The Company accounts for long and short positions in TBAs as derivative instruments because the Company cannot assert that it is probable at inception and throughout the term of an individual TBA transaction that its settlement will result in physical delivery of the underlying Agency RMBS or that the individual TBA transaction will not settle in the shortest time period possible.

Please refer to Note 4 for additional information regarding the Company's derivative instruments as well as Note 5 for information on how the fair value of these instruments are calculated.

Share-Based Compensation

Pursuant to the Company's 2018 Stock and Incentive Plan ("2018 Plan"), the Company may grant share-based compensation to eligible employees, non-employee directors or consultants or advisors to the Company, including restricted stock awards, stock options, stock appreciation rights, performance units, restricted stock units, and performance cash awards. The Company's restricted stock currently issued and outstanding 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 a participant 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 issued to its employees, officers, and directors.

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

In June 2016, the Financial Accounting Standards Board ("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 a number of factors, including but not limited to, 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. 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. Though the Company has not fully completed evaluating the impact this ASU will have on its financial condition and results of operations, the Company does not expect it will have a material impact given that the majority of its investments are Agency MBS.

In May 2019, FASB issued ASU No. 2019-05, *Financial Instruments—Credit Losses (Topic 326) Targeted Transition Relief,* which provides entities that have certain instruments within the scope of Subtopic 326-20, *Financial Instruments—Credit Losses— Measured at Amortized Cost*, with an option to irrevocably elect the fair value option in Subtopic 825-10, *Financial Instruments—Overall*, applied on an instrument-by-instrument basis for eligible instruments except for held-to-maturity debt securities, upon adoption of Topic 326. An entity that elects the fair value option should subsequently apply the guidance in Subtopics 820-10, *Fair Value Measurement—Overall*, and 825-10. For entities that have not yet adopted the amendments in ASU NO. 2016-13, the effective date and transition methodology for the amendments in ASU No. 2019-05 are the same as in ASU 2016-13. For entities that have adopted the amendments in ASU No. 2016-13, the amendments in ASU No. 2019-05 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The amendments in ASU No. 2019-05 should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings balance in the statement of financial position as of the date that an entity adopts the amendments in ASU No. 2016-13. The Company has mortgage loans held for investment which are measured at amortized cost which are eligible for the option to irrevocably elect the fair value option. Though the Company is evaluating its options, it does not expect adoption of ASU No. 2019-05 to have a material impact on its consolidated financial statements.

NOTE 2 – INVESTMENTS IN DEBT SECURITIES

The majority of the Company's debt securities are pledged as collateral for the Company's repurchase agreements. The following tables present the Company's debt securities by investment type (including securities pending settlement) as of the dates indicated:

(amounts in thousands except share data)

	September 30, 2019						
	Par	Net Premium (Discount)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	WAC (1)
RMBS:							
Agency	$ 2,610,141	$ 61,173	$ 2,671,314	$ 66,010	$ (952)	$ 2,736,372	3.83%
Non-Agency	690	—	690	54	(19)	725	6.75%
	2,610,831	61,173	2,672,004	66,064	(971)	2,737,097	
CMBS:							
Agency	1,922,930	15,957	1,938,887	136,325	(9)	2,075,203	3.30%
Non-Agency	1,354	(876)	478	605	—	1,083	5.50%
	1,924,284	15,081	1,939,365	136,930	(9)	2,076,286	
CMBS IO (2):							
Agency	—	272,739	272,739	9,426	(122)	282,043	0.67%
Non-Agency	—	201,809	201,809	5,714	(23)	207,500	0.62%
	—	474,548	474,548	15,140	(145)	489,543	
Total AFS securities:	$ 4,535,115	$ 550,802	$ 5,085,917	$ 218,134	$ (1,125)	$ 5,302,926	

(1) *The weighted average coupon ("WAC") is the gross interest rate of 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 $12,851,586 and $9,905,227 respectively, as of September 30, 2019.*

	December 31, 2018						
	Par	Net Premium (Discount)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value	WAC (1)
RMBS:							
Agency	$ 2,118,639	$ 56,744	$ 2,175,383	$ 8,902	$ (26,264)	$ 2,158,021	3.95%
Non-Agency	856	—	856	24	(22)	858	6.75%
	2,119,495	56,744	2,176,239	8,926	(26,286)	2,158,879	
CMBS:							
Agency	1,071,906	8,518	1,080,424	6,141	(29,550)	1,057,015	3.22%
Non-Agency	3,040	(2,037)	1,003	413	—	1,416	6.47%
	1,074,946	6,481	1,081,427	6,554	(29,550)	1,058,431	
CMBS IO (2):							
Agency	—	287,062	287,062	4,281	(239)	291,104	0.55%
Non-Agency	—	240,681	240,681	1,675	(1,306)	241,050	0.57%
	—	527,743	527,743	5,956	(1,545)	532,154	
Total AFS securities:	$ 3,194,441	$ 590,968	$ 3,785,409	$ 21,436	$ (57,381)	$ 3,749,464	

(1) *The WAC is the gross interest rate of 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 $13,048,666 and $10,275,494, respectively, as of December 31, 2018.*

(amounts in thousands except share data)

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 categorizes the Company’s debt securities according to their stated maturity as of the dates indicated:

	September 30, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than 1 year	$ 8,545	$ 8,450	$ 39,868	$ 39,808
≥1 and <5 years	132,441	136,599	151,041	152,917
≥5 and <10 years	936,747	987,657	828,543	806,015
≥ 10 years	4,008,184	4,170,220	2,765,957	2,750,724
	$ 5,085,917	$ 5,302,926	$ 3,785,409	$ 3,749,464

The following table presents information regarding the sales that generated the “gain (loss) on sale of investments, net” on the Company’s consolidated statements of comprehensive income (loss) for the periods indicated:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019		2018		2019		2018	
	Proceeds Received	Realized Gain (Loss)	Proceeds Received	Realized Gain (Loss)	Proceeds Received	Realized Gain (Loss)	Proceeds Received	Realized Gain (Loss)
Agency RMBS	$ 591,206	$ 4,458	$ —	$ —	$ 796,699	$ 506	$ 217,837	$ (7,785)
Agency CMBS	—	—	48,237	(1,720)	213,199	(6,493)	156,995	(3,771)
Agency CMBS IO	9,308	147	10,571	127	23,168	232	10,571	127
Non-Agency CMBS IO	—	—	—	—	—	—	8,695	51
U.S. Treasuries	—	—	57,843	(133)	—	—	248,802	(6,567)
	$ 600,514	$ 4,605	$ 116,651	$ (1,726)	$ 1,033,066	$ (5,755)	$ 642,900	$ (17,945)

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

	September 30, 2019			December 31, 2018		
	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	$ 167,583	$ (594)	10	$ 581,440	$ (1,793)	28
Non-Agency MBS	5,893	(13)	3	70,876	(581)	22
Continuous unrealized loss position for 12 months or longer:						
Agency MBS	$ 95,531	$ (490)	3	$ 1,543,892	$ (54,260)	88
Non-Agency MBS	1,160	(30)	5	46,154	(747)	19

Because the principal related to Agency MBS is guaranteed by the government-sponsored entities Fannie Mae and Freddie Mac which have AAA ratings due to the Treasury’s commitment of capital under the Senior Preferred Stock Purchase

(amounts in thousands except share data)

Agreement, 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 in accordance with GAAP. This assessment is based on the amount of the unrealized loss and significance of the related investment as well as the Company's leverage and liquidity position. Based on this analysis, the Company has determined that the unrealized losses on its Agency MBS as of September 30, 2019 and December 31, 2018 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 the non-Agency MBS, the credit characteristics of the mortgage loans collateralizing these securities, and the estimated future cash flows including projected collateral losses. The Company also assesses its ability and intent to hold any non-Agency MBS with an unrealized loss until the recovery in its value in accordance with GAAP. The Company performed this evaluation for its 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 September 30, 2019 or December 31, 2018.

NOTE 3 – REPURCHASE AGREEMENTS

The Company's repurchase agreements outstanding as of September 30, 2019 and December 31, 2018 are summarized in the following tables:

	September 30, 2019			December 31, 2018		
Collateral Type	**Balance**	**Weighted Average Rate**	**Fair Value of Collateral Pledged**	**Balance**	**Weighted Average Rate**	**Fair Value of Collateral Pledged**
Agency RMBS	$ 2,561,276	2.26%	$ 2,662,761	$ 1,887,878	2.66%	$ 1,998,922
Agency CMBS	1,884,697	2.29%	1,995,605	919,833	2.51%	986,861
Agency CMBS IO	249,929	2.64%	278,606	253,258	2.96%	285,247
Non-Agency CMBS IO	176,967	2.94%	207,062	207,015	3.38%	240,574
Total repurchase agreements	$ 4,872,869	2.32%	$ 5,144,034	$ 3,267,984	2.69%	$ 3,511,604

The Company also had $10,429 and $58,915 payable to counterparties as of September 30, 2019 and December 31, 2018, respectively, which consisted of MBS and/or TBA securities pending settlement as of those respective dates.

The following table provides information on the remaining term to maturity and original term to maturity for the Company's repurchase agreements as of the dates indicated:

	September 30, 2019			December 31, 2018		
Remaining Term to Maturity	**Balance**	**Weighted Average Rate**	**WAVG Original Term to Maturity**	**Balance**	**Weighted Average Rate**	**WAVG Original Term to Maturity**
Less than 30 days	$ 2,751,900	2.39%	37	$ 2,319,911	2.74%	56
30 to 90 days	2,120,969	2.22%	55	948,073	2.55%	89
Total	$ 4,872,869	2.32%	45	$ 3,267,984	2.69%	66

As of September 30, 2019 the Company had greater than 5% of its equity at risk with Wells Fargo Bank, N.A. and its affiliates. The Company had $328,934 outstanding and $40,830 of its equity at risk as of that date at a combined weighted average borrowing rate of 2.62%, of which $174,855 of the amount outstanding was under the Company's committed repurchase facility with Wells Fargo which has an aggregate maximum borrowing capacity of $250,000. The weighted average borrowing rate for this facility was 2.92% as of September 30, 2019 and has a maturity date of June 11, 2021.

(amounts in thousands except share data)

As of September 30, 2019, the Company had repurchase agreement amounts outstanding with 22 of its 35 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 and earnings, 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. The Company was in full compliance with all covenants in master repurchase agreements under which there were amounts outstanding as of September 30, 2019.

The Company's repurchase agreements 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 repurchase agreements to these arrangements on a gross basis. The following tables present information regarding the Company's repurchase agreements as if the Company had presented them on a net basis as of September 30, 2019 and December 31, 2018:

				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**
September 30, 2019						
Repurchase agreements	$ 4,872,869	$ —	$ 4,872,869	$ (4,872,869)	$ —	$ —
December 31, 2018						
Repurchase agreements	$ 3,267,984	$ —	$ 3,267,984	$ (3,267,984)	$ —	$ —

(1) Amounts disclosed for collateral received by or posted to the same counterparty include cash and the fair value of debt securities up to and not exceeding the net amount of the repurchase agreement liability presented in the balance sheet. The fair value of the total collateral received by or posted to the same counterparty may exceed the amounts presented.

Please see Note 4 for information related to the Company's derivatives which are also subject to underlying agreements with master netting or similar arrangements.

NOTE 4 – DERIVATIVES

The Company is a party to certain types of financial instruments that are accounted for as derivative instruments. Please refer to Note 1 for information related to the Company's accounting policy for its derivative instruments.

Types and Uses of Derivatives Instruments

Interest Rate Derivatives. Changing interest rates impact the fair value of the Company's investments as well as the interest rates on the Company's repurchase agreement borrowings used to finance its investments. The Company primarily uses interest rate swaps as economic hedges to mitigate declines in book value and to protect some portion of the Company's earnings from rising interest rates. The Company may also periodically utilizes other types of interest rate derivatives, such as interest rate swaptions and Eurodollar and U.S. Treasury futures as economic hedges.

TBA Transactions. The Company may also purchase TBA securities as a means of investing in non-specified fixed-rate Agency RMBS, and may also periodically sell TBA securities as a means of economically hedging its book value exposure to Agency RMBS as well as earnings exposure from rising financing costs. The Company holds net long and net short positions in TBA securities by executing a series of transactions, commonly referred to as "dollar roll" transactions, which effectively delay the settlement of a forward purchase (or sale) of a non-specified Agency RMBS by entering into an offsetting TBA position, net settling the paired-off positions in cash, and simultaneously entering into an identical TBA long (or short) position with a later settlement date. TBA securities purchased (or sold) for a forward settlement date are generally priced at a discount relative to TBA securities settling in the current month. This discount, often referred to as "drop income" represents the economic equivalent of net interest income (interest income less implied financing cost) on the underlying Agency security from trade date to settlement date.

(amounts in thousands except share data)

The table below summarizes information about the fair value by type of derivative instrument on the Company's consolidated balance sheets as of the dates indicated:

Type of Derivative Instrument	Balance Sheet Location	Purpose	September 30, 2019	December 31, 2018
Interest rate swaps [(1)]	Derivative assets	Economic hedging	$ —	$ 324
Interest rate swaptions	Derivative assets	Economic hedging	1,851	—
Eurodollar futures	Derivative assets	Economic hedging	928	—
TBA securities - net long position	Derivative assets	Trading	2,066	6,239
			$ 4,845	$ 6,563
TBA securities - net short position	Derivative liabilities	Economic hedging	$ (439)	$ —
U.S. Treasury futures	Derivative liabilities	Economic hedging	—	(1,218)
			$ (439)	$ (1,218)

(1) Amounts shown as of September 30, 2019 and December 31, 2018 are net of $(44,140) paid and $8,424 received, respectively, in variation margin which is recorded on the Company's consolidated balance sheets within "restricted cash." As of September 30, 2019, all of the Company's interest rate swap agreements are centrally cleared through the CME. Please refer to Note 1 for information regarding the exchange of variation margin being legally considered as settlement of the derivative as opposed to a pledge of collateral. The amount shown as of December 31, 2018 is the unsettled fair value of the instruments subject to bilateral agreements and not centrally cleared through the CME as of that date.

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 September 30,		Nine Months Ended September 30,	
Type of Derivative Instrument	2019	2018	2019	2018
Interest rate swaps	$ (52,908)	25,019	$ (248,886)	$ 93,833
Interest rate swaptions	(4,329)	—	(4,329)	—
Eurodollar futures	1,712	(189)	1,610	1,886
U.S. Treasury futures	—	—	(109)	—
Options on U.S. Treasury futures	—	(127)	—	764
TBA securities - net long position	4,652	(5,204)	21,609	(18,256)
TBA securities - net short position	164	—	164	293
(Loss) gain on derivative instruments, net	$ (50,709)	$ 19,499	$ (229,941)	$ 78,520

(amounts in thousands except share data)

Interest Rate Swaps

The following tables present information about the Company's interest rate swaps as of the dates indicated:

	September 30, 2019			
			Weighted-Average:	
Years to Maturity:		**Notional Amount [1]**	**Pay Rate [2]**	**Life Remaining (in Years)**
≤ 3 years	$	2,360,000	1.58%	1.6
>3 and ≤ 6 years		550,000	1.35%	4.9
>6 and ≤ 10 years		850,000	1.85%	9.6
>10 years		120,000	2.84%	27.9
Total	$	3,880,000	1.65%	4.7

	December 31, 2018			
			Weighted-Average:	
Years to Maturity:		**Notional Amount [1]**	**Pay Rate [2]**	**Life Remaining (in Years)**
≤ 3 years	$	1,560,000	1.96%	1.4
>3 and ≤ 6 years		1,230,000	2.23%	4.4
>6 and ≤ 10 years		1,505,000	2.80%	8.3
>10 years		220,000	2.81%	21.9
Total	$	4,515,000	2.35%	5.5

(1) The notional amounts include $0 and $775,000 of forward starting pay-fixed interest rate swaps as of September 30, 2019 and December 31, 2018, respectively.
(2) Excluding forward starting pay-fixed interest rate swaps, the weighted average pay rate was 1.65% and 2.29% as of September 30, 2019 and December 31, 2018, respectively.

Interest Rate Swaptions

The following table presents information about the Company's interest rate swaption as of September 30, 2019:[1]

	September 30, 2019							
	Option					**Underlying Swap**		
		Cost Basis		**Fair Value**	**Months to Expiration**		**Notional Amount**	**Pay-Fixed Rate [2]**	**Term in Years**
Interest rate swaption	$	6,180	$	1,851	3.7	$	750,000	2.07%	10.0

(1) The Company did not have any interest rate swaptions as of December 31, 2018.
(2) Receive-variable rate based on 3-month LIBOR.

TBA Securities

The following table summarizes information about the Company's TBA securities as of the dates indicated:

(amounts in thousands except share data)

	September 30, 2019		December 31, 2018	
	Net Long Positions	Net Short Positions	Net Long Positions	Net Short Positions
Implied market value [(1)]	$ 395,874	$ (519,082)	$ 888,469	$ —
Implied cost basis [(2)]	393,808	(518,643)	882,230	—
Net carrying value [(3)]	$ 2,066	$ (439)	$ 6,239	$ —

(1) Implied market value represents the estimated fair value of the underlying Agency MBS as if settled as of the date indicated.
(2) Implied cost basis represents the forward price to be paid for the underlying Agency MBS as if settled as of the date indicated.
(3) Net carrying value is the amount included on the consolidated balance sheets within "derivative assets (liabilities)" and represents the difference between the implied market value and the implied cost basis of the TBA security as of the date indicated.

Volume of Activity

The tables below summarize changes in the Company's derivative instruments for the periods indicated:

Type of Derivative Instrument	Notional Amount as of December 31, 2018	Additions	Settlements, Terminations, or Pair-Offs	Notional Amount as of September 30, 2019
Interest rate swaps	$ 4,515,000	$ 5,560,000	$ (6,195,000)	$ 3,880,000
Interest rate swaptions	—	1,500,000	(750,000)	750,000
Eurodollar futures	—	9,000,000	(3,000,000)	6,000,000
U.S. Treasury futures	50,000	—	(50,000)	—
TBA net long positions	860,000	6,935,000	(7,400,000)	395,000
TBA net short positions	—	(2,300,000)	1,800,000	(500,000)

Offsetting

The Company's derivatives 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 derivative assets and liabilities subject to these arrangements on a gross basis. The following tables present information regarding those derivative assets and liabilities subject to such arrangements as if the Company had presented them on a net basis as of September 30, 2019 and December 31, 2018:

(amounts in thousands except share data)

	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
September 30, 2019						
Interest rate swaptions	$ 1,851	$ —	$ 1,851	$ —	$ —	$ 1,851
Eurodollar futures	928	—	928	—	(928)	—
TBA securities-net long positions	2,066	—	2,066	(355)	—	1,711
Derivative assets	$ 4,845	$ —	$ 4,845	$ (355)	$ (928)	$ 3,562
December 31, 2018						
Interest rate swaps	$ 324	$ —	$ 324	$ —	$ —	$ 324
TBA securities-net long positions	6,239	—	6,239	—	(1,719)	4,520
Derivative assets	$ 6,563	$ —	$ 6,563	$ —	$ (1,719)	$ 4,844

	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
September 30, 2019						
TBA securities-net short positions	(439)	—	(439)	355	—	(84)
Derivative liabilities	$ (439)	$ —	$ (439)	$ 355	$ —	$ (84)
December 31, 2018						
U.S. Treasury futures	(1,218)	—	(1,218)	—	1,218	—
Derivative liabilities	$ (1,218)	$ —	$ (1,218)	$ —	$ 1,218	$ —

(1) Amounts 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 derivative asset or liability presented in the balance sheet. The fair value of the total collateral received by or posted to the same counterparty may exceed the amounts presented. Please refer to the consolidated balance sheets for the total cash posted as collateral, which is recorded as "restricted cash", and the total fair value of financial instruments pledged as collateral for derivatives and repurchase agreements, which is shown parenthetically.

Please see Note 3 for information related to the Company's repurchase agreements which are also subject to underlying agreements with master netting or similar arrangements.

(amounts in thousands except share data)

NOTE 5 – 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:

- 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 Company's financial instruments that are measured at fair value on a recurring basis by their valuation hierarchy levels as of the dates indicated:

	September 30, 2019				December 31, 2018			
	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
Assets carried at fair value:								
MBS	$ 5,302,926	$ —	$ 5,301,118	$ 1,808	$ 3,749,464	$ —	$ 3,747,190	$ 2,274
Derivative assets:								
Interest rate swaps	—	—	—	—	324	—	324	—
Interest rate swaptions	1,851	—	1,851	—	—	—	—	—
Futures	928	928	—	—	—	—	—	—
TBA securities-net long positions	2,066	—	2,066	—	6,239	—	6,239	—
Total assets carried at fair value	$ 5,307,771	$ 928	$ 5,305,035	$ 1,808	$ 3,756,027	$ —	$ 3,753,753	$ 2,274
Liabilities carried at fair value:								
TBA-net short positions	439	—	439	—	—	—	—	—
Futures	—	—	—	—	1,218	1,218	—	—
Total liabilities carried at fair value	$ 439	$ —	$ 439	$ —	$ 1,218	$ 1,218	$ —	$ —

The fair value of interest rate swaps is measured 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. As of September 30, 2019, all of the Company's interest rate swap agreements are centrally cleared through the CME. Please refer to Note 1 for information regarding the exchange of variation margin being legally considered as settlement of the derivative as opposed to a pledge of collateral. The amount shown as of December 31, 2018 for interest rate swaps is the unsettled fair value of the instruments subject to bilateral agreements and not centrally cleared through the CME as of that date. The fair value of interest rate swaptions is based on the fair value of the underlying interest rate swap and time remaining until its expiration. U.S. Treasury futures (held as of December 31, 2018) and Eurodollar futures (held as of September 30, 2019) are valued based on closing exchange prices on these contracts and are classified accordingly as Level 1 measurements. The fair value of TBA securities is estimated using methods similar those used to fair value the Company's Level 2 MBS.

(amounts in thousands except share data)

The fair value measurements for a majority of the Company's MBS are considered Level 2 because these securities are substantially similar to securities that either are actively traded or have been recently traded in their respective markets. The Company determines the fair value of its Level 2 securities based on prices received from the Company's primary pricing service as well as other pricing services and brokers. The Company evaluates the third-party prices it receives to assess their reasonableness. Although the Company does not adjust third-party prices, they may be excluded from use in the determination of a security's fair value if they are significantly different from other observable market data. In valuing a security, the primary pricing service uses either a market approach, which uses observable prices and other relevant information that is generated by market transactions of identical or similar securities, or an income approach, which uses valuation techniques to convert future amounts to a single, discounted present value amount. The Company also reviews the assumptions and inputs utilized in the valuation techniques of its primary pricing service. Examples of these observable inputs and assumptions include market interest rates, credit spreads, and projected prepayment speeds, among other things.

The Company owns certain non-Agency MBS for which there are not sufficiently recent trades of substantially similar securities, and their fair value measurements are thus considered Level 3. The Company determines the fair value of its Level 3 securities by discounting the estimated future cash flows derived from cash flow models using significant inputs which are determined by the Company when market observable inputs are not available. 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 may result in a significantly different fair value measurement. Level 3 assets are generally most sensitive to the default rate and severity assumptions.

The activity of the Company's non-Agency MBS measured at fair value on a recurring basis using Level 3 inputs is presented in the following table for the periods indicated:

	Nine Months Ended September 30,	
	2019	**2018**
Balance as of beginning of period	$ 2,274	$ 7,243
Unrealized gain included in OCI	225	(862)
Principal payments	(1,853)	(1,031)
Accretion	1,162	886
Balance as of end of period	$ 1,808	$ 6,236

The Company reviews the classification of its financial instruments within the fair value hierarchy on a quarterly basis, and management may conclude that its financial instruments should be reclassified to a different level in the future if a change in type of inputs occurs.

(amounts in thousands except 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:

	September 30, 2019		December 31, 2018	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Assets:				
Mortgage-backed securities	$ 5,302,926	$ 5,302,926	$ 3,749,464	$ 3,749,464
Mortgage loans held for investment, net (1)	9,836	6,779	11,527	8,566
Derivative assets	4,845	4,845	6,563	6,563
Liabilities:				
Repurchase agreements (2)	$ 4,872,869	$ 4,872,869	$ 3,267,984	$ 3,267,984
Non-recourse collateralized financing (1)	2,950	2,984	3,458	3,475
Derivative liabilities	439	439	1,218	1,218

(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 generally approximates fair value due to their short-term maturities.

NOTE 6 – SHAREHOLDERS' EQUITY AND SHARE-BASED COMPENSATION

Preferred Stock. The Company's articles of incorporation authorize the issuance of up to 50,000,000 shares of preferred stock, par value $0.01 per share, of which the Company's Board of Directors has designated 8,000,000 shares of 8.50% Series A Preferred Stock and 7,000,000 shares of 7.625% Series B Preferred Stock, (the "Series A Preferred Stock" and the "Series B Preferred Stock" or collectively, the "Preferred Stock"). The Company had 2,300,000 shares of its Series A Preferred Stock and 4,488,330 shares of its Series B Preferred Stock issued and outstanding as of September 30, 2019 compared to 2,300,000 shares of Series A Preferred Stock and 3,654,594 shares of Series B Preferred Stock as of December 31, 2018.

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. The Company's Preferred Stock may be redeemed in whole, or in part, at any time and from time to time at the Company's option at a cash redemption price of $25.00 per share plus any accumulated and unpaid dividends. 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 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. The Company paid its regular quarterly dividends of $0.053125 and $0.4765625 on its Series A and Series B Preferred Stock, respectively, for the third quarter on October 15, 2019 to shareholders of record as of October 1, 2019.

Common Stock. On June 20, 2019, the Company's Board of Directors effected a 1-for-3 reverse stock split of its common stock whereby every three common shares issued and outstanding as of the close of market on that date were converted into one common share. As a result, the number of common shares outstanding was reduced by 49,210,493, including fractional shares redeemed for cash in lieu of shares. All references to common shares, per common share amounts, and restricted stock have been restated to reflect the effect of the reverse stock split for all periods presented. In addition, the number of authorized shares of the Company's common stock was also reduced from 200 million to 90 million. The par value of each share of common stock remained unchanged.

The following table summarizes information regarding monthly dividend declarations on the Company's common stock for the first nine months of 2019:

(amounts in thousands except share data)

	Nine Months Ended September 30, 2019		
Declaration Date	**Amount Declared (1)**	**Record Date**	**Payment Date**
January 7, 2019	$ 0.18	January 18, 2019	January 31, 2019
January 28, 2019	0.18	February 14, 2019	February 28, 2019
March 12, 2019	0.18	March 22, 2019	April 1, 2019
April 10, 2019	0.18	April 22, 2019	May 1, 2019
May 16, 2019	0.18	May 28, 2019	June 7, 2019
June 6, 2019	0.18	June 26, 2019	July 3, 2019
July 8, 2019	0.18	July 22, 2019	August 1, 2019
August 12, 2019	0.15	August 22, 2019	September 3, 2019
September 11, 2019	0.15	September 23, 2019	October 1, 2019

(1) Amounts declared have been adjusted to reflect the effect of the 1-for-3 reverse stock split.

Stock and Incentive Plans. The Company's 2018 Stock and Incentive Plan, which replaced the Company's 2009 Stock and Incentive Plan (the "2009 Plan"), reserves for issuance up to 1,000,000 common shares for eligible employees, non-employee directors, consultants, and advisors to the Company to be granted in the form of stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance units, and performance cash awards. Total stock-based compensation expense recognized by the Company for the three and nine months ended September 30, 2019 was $306 and $899, respectively compared to $301 and $930 for the three and nine months ended September 30, 2018, respectively. The following table presents a rollforward of the restricted stock activity for the periods indicated:

	Nine Months Ended September 30,			
	2019		**2018**	
	Shares (1)	**Weighted Average Grant Date Fair Value Per Share (1)**	**Shares (1)**	**Weighted Average Grant Date Fair Value Per Share (1)**
Restricted stock outstanding as of beginning of period (2)	113,904	$ 19.19	117,701	$ 21.02
Restricted stock granted	67,997	18.09	71,051	18.95
Restricted stock vested (2)	(62,688)	19.20	(74,849)	21.85
Restricted stock outstanding as of end of period (2)	119,213	$ 18.56	113,904	$ 19.19

(1) Amounts have been adjusted to reflect the effect of the 1-for-3 reverse stock split.
(2) Amounts include awards previously granted under the 2009 Plan which will remain outstanding in accordance with their terms. The Company is no longer granting new equity awards under the 2009 Plan.

As of September 30, 2019, the grant date fair value of the Company's remaining nonvested restricted stock is $1,564 which will be amortized into compensation expense over a weighted average period of 1.8 years.

NOTE 7 – SUBSEQUENT EVENTS

On October 11, 2019, the Company's Board of Directors declared a monthly cash dividend of $0.15 per common share payable on November 1, 2019 to shareholders of record on October 21, 2019.

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, 2018. 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 more information about 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, 2018.

EXECUTIVE OVERVIEW

Company Overview

We are an internally managed mortgage real estate investment trust, or mortgage REIT, which primarily invests in residential and commercial mortgage-backed securities ("MBS") on a leveraged basis. We finance our investments principally with borrowings under repurchase agreements. 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 the payment of regular dividends and also potentially through capital appreciation of our investments.

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "DX". We 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 investments consist primarily of Agency MBS including residential MBS ("RMBS"), commercial MBS ("CMBS") and CMBS interest-only ("IO") securities and non-Agency CMBS IO. Agency RMBS and CMBS 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. To a lesser extent, we also have investments in non-Agency RMBS and CMBS issued by non-governmental enterprises, which do not have a guaranty of principal payment.

Fannie Mae and Freddie Mac's Single Security Initiative became effective for all newly issued securities June 3, 2019. All securities issued by the GSE's after that date have been pursuant to the Uniform Mortgage-Backed Securities ("UMBS") platform established by the GSE's. Fannie Mae's previously issued securities are automatically considered UMBS while Freddie Mac's previously issued securities may be exchanged for new UMBS securities with substantially the same terms except the payment delay on the UMBS now follows that of existing Fannie Mae securities which is slightly longer than the previously issued Freddie Mac securities. Previously issued Freddie Mac securities will remain outstanding under the same terms if not exchanged. The Company has exchanged Freddie Mac securities with a par value of approximately $11.3 million as of October 31, 2019 and has not experienced any adverse consequences from a liquidity or pricing perspective. The Company continues to evaluate whether to exchange its remaining outstanding Freddie Mac securities.

RMBS. As of September 30, 2019, the majority of our investments in RMBS were Agency-issued securities collateralized primarily by fixed-rate single-family mortgage loans. In addition to specified pools of Agency RMBS, we may also purchase to-be-announced securities ("TBAs" or "TBA securities") as a means of investing in non-specified fixed-rate Agency RMBS, and from time to time, we may also sell TBA securities as a means of economically hedging our book value exposure from Agency RMBS as well as earnings exposure from rising financing costs. A TBA security is a forward contract ("TBA contract") for the purchase ("long position") or sale ("short position") of a fixed-rate Agency MBS at a predetermined price with certain principal and interest terms and certain types of collateral, but the particular Agency securities to be delivered are not identified until shortly before the settlement date. We hold net long and net short positions in TBA securities by executing a series of transactions, commonly referred to as "dollar roll" transactions, which effectively delay the settlement of a forward purchase (or sale) of a non-specified Agency RMBS by entering into an offsetting TBA position, net settling the paired-off positions in cash, and simultaneously entering into an identical TBA long (or short) position with a later settlement date. TBAs purchased or sold for a forward settlement date are generally priced at a discount relative to TBAs settling in the current month. This price difference, often referred to as "drop income", represents the economic equivalent of net interest income (interest income less implied financing cost) on the underlying Agency security from trade date to settlement date. We account for all TBAs (whether net long or net short positions, or collectively "TBA dollar roll positions") as derivative instruments because we cannot assert that it is probable at inception and throughout the term of an individual TBA transaction that its settlement will result in physical delivery of the underlying Agency RMBS, or that the individual TBA transaction will not settle in the shortest period possible.

CMBS. Substantially all of our CMBS investments as of September 30, 2019 were fixed-rate Agency-issued securities backed by multifamily housing loans. Loans underlying CMBS are generally fixed-rate, mature in eight to eighteen years, have amortization terms of up to 30 years, and are geographically dispersed. These loans typically 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. From time to time we have invested in non-Agency CMBS backed by loans on multifamily housing, office buildings, retail, hospitality, and health care properties.

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 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. Most loans in these securities have some form of prepayment protection from early repayment including absolute loan prepayment lock-outs, loan prepayment penalties, or yield maintenance requirements similar to those typical for CMBS described above. There are no prepayment protections, however, if the loan defaults and is partially or wholly repaid earlier because of loss mitigation actions taken by the underlying loan servicer, and therefore yields on CMBS IO investments are dependent upon the underlying loan performance. Because Agency-issued MBS generally contain higher credit quality loans, Agency CMBS IO are expected to have a lower risk of default than non-Agency CMBS IO. Our CMBS IO investments are investment grade-rated with the majority rated 'AAA' by at least one of the nationally recognized statistical rating organizations.

Financing. We use leverage to enhance the returns on our invested capital by pledging our investments as collateral for borrowings primarily through the use of uncommitted repurchase agreements with major financial institutions and broker-dealers. Repurchase agreements generally have original terms to maturity of overnight to six months, though in some instances we may enter into longer-dated maturities depending on market conditions. We pay interest on our repurchase agreement borrowings at a rate usually based on a spread to a short-term interest rate such as LIBOR and fixed for the term of the borrowing. Borrowings under these repurchase agreements are renewable at the discretion of our lenders and do not contain guaranteed roll-over terms.

Hedging. We use derivative instruments, primarily interest rate swaps, to economically hedge our exposure to adverse changes in interest rates resulting from our ownership of primarily fixed-rate investments financed with short-term repurchase agreements. Changes in interest rates can impact net interest income, the market value of our investments, and book value per common share. We frequently adjust our hedging portfolio based on our expectation of future interest rates, including the absolute level of rates and the slope of the yield curve versus market expectations.

Factors that Affect Our Results of Operations and Financial Condition

As noted in previous filings, our financial performance is largely driven by the performance of our investment portfolio and related financing and hedging activity and may be impacted by a number of factors including, but not limited to, the absolute level of interest rates, the relative slope of interest rate curves, changes in interest rates and market expectations of future interest rates, actual and estimated future prepayment rates on our investments, supply of and competition for investments, the influence of economic conditions on the credit performance of our investments, and market required yields as reflected by market spreads. Our financial performance is also impacted by the availability and cost of financing and the state of the overall credit market. All of the above factors are influenced by market forces beyond our control such as macroeconomic and geopolitical conditions, market volatility, U.S. Federal Reserve policy, U.S. fiscal and regulatory policy, and foreign central bank and government policy.

During the third quarter of 2019, the Federal Reserve's Open Market Committee ("FOMC") reduced its targeted U.S. Federal Funds Target Rate ("Fed Funds rate") by 50 basis points. Typically, when the targeted Fed Funds rate is reduced by the FOMC, rates on repurchase agreement financing will decline in tandem. However, we believe that a combination of certain issues in the marketplace including, but not limited to, excess supply of collateral and balance sheet constraints of large, systemically important financial institutions, have caused the typical decline in repurchase agreement borrowing rates to lag behind the decline in the targeted Fed Funds rate. Furthermore, we believe these factors have in part resulted in the Fed Funds rate trading at the high end of the range targeted by the FOMC. On several occasions during the third quarter of 2019, this resulted in elevated borrowing rates and larger liquidity premiums for repurchase agreement borrowers. The New York Federal Reserve has announced that it will conduct operations to provide liquidity to the repurchase agreement markets for U.S. Treasury and Agency RMBS collateral in an effort to keep the Fed Funds rate in the targeted range and thus by extension keep short-term borrowing rates closer to the range. These operations are expected to continue for the remainder of 2019. The Federal Reserve providing liquidity to the funding markets is extremely important. Without these operations, we would expect higher short-term borrowing rates. Given the Federal Reserve's participation, however, we expect repurchase agreement rates to decline during the fourth quarter of 2019 relative to the third quarter, yet remain somewhat elevated relative to their historical relationship with the Federal Funds rate.

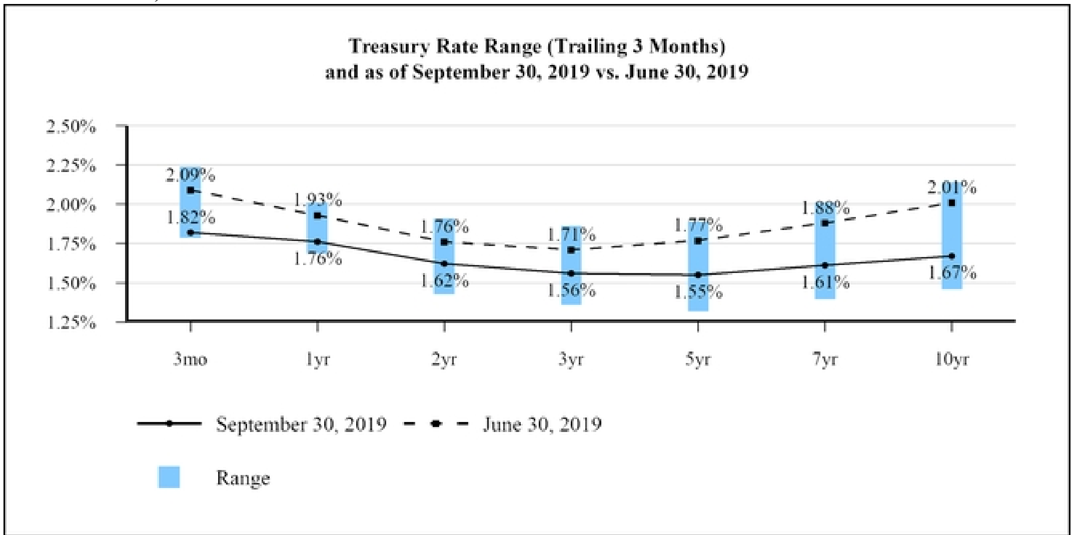
Investing in mortgage-related securities (including on a leveraged basis) subjects us to many risks including interest rate risk, prepayment and reinvestment risk, credit risk, spread risk, and liquidity risk. Please refer to Part I, Item 1A, "Risk Factors" of our 2018 Form 10-K as well as Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 3, "Quantitative and Qualitative Disclosures about Market Risk" of this Quarterly Report on Form 10-Q for a detailed discussion of these factors and others that have the potential to impact our results of operations and financial condition.

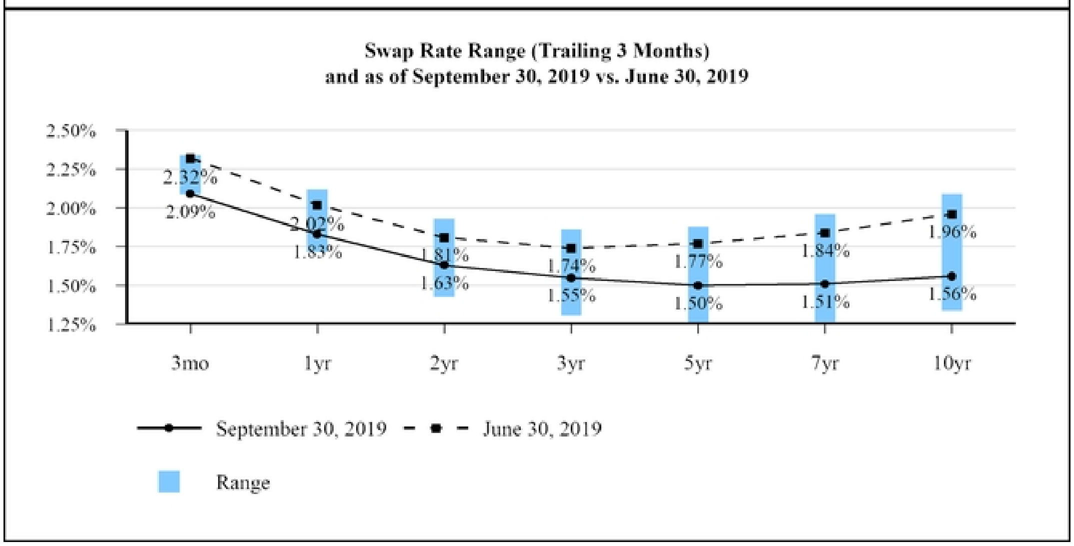
Market Conditions and Recent Activity

During the third quarter of 2019, U.S. Treasury and swap rates continued their decline as weakening global GDP output, continued trade uncertainty, and benign inflation indicators weighed on markets. As economic output softened, central banks have stepped in to support growth in the global economy. As noted above, during the third quarter of 2019, the Federal Reserve reduced the Fed Funds rate by 50 basis points and intervened in the short-term funding markets. The Federal Reserve has also resumed its purchases of Treasury bills at an initial pace of approximately $60 billion monthly and is expected to continue until at least the second quarter of 2020.

As noted in the charts below, Treasury and swap rates were volatile during the quarter, ranging in the 10-year part of the curve by as much 68 and 75 basis points, respectively.

The charts below show the highest and lowest U.S. Treasury and swap rates during the three months ended September 30, 2019 as well as the rates as of September 30, 2019 and June 30, 2019:





Highlights of Third Quarter 2019 Results

Comprehensive income to common shareholders improved to $15.3 million versus a loss of $(11.1) million for the prior quarter as realized and unrealized gains from changes in fair value of MBS outpaced our net loss on derivatives by $9.1 million for the third quarter of 2019 compared to the underperformance of derivatives relative to our investments by $(16.8) million during the second quarter of 2019. Net loss to common shareholders improved for the third quarter of 2019 compared to the second quarter of 2019 as a result of:

- an increase in net interest income of $0.3 million due to an increase in the average balance of interest-earning assets financed at lower rates
- a lower net loss on derivative instruments of $(50.7) million for the third quarter versus $(117.5) million in the prior quarter
- a net gain on sale of investments of $4.6 million versus a net loss of $(10.4) million in the prior quarter
- a decrease of $0.5 million in general and administrative expenses.

Core net operating income to common shareholders, a non-GAAP measure, increased to $11.5 million for the third quarter of 2019 versus $10.6 million for the second quarter of 2019 due primarily to the increase in net interest income and decrease in general and administrative expenses noted above. In addition, our net periodic interest benefit from interest rate swaps increased $0.4 million due to an increase in our net receive rate of 20 basis points. Please refer to "Use of Non-GAAP Financial Measures" below for additional important information about non-GAAP measures.

Book value per common share increased $0.39 to $18.07 at September 30, 2019 from $17.68 at June 30, 2019 and from $18.07 as of December 31, 2018. During the third quarter of 2019, we repurchased $25.0 million of common stock which increased book value per common share by $0.24. The remaining increase of $0.15 for the third quarter was due to the increase in fair value of the Company's MBS, net of the decline in fair value of derivative instruments. This increase of $0.39 per common share and the third quarter dividend of $0.48 per common share resulted in a quarterly total economic return on book value per common share of 4.9% and a year-to-date total economic return on book value of 8.6%.

Management Outlook

As we have noted in the past, we believe that increasing global debt, demographic trends, the impact of technological advances on productivity and employment, human conflict, and climate change will continue to impose a drag on global growth and inflation. Government policy responses, including activities of central banks, have been and will continue to be important factors in shifting the trajectory of economic activity while injecting uncertainty in the near term. We continue to believe structural issues within the global economy will keep the 10-year U.S.Treasury bond within a range of 1.5%-2.5% for the foreseeable future. In our view, the major risk to this outlook today is a rapid decline in longer-term rates below the lower end of the range from decelerating economic performance. If long-term yields also decrease below 1.5%, we could see a potentially material increase in prepayments on our RMBS which could negatively impact our net interest earnings. It is unclear how interest rates could sustain a higher range above 2.5% absent fiscal policy to stimulate sustainable growth and inflation or a marked improvement in productivity.

On October 30, 2019, the FOMC concluded its policy meeting and reduced the Fed Funds Rate an additional 25 basis points. The FOMC has now reduced the Fed Funds Rate by a total of 75 basis points since the end of June. As of the date of this filing, markets are pricing in an additional 25 basis point reduction in the Fed Funds Rate through 2020. Generally, reductions in the Fed Funds Rate reduce our borrowing costs (through lower financing rates on our repurchase agreement financing) and increase our net interest spread. However, pressure in the repurchase agreement funding markets could result in a somewhat elevated borrowing rate versus the Fed Funds Rate, and therefore our funding costs may not decline as much or as quickly as historical patterns might suggest.

Non-GAAP Financial Measures

In addition to the Company's operating results presented in accordance with GAAP, the information presented within Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report on Form 10-Q contains the following non-GAAP financial measures: core net operating income to common shareholders (including per common share), adjusted interest expense, adjusted net interest income, and the related metrics adjusted cost of funds and adjusted net interest spread. 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 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, although the Company's presentation of its non-GAAP measures may not be comparable to other similarly-titled measures of other companies. Reconciliations of core net operating income to common shareholders, adjusted interest expense, and adjusted net interest income to the related GAAP financial measures are provided below and within "Results of Operations".

Management views core net operating income to common shareholders as an estimate of the Company's financial performance based on the effective yield of its investments, net of financing costs and other normal recurring operating income/expense, net. In addition to the non-GAAP reconciliation set forth below, which derives core net operating income to common shareholders from GAAP net income to common shareholders as the nearest GAAP equivalent measure, core net operating income to common shareholders can also be determined by adjusting net interest income to include interest rate swap periodic interest benefit/cost, drop income on TBA securities, general and administrative expenses, and preferred dividends. Drop income generated by TBA dollar roll positions, which is included in "gain (loss) on derivatives instruments, net" on the Company's consolidated statements of comprehensive income, is included in core net operating income and in adjusted net interest income because management views drop income as the economic equivalent of net interest income (interest income less implied financing cost) on the underlying Agency security from trade date to settlement date. Management also includes periodic interest benefit/cost from its interest rate swaps, which are also included in "gain (loss) on derivatives instruments, net", in adjusted net interest expense and adjusted net interest income because interest rate swaps are used by the Company to economically hedge the impact of changing interest rates on its borrowing costs from repurchase agreements, and including periodic interest benefit/cost from interest rate swaps is a helpful indicator of the Company's total cost of financing in addition to GAAP interest expense. However, these non-GAAP measures do not provide a full perspective on our results of operations, and therefore, their usefulness is limited. For example, these non-GAAP measures do not include gains or losses from available-for-sale investments, changes in fair value of and costs of terminating interest rate swaps, as well as realized and unrealized gains or losses from other instruments used by management to economically hedge the impact of changing interest rates on its portfolio and book value per common share, such as Eurodollar or U.S. Treasury futures. **As a result, these non-GAAP 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.**

	Three Months Ended	
($ in thousands, except per share amounts)	**September 30, 2019**	**June 30, 2019**
GAAP net loss to common shareholders	$ (39,945)	$ (122,191)
Less:		
Change in fair value of derivative instruments, net [1]	56,079	122,370
(Gain) loss on sale of investments, net	(4,605)	10,360
Fair value adjustments, net	13	16
Core net operating income to common shareholders	$ 11,542	$ 10,555
Weighted average common shares outstanding	24,174,312	24,541,059
Core net operating income per common share	$ 0.48	$ 0.43

(1) Amount represents net realized and unrealized gains and losses on derivatives and excludes net periodic interest benefits related to these instruments.

	Three Months Ended			
	September 30, 2019		**June 30, 2019**	
($ in thousands)	**Amount**	**Rate**	**Amount**	**Rate**
Net interest income	$ 13,246	0.82%	$ 12,935	0.76 %
Add: TBA drop income [1]	1,404	—%	1,282	(0.04)%
Add: net periodic interest benefit [2]	3,966	0.32%	3,553	0.31 %
Adjusted net interest income	$ 18,616	1.14%	$ 17,770	1.03 %

(1) TBA drop income is calculated by multiplying the notional amount of the net TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates. The impact of TBA drop income on

adjusted net interest spread includes the implied average funding cost of TBA dollar roll transactions during the periods indicated.

(2) Amount represents net periodic interest benefit of effective interest rate swaps outstanding during the period and excludes realized and unrealized gains and losses from changes in fair value of derivatives.

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.

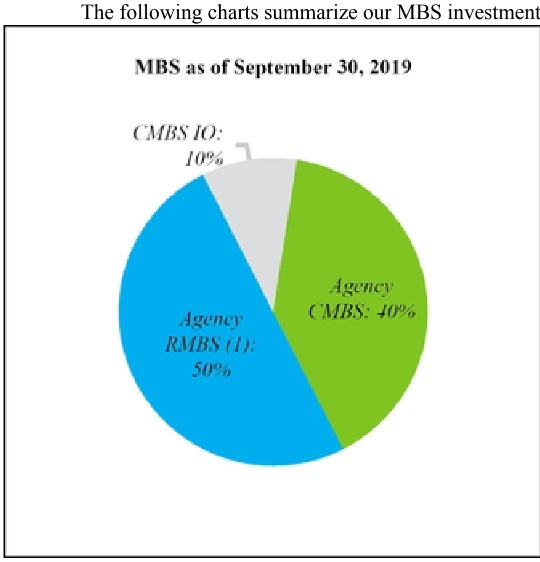
Critical accounting policies are defined as those that require management's most difficult, subjective or complex judgments, and which may result in materially different results under different assumptions and conditions. Our critical accounting policies are discussed in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2018 Form 10-K under “Critical Accounting Policies.” There have been no significant changes in our critical accounting policies during the three and nine months ended September 30, 2019.

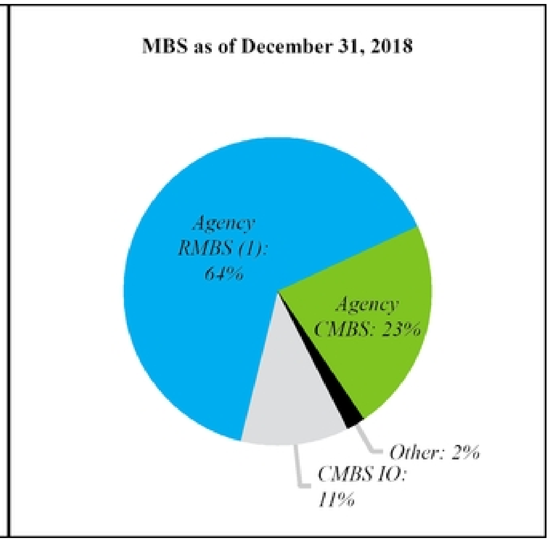
FINANCIAL CONDITION

Investment Portfolio

Our investment portfolio is comprised mostly of Agency fixed-rate investments which have more a more favorable risk-return profile and higher liquidity in the current macroeconomic environment versus other types of MBS. Given our macroeconomic view and the recent trajectory of interest rates, we have heightened our focus on prepayment risk which generally increases in a period of declining interest rates. We believe our current portfolio diversification across residential and commercial Agency MBS mitigates the impact of declining interest rates on our interest earnings. Agency CMBS are structured with prepayment protection, such as yield maintenance or defeasance provisions, which provide us compensation if underlying loans prepay prior to us earning our expected return on our investment. Because Agency RMBS do not contain similar prepayment protections, we mitigate prepayment risk through coupon diversification. Though CMBS generally have more spread risk than RMBS, their more predictable prepayment profiles reduce the cost of hedging relative to RMBS.

The following charts summarize our MBS investments as of the dates indicated:





(1) Includes TBA dollar roll positions at their implied market value as if settled which are accounted for as "derivative assets/liabilities" on our consolidated balance sheet.

The following table provides a summary of the amortized cost and fair value of our investment portfolio (including TBA dollar roll positions and securities pending settlement) as of the dates indicated:

	September 30, 2019		December 31, 2018	
($ in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Agency RMBS, fixed-rate	$ 2,671,314	$ 2,736,372	$ 2,142,717	$ 2,124,810
TBAs, fixed-rate [1]	(124,835)	(123,208)	882,230	888,469
Agency CMBS, fixed-rate	1,938,887	2,075,203	1,080,424	1,057,015
CMBS IO [2]	474,548	489,543	527,743	532,154
Agency RMBS, adjustable rate	—	—	32,666	33,211
Non-Agency other [3]	1,168	1,808	1,859	2,274
Mortgage loans held for investment, net [4]	9,836	6,779	11,527	8,566
Total investment portfolio including TBA dollar roll positions	$ 4,970,918	$ 5,186,497	$ 4,679,166	$ 4,646,499

(1) Includes TBA dollar roll positions at their implied market value as if settled which are accounted for as "derivative assets/liabilities" on our consolidated balance sheet.
(2) Includes Agency and non-Agency issued securities.

(3) *Includes non-Agency CMBS and RMBS.*
(4) *Recorded on consolidated balance sheet at amortized cost.*

The following table details the activity related to our MBS portfolio (including TBA dollar roll positions and securities pending settlement) during the nine months ended September 30, 2019:

	Agency Fixed-Rate			Agency Adjustable Rate		
($ in thousands)	30-Year RMBS (1)	CMBS	CMBS IO (2)	RMBS	Non-Agency Other (3)	Total
Balance as of December 31, 2018	$ 3,013,279	$ 1,057,015	$ 532,154	$ 33,211	$ 2,274	$ 4,637,933
Purchases	578,863	1,140,927	58,014	—	—	1,777,804
Principal payments	(277,909)	(61,186)	—	(6,273)	(1,853)	(347,221)
Sales	(770,002)	(219,692)	(22,936)	(26,191)	—	(1,038,821)
(Amortization) accretion	(9,420)	(1,586)	(88,273)	(202)	1,162	(98,319)
Change in fair value	78,353	159,725	10,584	(545)	225	248,342
Balance as of September 30, 2019	$ 2,613,164	$ 2,075,203	$ 489,543	$ —	$ 1,808	$ 5,179,718

(1) *Includes TBA dollar roll positions at their implied market value as if settled which are accounted for as "derivative assets/liabilities" on our consolidated balance sheet.*
(2) *Includes Agency and non-Agency issued securities.*
(3) *Includes non-Agency CMBS and RMBS.*

RMBS. The following table provides information on our fixed-rate Agency RMBS investments (including TBA dollar roll positions and securities pending settlement) as of the dates indicated:

	September 30, 2019					
				Weighted Average		
Coupon	Par	Amortized Cost/ Implied Cost Basis (1)(3)	Fair Value (2)(3)	Loan Age (in months) (4)	3 Month CPR (4)(5)	Estimated Duration (6)
		($ in thousands)				
30-year fixed-rate:						
3.0%	$ 316,877	$ 320,090	$ 323,996	23	8.2%	3.17
3.5%	556,845	568,453	579,577	8	6.2%	1.73
4.0%	1,457,065	1,491,720	1,534,673	17	15.4%	1.22
4.5%	279,354	291,051	298,126	10	24.8%	0.41
TBA 2.5%	245,000	242,073	243,718	n/a	n/a	4.40
TBA 3.0%	150,000	151,735	152,156	n/a	n/a	2.08
TBA 4.0%	(500,000)	(518,643)	(519,082)	n/a	n/a	0.39
Total 30-year fixed-rate	$ 2,505,141	$ 2,546,479	$ 2,613,164	15	13.6%	1.99

	December 31, 2018					
				Weighted Average		
Coupon	Par	Amortized Cost/ Implied Cost Basis (1)(3)	Fair Value (2)(3)	Loan Age (in months) (4)	3 Month CPR (4)(5)	Estimated Duration (6)
		($ in thousands)				
30-year fixed-rate:						
3.0%	$ 223,573	$ 225,148	$ 218,286	26	5.7%	5.66
4.0%	1,651,854	1,699,012	1,687,390	10	5.2%	4.06
4.5%	211,429	218,557	219,134	5	5.3%	2.48
TBA 4.0%	110,000	111,175	112,101	n/a	n/a	3.54
TBA 4.5%	750,000	771,055	776,368	n/a	n/a	2.61
Total 30-year fixed-rate	$ 2,946,856	$ 3,024,947	$ 3,013,279	11	5.3%	3.67

(1) Implied cost basis of TBAs represents the forward price to be paid (received) for the underlying Agency MBS as if settled.

(2) Fair value of TBAs is the implied market value of the underlying Agency security as of the end of the period if settled.

(3) TBAs are included on the consolidated balance sheet within "derivative assets/liabilities" at their net carrying value which is the difference between their implied market value and implied cost basis. Please refer to Note 4 of the Notes to Consolidated Financial Statements for additional information.

(4) TBAs are excluded from this calculation as they do not have a defined weighted-average loan balance or age until mortgages have been assigned to the pool.

(5) Constant prepayment rate ("CPR") represents the 3-month CPR of Agency RMBS held as of date indicated. Securities with no prepayment history are excluded from this calculation.

(6) Duration measures the sensitivity of a security's price to the change in interest rates and represents the percent change in price of a security for a 100-basis point increase in interest rates. We calculate duration using third-party financial models and empirical data. Different models and methodologies can produce different estimates of duration for the same securities.

CMBS. The majority of our CMBS are Agency CMBS for which our credit exposure is limited to the unamortized premium remaining on those securities as the return of principal is guaranteed by the GSEs. The following table presents information about our CMBS investments by year of origination as of the dates indicated:

	September 30, 2019				December 31, 2018			
($ in thousands)	Par Value	Amortized Cost	Months to Estimated Maturity (1)	WAC (2)	Par Value	Amortized Cost	Months to Estimated Maturity (1)	WAC (2)
Year of Origination:								
Prior to 2009	$ 14,877	$ 14,477	31	5.58%	$ 20,302	$ 18,868	33	5.72%
2009 to 2012	31,375	32,512	34	4.95%	74,935	76,567	23	4.98%
2013 to 2014	11,349	11,597	62	3.65%	13,516	13,790	73	3.61%
2015	202,013	203,822	87	2.85%	210,679	212,755	97	2.85%
2016	20,009	19,838	112	2.62%	238,559	240,033	98	2.43%
2017	341,332	342,926	104	3.07%	280,530	283,567	106	3.06%
2018	330,384	330,204	130	3.68%	236,425	235,847	142	3.76%
2019	972,944	983,988	137	3.27%	—	—	—	—%
	$ 1,924,283	$ 1,939,364	122	3.30%	$ 1,074,946	$ 1,081,427	102	3.22%

(1) Months to estimated maturity is an average weighted by the amortized cost of the investment.
(2) The weighted average coupon ("WAC") is the gross interest rate of the security weighted by the outstanding principal balance.

CMBS IO. Income earned from CMBS IO is based on interest payments received on the underlying commercial mortgage loan pools. Our return on these investments may be negatively impacted by any change in scheduled cash flows such as modifications of the mortgage loans or involuntary prepayments including defaults, foreclosures, and liquidations on or of the underlying mortgage loans prior to its contractual maturity date. 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, to address changes in market fundamentals and the composition of mortgage loans collateralizing an investment, we consider the year of origination of the loans underlying CMBS IO in our selection of investments.

As of September 30, 2019, our CMBS IO investments comprised approximately 9% of our total portfolio, of which approximately 57% are Agency-issued, relatively unchanged since December 31, 2018. The following table presents our CMBS IO investments as of September 30, 2019 by year of origination:

	September 30, 2019			December 31, 2018		
($ in thousands)	Amortized Cost	Fair Value	Remaining WAL (1)	Amortized Cost	Fair Value	Remaining WAL (1)
Year of Origination:						
2010-2012	$ 41,420	$ 42,533	20	$ 59,593	$ 60,763	17
2013	57,465	59,347	18	72,649	73,073	22
2014	110,329	113,084	26	134,114	134,808	30
2015	115,024	119,415	31	143,163	144,673	35
2016	50,144	51,854	37	67,625	68,015	41
2017	41,193	42,929	46	46,125	46,336	48
2018	4,223	4,425	68	4,474	4,486	73
2019	54,750	55,956	64	—	—	—
	$ 474,548	$ 489,543	33	$ 527,743	$ 532,154	32

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

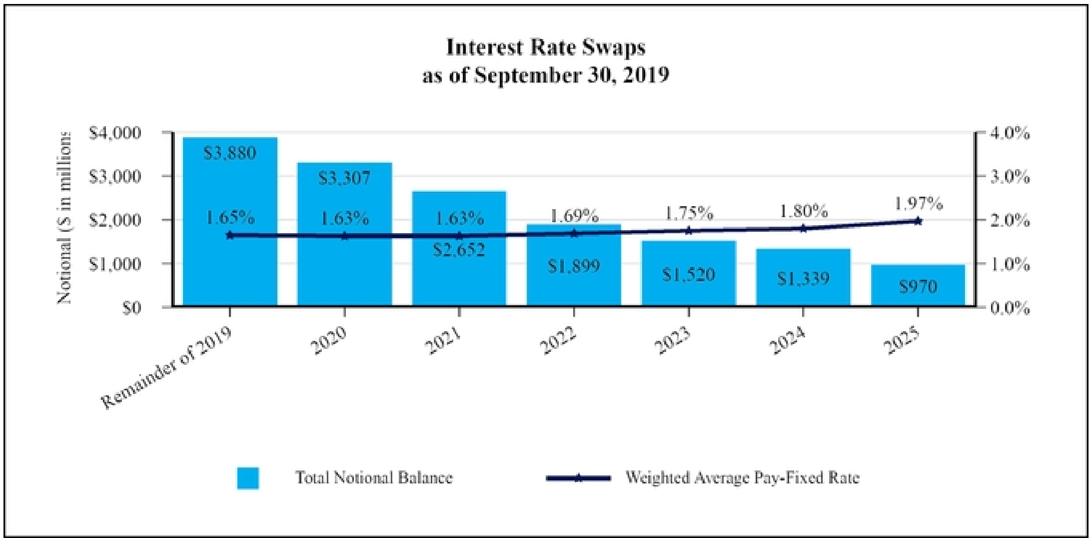
Repurchase Agreements

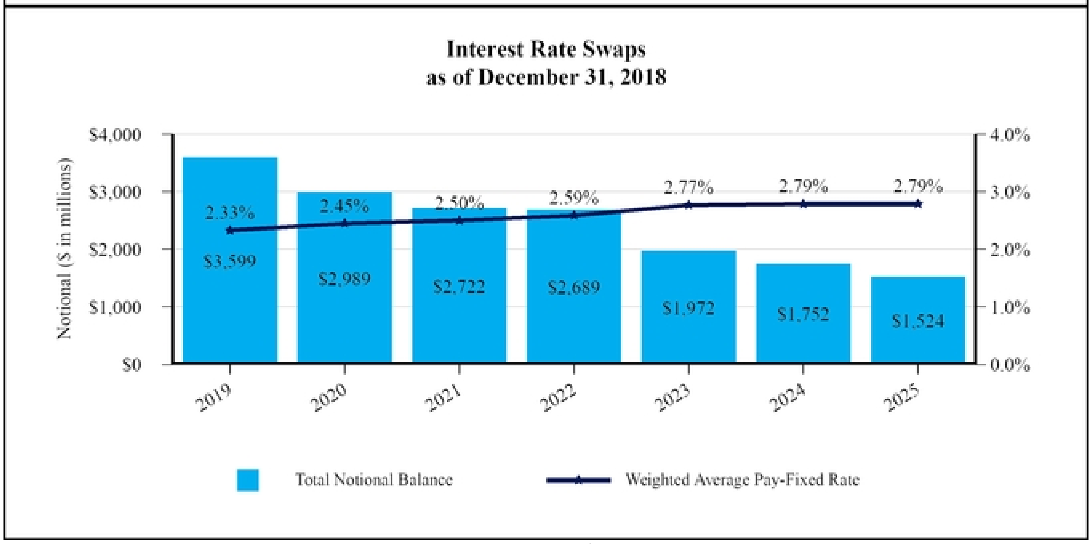
The majority of our repurchase agreement borrowings are collateralized with Agency MBS which have historically had lower liquidity risk than non-Agency MBS. Please refer to Note 3 of the Notes to the Consolidated Financial Statements contained within this Quarterly Report on Form 10-Q as well as “Results of Operations” and “Liquidity and Capital Resources” contained within this Item 2 for additional information relating to our repurchase agreement borrowings.

Derivative Assets and Liabilities

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. Please refer to “Quantitative and Qualitative Disclosures about Market Risk” in Part I, Item 3 of this Quarterly Report on Form 10-Q for more information.

As of September 30, 2019, we primarily used interest rate swaps to hedge a portion of our earnings and book value exposure to fluctuations in interest rates. During the nine months ended September 30, 2019, we have reduced our notional balance of interest rate swaps by $0.6 billion and reduced the weighted average net pay-fixed rate by 70 basis points to 1.65%. The following graphs present the effective notional balance outstanding and weighted average rate for our interest rate swaps outstanding through 2025 (1) as of the periods indicated:





(1) Additional interest rate swaps outstanding from 2026-2047 had an average balance of $256.3 million at a weighted average pay-fixed rate of 2.12% as of September 30, 2019 and an average balance of $238.0 million at a weighted average pay-fixed rate of 2.86% as of December 31, 2018.

As of September 30, 2019, we also held swaptions on pay-fixed interest rate swaps with an aggregate notional balance of $750.0 million and a fair value of $1.9 million and Eurodollar futures with an aggregate notional balance of $6.0 billion and a fair value of $0.9 million that are effective between 2020 and 2022 at average rate of 1.35%.

RESULTS OF OPERATIONS

The discussions below provide information on certain items on our consolidated statements of comprehensive income. 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 Item 2 of this Quarterly Report on Form 10-Q for additional important information about these measures.

Net Interest Income for the Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

Net interest income for the three months ended September 30, 2019 increased $1.1 million compared to the three months ended September 30, 2018. Interest income increased $17.6 million due to a larger and higher yielding portfolio, but was mostly offset by an increase of $16.5 million in interest expense resulting from a large average balance of borrowings at higher financing rates. Interest expense as a percentage of average balance of borrowings outpaced interest income as a percentage of interest earning assets, resulting in a decline of 26 basis points in net interest spread for the third quarter of 2019 compared to the same period in 2018. The following table presents certain information about our interest-earning assets and interest-bearing liabilities and their performance for the three months ended September 30, 2019 and September 30, 2018:

	Three Months Ended September 30,					
	2019			2018		
($ in thousands)	Interest Income/Expense	Average Balance (1)(2)	Effective Yield/ Cost of Funds (3)(4)	Interest Income/Expense	Average Balance (1)(2)	Effective Yield/ Cost of Funds (3)(4)
Interest-earning assets:						
Agency RMBS-fixed rate	$ 23,619	$ 2,935,846	3.22%	$ 11,561	$ 1,384,926	3.34 %
Agency CMBS-fixed rate	14,818	1,763,116	3.22%	7,362	1,002,661	2.81 %
Agency RMBS-adjustable rate	68	6,620	3.92%	283	37,634	3.12 %
CMBS IO (5)	5,260	479,057	3.90%	6,646	581,770	3.98 %
Non-Agency other (6)	138	1,186	34.65%	427	4,869	30.31 %
U.S. Treasuries	—	—	—%	45	6,302	2.83 %
Other investments (7)	599	10,084	4.80%	601	13,226	4.25 %
Total:	$ 44,502	$ 5,195,909	3.29%	$ 26,925	$ 3,031,388	3.33 %
Interest-bearing liabilities:						
Repurchase agreements	$ 31,233	$ 4,955,825	2.47%	$ 14,780	$ 2,564,863	2.25 %
Non-recourse collateralized financing	23	3,032	3.04%	37	4,260	3.01 %
De-designated cash flow hedge accretion (8)	—	n/a	—%	(66)	n/a	(0.01)%
Total:	$ 31,256	$ 4,958,857	2.47%	$ 14,751	$ 2,569,123	2.25 %
Net interest income/net interest spread	**$ 13,246**		**0.82%**	**$ 12,174**		**1.08 %**

(1) Average balance for assets is calculated as a simple average of the daily amortized cost and excludes unrealized gains and losses as well as securities pending settlement if applicable.

(2) Average balance for liabilities is calculated as a simple average of the daily borrowings outstanding during the period.

(3) Effective yield is calculated by dividing the sum of gross interest income and scheduled premium amortization/discount accretion (both of which are annualized for any reporting period less than 12 months) and prepayment compensation and premium amortization/discount accretion adjustments (collectively, "prepayment adjustments"), which are not annualized, by the average balance of asset type outstanding during the reporting period.

(4) Cost of funds is calculated by dividing annualized interest expense by the total average balance of borrowings outstanding during the period with an assumption of 360 days in a year.

(5) *Includes Agency and non-Agency issued securities.*
(6) *Includes privately-issued RMBS and CMBS.*
(7) *Interest income for other investments consists of $125 thousand from mortgage loans held for investment, net and $474 thousand from cash and cash equivalents for the three months ended September 30, 2019 compared to $139 thousand and $462 thousand for the three months ended September 30, 2018, respectively. Average balances and yields shown for other investments includes amortized cost of mortgage loans held for investment and excludes cash.*
(8) *Amount recorded as a portion of "interest expense" in accordance with GAAP related to the accretion of the balance remaining in accumulated other comprehensive loss as a result of the Company's discontinuation of cash flow hedge accounting effective June 30, 2013.*

Rate/Volume Analysis. The following table presents the estimated impact on our net interest income due to changes in rate (effective yield/cost of funds) and changes in volume (average balance) of our interest-earning assets and interest-bearing liabilities for the periods indicated:

	Three Months September 30, 2019 Compared to September 30, 2018			
	Increase (Decrease) Due to Change In			Total Change in Interest Income/Expense
($ in thousands)	Rate	Volume	Prepayment Adjustments (1)	
Interest-earning assets:				
Agency RMBS-fixed rate	$ (889)	$ 12,947	$ —	$ 12,058
Agency CMBS-fixed rate	1,833	5,414	209	7,456
Agency RMBS-adjustable rate	12	(244)	17	(215)
CMBS IO (2)	(55)	(970)	(361)	(1,386)
Non-Agency other (3)	39	(299)	(29)	(289)
Treasuries	—	(45)	—	(45)
Other investments (4)	14	(22)	6	(2)
Total increase in interest income	$ 954	$ 16,781	$ (158)	$ 17,577
Interest-bearing liabilities:				
Repurchase agreements	$ 2,675	$ 13,778	$ —	$ 16,453
Non-recourse collateralized financing, net of other (5)	66	(9)	(5)	52
Total increase in interest expense	2,741	13,769	(5)	16,505
Total net change in net interest income	$ (1,787)	$ 3,012	$ (153)	$ 1,072

(1) *Prepayment adjustments represent effective interest amortization adjustments related to changes in actual and projected prepayment speeds for adjustable-rate RMBS and prepayment compensation, net of amortization adjustments for CMBS and CMBS IO and are not annualized in the calculation of effective yield.*
(2) *Includes Agency and non-Agency issued securities.*
(3) *Includes privately-issued RMBS and CMBS.*
(4) *Increase of $12 thousand in other interest income from cash and cash equivalents is included as a change in volume.*
(5) *Change in de-designated cash flow hedge accretion of $(66) thousand is included as a change in rate.*

As shown in the table above, interest income increased for the third quarter of 2019 compared to the same period in 2018 primarily from the addition of higher coupon fixed-rate Agency RMBS and Agency CMBS. This increase in interest income was almost entirely offset by the increase in interest expense due to a larger average outstanding balance of repurchase agreements borrowed at higher financing rates.

Adjusted Net Interest Income for the Three Months Ended September 30, 2019 Compared to the Three Months Ended September 30, 2018

Management includes drop income from TBA dollar roll positions and net periodic interest benefit (cost) of interest rate swaps in a non-GAAP financial measure "adjusted net interest income" when evaluating the economic performance of its investments and financings. Please refer to "Non-GAAP Financial Measures" under "Executive Overview" within this Item 2 for additional important information. The following table reconciles adjusted net interest income to GAAP net interest income for the periods indicated:

	Three Months Ended September 30,			
	2019		2018	
($ in thousands)	Amount	Rate	Amount	Rate
Net interest income	$ 13,246	0.82%	$ 12,174	1.08 %
Add: TBA drop income [(1)] [(2)]	1,404	—%	4,262	0.06 %
Add: net periodic interest benefit [(3)]	3,966	0.32%	1,777	0.28 %
De-designated cash flow hedge accretion [(4)]	—	—%	(66)	(0.01)%
Adjusted net interest income	$ 18,616	1.14%	$ 18,147	1.41 %

(1) TBA drop income is calculated by multiplying the notional amount of the TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates. The impact of TBA drop income on adjusted net interest spread includes the implied average funding cost of TBA dollar roll transactions during the periods indicated.

(2) TBA drop income for the three months ended September 30, 2019 includes $0.5 million generated from net short TBA dollar roll positions which increased adjusted net interest spread by 3 basis points, offsetting a (3) basis point decline from net long TBA dollar roll positions.

(3) Amount represents net periodic interest benefit of effective interest rate swaps outstanding during the period and excludes realized and unrealized gains and losses from changes in fair value of derivatives.

(4) Amount recorded as a portion of "interest expense" in accordance with GAAP related to the accretion of the balance remaining in accumulated other comprehensive loss as a result of the Company's discontinuation of cash flow hedge accounting effective June 30, 2013.

Adjusted net interest income increased $0.5 million for the three months ended September 30, 2019 compared to the same period in 2018. Increases in net interest income and net periodic interest benefit from interest rate swaps were mostly offset by a decline in drop income from TBA dollar roll positions. We reduced our volume of these transactions as higher expected prepayment speeds impacted the pricing of TBA contracts, driving the net yield on our TBA dollar roll positions down to 1.08% for the three months ended September 30, 2019 compared to 1.61% for the same period in 2018. The following table summarizes information related to our drop income from TBA dollar roll positions for the periods indicated:

	Three Months Ended September 30,				Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018		
	2019		2018			Due to Change In	
($ in thousands)	Amount	Average Yield/Cost	Amount	Average Yield/Cost	Total Change	Rate	Volume
TBA dollar roll positions:							
TBA implied interest income [(1)]	$ 4,468	3.44%	$ 9,708	3.66%	$ (5,240)	$ (289)	$ (4,951)
TBA implied interest expense [(2)]	3,064	2.36%	5,446	2.05%	(2,382)	395	(2,777)
TBA drop income/net yield [(3)]	$ 1,404	1.08%	$ 4,262	1.61%	$ (2,858)	$ (684)	$ (2,174)
Average net long position	$ 508,329		$ 1,037,347				

(1) Average yield for TBA dollar roll positions is extrapolated by adding average cost (see footnote 2) to the net yield (see footnote 3). Implied interest income is calculated by multiplying the average yield by the average TBA net long position outstanding during the period.

(2) Average cost is the implicit funding cost for TBA net long positions and is determined using the "price drop" between the near settling TBA contract and the price for the same contract with a later settlement date and market-based assumptions regarding the "cheapest-to-deliver" collateral that can satisfy the TBA contract, such as the security's coupon, maturity, and

projected prepayment rate anticipated for the collateral. TBA implied interest expense is calculated by multiplying the average cost by the average TBA net long position outstanding during the period.

(3) *TBA net yield is calculated by dividing total drop income from TBA dollar roll positions by the average TBA net long position outstanding during the period. Average TBA net short position is not included in the calculation because they are used as hedges of interest rate risk resulting from our investments in Agency RMBS and TBA net long positions. This method is similar to calculating the impact of periodic interest benefit/cost from effective interest rate swaps on our adjusted net interest spread which does not include the notional balance of effective interest rate swaps outstanding during the period.*

Net Interest Income for the Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

Net interest income for the nine months ended September 30, 2019 increased $1.7 million compared to the nine months ended September 30, 2018. Interest income increased $49.6 million due to a larger and higher yielding portfolio, but was mostly offset by an increase of $47.8 million in interest expense resulting from a large average balance of borrowings at higher financing rates. Interest expense as a percentage of average balance of borrowings outpaced interest income as a percentage of interest earning assets, resulting in a decline of 36 basis points in net interest spread for the nine months ended September 30, 2019 compared to the same period in 2018. The following table presents certain information about our interest-earning assets and interest-bearing liabilities and their performance for the nine months ended September 30, 2019 and September 30, 2018:

	Nine Months Ended September 30,					
	2019			2018		
($ in thousands)	**Interest Income/Expense**	**Average Balance (1)(2)**	**Effective Yield/ Cost of Funds (3)(4)**	**Interest Income/Expense**	**Average Balance (1)(2)**	**Effective Yield/ Cost of Funds (3)(4)**
Interest-earning assets:						
Agency RMBS-fixed rate	$ 72,237	$ 2,821,898	3.41%	$ 27,853	$ 1,142,907	3.25 %
Agency CMBS-fixed rate	35,614	1,477,749	3.17%	22,257	1,031,979	2.83 %
Agency RMBS-adjustable rate	539	22,145	3.36%	3,205	190,854	2.23 %
CMBS IO (5)	16,542	496,271	4.27%	19,886	627,537	4.11 %
Non-Agency other (6)	1,314	1,497	95.44%	1,495	9,459	20.10 %
U.S. Treasuries	—	—	—%	2,012	109,816	2.45 %
Other investments (7)	1,961	10,636	4.94%	1,329	14,407	4.11 %
Total:	$ 128,207	$ 4,830,196	3.46%	$ 78,037	$ 3,126,959	3.25 %
Interest-bearing liabilities:						
Repurchase agreements	$ 88,435	$ 4,487,137	2.60%	$ 40,575	$ 2,641,929	2.03 %
Non-recourse collateralized financing	75	3,197	3.10%	108	4,879	2.82 %
De-designated cash flow hedge accretion (8)	(165)	n/a	—%	(162)	n/a	(0.01)%
Total:	$ 88,345	$ 4,490,334	2.59%	$ 40,521	$ 2,646,808	2.02 %
Net interest income/net interest spread	$ 39,862		0.87%	$ 37,516		1.23 %

(1) *Average balance for assets is calculated as a simple average of the daily amortized cost and excludes unrealized gains and losses as well as securities pending settlement if applicable.*

(2) *Average balance for liabilities is calculated as a simple average of the daily borrowings outstanding during the period.*

(3) *Effective yield is calculated by dividing the sum of gross interest income and scheduled premium amortization/discount accretion (both of which are annualized for any reporting period less than 12 months) and prepayment compensation and premium amortization/discount accretion adjustments (collectively, "prepayment adjustments"), which are not annualized, by the average balance of asset type outstanding during the reporting period.*

(4) *Cost of funds is calculated by dividing annualized interest expense by the total average balance of borrowings outstanding during the period with an assumption of 360 days in a year.*

(5) Includes Agency and non-Agency issued securities.
(6) Includes privately-issued RMBS and CMBS.
(7) Interest income for other investments consists of $400 thousand from mortgage loans held for investment, net and $1,561 thousand from cash and cash equivalents for the nine months ended September 30, 2019 compared to $444 thousand and $885 thousand for the nine months ended September 30, 2018, respectively. Average balances and yields shown for other investments includes amortized cost of mortgage loans held for investment and excludes cash.
(8) Amount recorded as a portion of "interest expense" in accordance with GAAP related to the accretion of the balance remaining in accumulated other comprehensive loss as a result of the Company's discontinuation of cash flow hedge accounting effective June 30, 2013.

Rate/Volume Analysis. The following table presents the estimated impact on our net interest income due to changes in rate (effective yield/cost of funds) and changes in volume (average balance) of our interest-earning assets and interest-bearing liabilities for the periods indicated:

	Nine Months Ended September 30, 2019 Compared to September 30, 2018			
	Increase (Decrease) Due to Change In			Total Change in Interest Income/Expense
($ in thousands)	Rate	Volume	Prepayment Adjustments (1)	
Interest-earning assets:				
Agency RMBS-fixed rate	$ 3,466	$ 40,918	$ —	$ 44,384
Agency CMBS-fixed rate	3,918	9,425	14	13,357
Agency RMBS-adjustable rate	247	(2,795)	(118)	(2,666)
CMBS IO (2)	(50)	(3,687)	393	(3,344)
Non-Agency other (3)	208	(1,075)	686	(181)
Treasuries	—	(2,012)	—	(2,012)
Other investments (4)	67	559	6	632
Total increase in interest income	$ 7,856	$ 41,333	$ 981	$ 50,170
Interest-bearing liabilities:				
Repurchase agreements	$ 19,520	$ 28,340	$ —	$ 47,860
Non-recourse collateralized financing, net of other (5)	4	(36)	(4)	(36)
Total increase (decrease) in interest expense	19,524	28,304	(4)	47,824
Total net change in net interest income	$ (11,668)	$ 13,029	$ 985	$ 2,346

(1) Prepayment adjustments represent effective interest amortization adjustments related to changes in actual and projected prepayment speeds for adjustable-rate RMBS and prepayment compensation, net of amortization adjustments for CMBS and CMBS IO and are not annualized in the calculation of effective yield.
(2) Includes Agency and non-Agency issued securities.
(3) Includes privately-issued RMBS and CMBS.
(4) Increase of $676 thousand in other interest income from cash and cash equivalents is included as a change in volume.
(5) Change in de-designated cash flow hedge accretion of $3 thousand is included as a change in rate.

As shown in the table above, interest income increased for the nine months ended September 30, 2019 compared to the same period in 2018 primarily from the addition of higher yielding fixed-rate Agency RMBS as well as Agency CMBS. This increase in interest income was almost entirely offset by the increase in interest expense due to a larger average outstanding balance of repurchase agreements borrowed at higher financing rates.

Adjusted Net Interest Income for the Nine Months Ended September 30, 2019 Compared to the Nine Months Ended September 30, 2018

Management includes drop income from TBA dollar roll positions and net periodic interest benefit (cost) of interest rate swaps in a non-GAAP financial measure "adjusted net interest income" when evaluating the economic performance of its investments and financings. Please refer to "Non-GAAP Financial Measures" under "Executive Overview" within this Item 2 for additional important information. The following table reconciles adjusted net interest income to GAAP net interest income for the periods indicated:

	Nine Months Ended September 30,			
	2019		2018	
($ in thousands)	Amount	Rate	Amount	Rate
Net interest income	$ 39,862	0.87 %	$ 37,516	1.23%
Add: TBA drop income [(1)] [(2)]	4,649	(0.03)%	11,614	0.05%
Add: net periodic interest benefit [(3)]	11,416	0.33 %	3,890	0.20%
De-designated cash flow hedge accretion [(4)]	165	— %	162	0.01%
Adjusted net interest income	$ 56,092	1.17 %	$ 53,182	1.49%

(1) TBA drop income is calculated by multiplying the notional amount of the net TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates. The impact of TBA drop income on adjusted net interest spread includes the implied average funding cost of TBA dollar roll transactions during the periods indicated.

(2) TBA drop income for the nine months ended September 30, 2019 includes $0.5 million generated from net short TBA dollar roll positions.

(3) Amount represents net periodic interest benefit of effective interest rate swaps outstanding during the period and excludes realized and unrealized gains and losses from changes in fair value of derivatives.

(4) Amount recorded as a portion of "interest expense" in accordance with GAAP related to the accretion of the balance remaining in accumulated other comprehensive loss as a result of the Company's discontinuation of cash flow hedge accounting effective June 30, 2013.

TBA drop income declined for the nine months ended September 30, 2019 compared to the same period in 2018 because we reduced our volume of TBA dollar roll transactions as higher expected prepayment speeds impacted the pricing of TBA contracts. As shown in the tables below, net spreads on TBA dollar roll positions declined to 0.97% for the nine months ended September 30, 2019 compared to 1.74% for the same period in 2018, negatively impacting our overall adjusted net interest spread for the nine months ended September 30, 2019 by 3 basis points. The following table summarizes information related to our drop income from TBA dollar roll transactions for the periods indicated:

	Nine Months Ended September 30,				Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018		
	2019		2018			Due to Change In	
($ in thousands)	Amount	Average Yield/Cost	Amount	Average Yield/Cost	Total Change	Rate	Volume
TBA dollar roll positions:							
TBA implied interest income [(1)]	$ 16,972	3.53%	$ 23,483	3.51%	$ (6,511)	$ 72	$ (6,583)
TBA implied interest expense [(2)]	12,323	2.56%	11,869	1.77%	454	(3,781)	3,327
TBA drop income/net yield [(3)]	$ 4,649	0.97%	$ 11,614	1.74%	$ (6,965)	$ (3,709)	$ (3,256)
Average TBA net long position	$ 635,243		$ 882,718				

(1) Average yield for TBA dollar roll positions is extrapolated by adding average cost (see footnote 2) to the net yield (see footnote 3). Implied interest income is calculated by multiplying the average yield by the average TBA net long position outstanding during the period.

(2) Average cost is the implicit funding cost for TBA net long positions and is determined using the "price drop" between the near settling TBA contract and the price for the same contract with a later settlement date and market-based assumptions regarding the "cheapest-to-deliver" collateral that can satisfy the TBA contract, such as the security's coupon, maturity, and

projected prepayment rate anticipated for the collateral. TBA implied interest expense is calculated by multiplying the average cost by the average TBA net long position outstanding during the period.

(3) *TBA net yield is calculated by dividing total drop income from TBA dollar roll positions by the average TBA net long position outstanding during the period. Average TBA net short position is not included in the calculation because they are used as hedges of interest rate risk resulting from our investments in Agency RMBS and TBA net long positions. This method is similar to calculating the impact of periodic interest benefit/cost from effective interest rate swaps on our adjusted net interest spread which does not include the notional balance of effective interest rate swaps outstanding during the period.*

Gain (Loss) on Sale of Investments, Net

We sell our investments in the ordinary course of business as we manage our risk, capital and liquidity profiles, and as we reallocate capital to various investments. We sold a portion of our fixed rate Agency RMBS with coupons of 4.0% - 4.5% due to their increased risk of prepayment in the current lower interest rate environment and partially replaced them with Agency RMBS with coupons of 3.0% - 3.5%.We also sold the remainder of our adjustable rate Agency RMBS during the third quarter of 2019 due to its lower return profile in the current interest rate environment. The following tables provide information related to our loss on sale of investments, net for the periods indicated:

	Three Months Ended September 30,			
	2019		2018	
($ in thousands)	Amortized cost basis sold	Gain (loss) on sale of investments, net	Amortized cost basis sold	Gain (loss) on sale of investments, net
Agency RMBS-fixed rate	$ 560,556	$ 3,865	$ —	$ —
Agency RMBS-adjustable rate	26,192	593	—	—
Agency CMBS	—	—	49,957	(1,720)
Agency CMBS IO	9,161	147	10,444	127
U.S. Treasuries	—	—	57,976	(133)
	$ 595,909	$ 4,605	$ 118,377	$ (1,726)

	Nine Months Ended September 30,			
	2019		2018	
($ in thousands)	Amortized cost basis sold	Gain (loss) on sale of investments, net	Amortized cost basis sold	Gain (loss) on sale of investments, net
Agency RMBS-fixed rate	$ 770,002	$ (87)	$ —	$ —
Agency RMBS-adjustable rate	26,192	593	225,622	(7,785)
Agency CMBS	219,692	(6,493)	160,766	(3,771)
Agency CMBS IO	22,936	232	10,444	127
Non-Agency CMBS IO	—	—	8,644	51
U.S. Treasuries	—	—	255,369	(6,567)
	$ 1,038,822	$ (5,755)	$ 660,845	$ (17,945)

(Loss) Gain on Derivative Instruments, Net

Changes in the fair value of derivative instruments and net periodic interest benefits/costs are impacted by changing market interest rates and adjustments that we may make to our hedging positions in any given period. Because of the changes made to our derivatives portfolio from one reporting period to the next, results of any given reporting period are generally not comparable to results of another.

The following table provides information on our financial instruments accounted for as derivative instruments for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	**2019**	**2018**	**2019**	**2018**
Interest rate derivatives:				
Interest rate swaps:				
Net periodic interest benefit	$ 3,966	$ 1,777	$ 11,416	$ 3,890
Change in fair value (1)	(56,874)	23,242	(260,302)	89,944
Total interest rate swap (losses) gains, net	(52,908)	25,019	(248,886)	93,834
Interest rate swaptions:				
Change in fair value (1)	(4,329)	—	(4,329)	—
Futures:				
Change in fair value (1)	1,712	(189)	1,501	1,886
Total interest rate derivative (losses) gains, net	(55,525)	24,830	(251,714)	95,720
TBA dollar roll positions:				
Change in fair value (2)	3,412	(9,466)	17,124	(29,577)
TBA drop income (3)	1,404	4,262	4,649	11,614
Total TBA dollar roll gains (losses), net	4,816	(5,204)	21,773	(17,963)
Options on U.S. Treasury futures				
Change in fair value (1)	—	(127)	—	763
Total (loss) gain on derivative instruments, net	$ (50,709)	$ 19,499	$ (229,941)	$ 78,520

(1) Changes in fair value for interest rate derivatives and options include unrealized gains (losses) from current and forward starting derivative instruments and realized gains (losses) from terminated derivative instruments.

(2) Changes in fair value for TBA dollar roll positions include unrealized gains (losses) from open TBA contracts and realized gains (losses) on paired off or terminated positions.

(3) TBA drop income represents a portion of the change in fair value and is calculated by multiplying the notional amount of the net TBA dollar roll positions by the difference in price between two TBA securities with the same terms but different settlement dates.

Changes in fair value of our derivative instruments consist of unrealized gains (losses) on instruments held as of the end of the period and realized gains (losses) from instruments terminated or paired off during the period. The following table provides information regarding realized gains (losses) on derivative instruments for the periods indicated:

($ in thousands)	Three Months Ended September 30, 2019		2018		Nine Months Ended September 30, 2019		2018	
	Realized Gain (Loss)	Notional	Realized Gain (Loss)	Notional	Realized Gain (Loss)	Notional	Realized Gain (Loss)	Notional
Interest rate swaps	$ (63,764)	$ 2,225,000	$ 2,586	$ 250,000	$ (212,510)	$ 6,035,000	$ 2,131	$ 350,000
Interest rate swaptions	(4,246)	750,000	—	—	(4,246)	750,000	—	—
Futures	682	3,000,000	778	650,000	(645)	3,050,000	2,553	1,950,000
TBA net long positions	2,822	2,080,000	(2,002)	3,281,000	25,781	7,400,000	(15,605)	7,891,000
TBA net short positions	604	1,800,000	—	—	604	1,800,000	293	150,000
Options	—	—	802	300,000	—	—	802	300,000
Total	$ (63,902)	$ 9,855,000	$ 2,164	$ 4,481,000	$ (191,016)	$ 19,035,000	$ (9,826)	$ 10,641,000

Our net periodic interest benefit from interest rate swaps for the three and nine months ended September 30, 2019 increased compared to the three and nine months ended September 30, 2018 due to an increase in our average net receive rate of 20 and 19 basis points, respectively. The table below shows our interest rate swap hedge position as a percentage of our average repurchase agreement borrowings and net long TBAs outstanding and details about our net receive rates for the periods indicated:

($ in thousands)	Three Months Ended September 30, 2019	2018	Nine Months Ended September 30, 2019	2018
Average repurchase agreement borrowings outstanding	$ 4,955,825	$ 2,564,863	$ 4,487,137	$ 2,641,929
Average TBA net long positions outstanding - at cost (1)	508,329	982,665	635,243	856,531
Average borrowings and TBA net long positions outstanding	5,464,154	3,547,528	5,122,380	3,498,460
Average notional amount of interest rate swaps outstanding (excluding forward starting swaps)	3,096,957	2,502,609	4,001,777	2,830,824
Ratio of average interest rate swaps to average borrowings and TBA net long positions outstanding (1)	0.6	0.7	0.8	0.8
Average interest rate swap net pay-fixed rate (excluding forward starting swaps) (2)	(1.83)%	(2.09)%	(2.21)%	(1.84)%
Average interest rate swap net receive-floating rate (2)	2.30 %	2.32 %	2.57 %	2.01 %
Average interest rate swap net receive rate	0.47 %	0.23 %	0.36 %	0.17 %

(1) We include TBA net long positions in this ratio because we use interest rate swaps to hedge a portion of the impact of changing interest rates on the fair value and implied financing cost of our TBA net long positions and our repurchase agreement financing costs. This ratio calculation does not include TBA net short positions which the Company may also use to hedge the impact of changing interest rates on its specified pools of Agency RMBS and TBA net long positions.

(2) Net rates include receive-fixed (pay-floating) interest rate swaps for the three and nine months ended September 30, 2018.

General and Administrative Expenses

General and administrative expenses decreased $(0.2) million for the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due primarily to lower legal and professional fees. General and administrative expenses increased $0.4 million for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due primarily to higher audit and consulting expenses.

Other Comprehensive Income (Loss)

The majority of other comprehensive income of $55.2 million and $252.8 million for the three and nine months ended September 30, 2019, respectively, was mostly comprised of net unrealized gains in Agency RMBS and CMBS due to declining longer-term interest rates. Other comprehensive loss of $(21.9) million and $(77.1) million for the three and nine months ended September 30, 2018, respectively, was mostly comprised of net unrealized losses in Agency RMBS and CMBS due to increasing longer-term interest rates during those periods. The following table provides detail on the changes in fair value by type of available-for-sale investment which are recorded as unrealized gains (losses) in other comprehensive income on our consolidated statements of operations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in thousands)	**2019**	**2018**	**2019**	**2018**
Fixed-rate Agency RMBS	$ 9,755	$ (12,851)	$ 82,965	$ (37,351)
Adjustable-rate Agency RMBS	(557)	(135)	(545)	4,450
Agency CMBS	44,592	(5,399)	159,725	(38,704)
CMBS IO [(1)]	1,470	(3,233)	10,584	(6,190)
Non-Agency other [(2)]	(65)	(280)	225	(916)
U.S. Treasuries	—	50	—	1,737
Unrealized gain (loss) on available-for-sale investments	55,195	(21,848)	252,954	(76,974)
Reclassification adjustment for de-designated cash flow hedges	—	(66)	(165)	(162)
Total other comprehensive income (loss)	$ 55,195	$ (21,914)	$ 252,789	$ (77,136)

(1) Includes Agency and non-Agency issued securities.
(2) Includes non-Agency CMBS and RMBS.

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity include borrowings under repurchase arrangements and monthly principal and interest payments we receive on our investments. Additional sources may also include proceeds from the sale of investments, equity offerings, and payments received from counterparties from interest rate swap agreements and other derivative instruments. We use our liquidity to purchase investments and to pay our operating expenses and dividends on our common and preferred stock. We also use our liquidity to post initial and variation margins on our repurchase agreements and derivative transactions, including TBA contracts, when required under the terms of the related agreements. We may also use liquidity to repurchase shares of our common stock periodically.

Our liquidity fluctuates based on our investment activities, our financing and capital raising activities, and changes in the fair value of our investments and derivative instruments. We seek to maintain sufficient liquidity to support our operations and to meet our anticipated liquidity demands, including potential margin calls from lenders (as discussed further below). Our most liquid assets include unrestricted cash and cash equivalents and unencumbered Agency RMBS, CMBS, and CMBS IO. As of September 30, 2019, our most liquid assets were $198.4 million compared to $210.8 million as of December 31, 2018.

We perform sensitivity analysis on our liquidity based on changes in the fair value of our investments due to, among other things, changes in the absolute level of interest rates and the shape of the yield curve, credit spreads, lender haircuts, and prepayment speeds as well as changes in the fair value of our derivative instruments due to changes in the absolute level of interest rates and the shape of the yield curve. 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. We also include our TBA net long positions (at cost if settled) in evaluating the Company's leverage because it is possible under certain market conditions that it may be uneconomical for us to roll a TBA net long position into future months, which may result in us having to take physical delivery of the underlying securities and use cash or other financing sources to fund our total purchase commitment. Including our TBA net long positions at cost (if settled), which was $393.8 million as of September 30, 2019, our leverage was 9.1 times shareholders' equity compared to 8.0 times shareholders' equity as of December 31, 2018.

The following table presents information regarding the balances of our repurchase agreement borrowings and our TBA net long position for the periods indicated:

	Repurchase Agreements			TBA Net Long Positions [(1)]	
($ in thousands)	**Balance Outstanding As of Quarter End**	**Average Balance Outstanding For the Quarter Ended**	**Maximum Balance Outstanding During the Quarter Ended**	**Balance Outstanding As of Quarter End**	**Average Balance Outstanding For the Quarter Ended**
September 30, 2019	$ 4,872,869	$ 4,955,825	$ 5,191,378	$ 393,808	$ 462,099
June 30, 2019	4,815,452	4,562,992	4,815,452	374,452	579,353
March 31, 2019	4,252,893	3,931,335	4,266,684	727,212	722,264
December 31, 2018	3,267,984	2,992,513	3,269,307	882,230	814,478

(1) Balance outstanding as of quarter end and average balance outstanding for the quarter ended includes TBA net long positions as reported at cost (as if settled). Does not include TBA net short positions used to hedge interest rate risk exposure from TBA and specified pools of fixed-rate Agency RMBS in applicable periods.

Depending on our liquidity levels, investment opportunities, the condition of the credit markets, and other factors, we may from time to time consider the issuance of debt, equity, or other securities. We have generally had access to the debt and equity capital markets on reasonable terms. In times of market stress, we may need to sell investments in order to provide additional liquidity for our business. While we will attempt to avoid dilutive or otherwise costly issuances, depending on market conditions and in order to manage our liquidity, we could be forced to issue equity or debt securities which may be dilutive to our capital base or our profitability.

Repurchase Agreements

Our repurchase agreement borrowings are principally uncommitted and have short-term maturities. As such, 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. As of September 30, 2019, we had repurchase agreement borrowings outstanding with 22 of our 35 available repurchase agreement counterparties at a weighted average borrowing rate of 2.32% compared to 2.69% as of December 31, 2018. 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) and is intended to provide the lender some protection against fluctuations in fair value of the collateral and/or the failure by us to repay the borrowing at maturity. The fair value of the MBS pledged as collateral to our repurchase agreement counterparties fluctuates depending on 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, Fannie Mae and Freddie Mac announce principal payments on Agency MBS in advance of their actual remittance of principal payments, and repurchase agreement lenders generally make margin calls for an amount equal to the product of their advance rate on the repurchase agreement and the announced principal payments on the Agency RMBS. A margin call made by a lender reduces our liquidity until we receive the principal payments from Fannie Mae and Freddie Mac.

If we fail to meet any margin call, our lenders also have the right to terminate the repurchase agreement and sell any collateral pledged. Therefore, we attempt to maintain cash and other liquid securities in sufficient amounts to manage our exposure to margin calls by lenders. The lender also has the right to change the required haircut at maturity of the repurchase agreement (if the term is renewed) which would require us to post additional collateral to the lender. 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:

	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018
Agency CMBS and RMBS	4.7%	4.7%	4.8%	4.9%	4.8%
CMBS IO	13.0%	13.2%	13.4%	13.4%	13.3%

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 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. Please refer to Note 3 for information regarding counterparties with whom we have the greatest amount of equity at risk as of September 30, 2019.

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 the dates indicated:

	September 30, 2019		December 31, 2018	
($ in thousands)	Amount Outstanding	Market Value of Collateral Pledged	Amount Outstanding	Market Value of Collateral Pledged
North America	$ 2,946,181	$ 3,123,043	$ 2,190,361	$ 2,365,132
Asia	1,114,108	1,170,693	594,435	633,078
Europe	812,580	850,298	483,188	513,394
	$ 4,872,869	$ 5,144,034	$ 3,267,984	$ 3,511,604

Certain of our repurchase agreement counterparties require us to comply with various operating and financial covenants. The financial covenants include, among other things, 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), limits on 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.

Derivative Instruments

We are party to certain types of financial instruments that are accounted for as derivative instruments including interest rate swaps, Eurodollar futures, and long and short positions in TBA securities. Certain of these derivative instruments may require us to post initial margin at inception and daily variation margin based on subsequent changes in their fair value. The collateral posted as margin by us is typically in the form of cash or Agency MBS. In addition, counterparties may have to post variation margin to us. Generally, as interest rates decline, we will be required to post collateral with counterparties on our interest rate derivatives and vice versa as interest rates increase. As of September 30, 2019, we had cash of $97.2 million posted as collateral under these agreements.

Our TBA contracts are subject to master securities forward transaction agreements published by the Securities Industry and Financial Markets Association as well as supplemental terms and conditions with each counterparty. Under the terms of these agreements, we may be required to pledge collateral to, or have the right to receive collateral from, our counterparties when initiated or in the event the fair value of our TBA contracts declines. Declines in the fair value of TBA contracts are generally related to such factors as rising interest rates, increases in expected prepayment speeds, or widening spreads. Our TBA contracts generally provide that valuations for our TBA contracts and any pledged collateral are to be obtained from a generally recognized source agreed to by both parties. However, in certain circumstances, our counterparties have the sole discretion to determine the value of the TBA contract and any pledged collateral. In such instances, our counterparties are required to act in good faith in making determinations of value. In the event of a margin call, we must generally provide additional collateral on the same business day.

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 an NOL carryforward that we could use to offset our REIT taxable income distribution requirement. This NOL carryforward had an estimated balance of $89.8 million as of September 30, 2019, which will begin to substantially expire in 2020. We also have deferred tax hedge losses on terminated derivative instruments, which will be recognized over the original periods being hedged by those terminated derivatives. Please refer to “Results of Operations - (Loss) Gain on Derivatives Instruments, Net” within this Item 2 for additional information on realized losses from derivatives we terminated prior to their maturity as part of our portfolio and hedge management activities. The following table compares the tax hedge losses as of the periods indicated that have already been recognized in our GAAP earnings but which will reduce taxable income over the next ten years:

($ in thousands)	**September 30, 2019**	**December 31, 2018**
2019	$ 33,543	$ 17,226
2020	38,080	5,173
2021 - 2028	155,146	2,294
	$ 226,769	$ 24,693

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. Approximately 88% of our common stock dividends declared during the nine months ended September 30, 2019 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.

Contractual Obligations and Other Matters

As of September 30, 2019, amounts outstanding under our repurchase agreements are due within 90 days. The timing of amounts due for the Company’s non-recourse collateralized financing and operating lease obligations have not changed materially since December 31, 2018.

As of September 30, 2019, 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 other than as discussed above. 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 were no accounting pronouncements issued during the nine months ended September 30, 2019 that are expected to have a material impact on the Company's financial condition or results of operations.

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, capital management, and dividend policy 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 statements about:

- Our business and investment strategy including our ability to generate acceptable risk-adjusted returns and our target investment allocations, and our views on the future performance of MBS and other investments;
- Our views on conditions in the investment, credit, and derivatives markets;
- Our views on the effect of actual or proposed actions of the U.S. Federal Reserve, the FOMC, or other central banks with respect to monetary policy (including the targeted Federal Funds Rate), and the potential impact of these actions on interest rates, inflation or unemployment;
- The effect of regulatory initiatives of the Federal Reserve (including the FOMC), other financial regulators, and other central banks;
- Our financing strategy including our target leverage ratios, our use of TBA dollar roll transactions, 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, and the anticipated availability and cost of financing;
- Our capital stock activity including the impact of stock issuances and repurchases;
- The amount, timing, and funding of future dividends;
- 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 and effect of legislative reforms and 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, and how these trends and related economic data may impact the behavior of market participants and financial regulators; and
- Market interest rates and market spreads.

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 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, some of those factors 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 domestic 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;
- the impact on markets and asset prices from the Federal Reserve’s balance sheet normalization process through the reduction in its holdings of Agency RMBS and U.S. Treasuries;
- actual or anticipated changes in Federal Reserve monetary policy or the monetary policy of other central banks;
- adverse reactions in U.S. financial markets related to actions of foreign central banks or the economic performance of foreign economies including in particular China, Japan, the European Union, and the United Kingdom;
- uncertainty concerning the long-term fiscal health and stability 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 or volatility 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;
- uncertainty regarding continued government support of the U.S. financial system and U.S. housing and real estate markets; or to reform the U.S. housing finance system including the resolution of the conservatorship of Fannie Mae and Freddie Mac;
- the composition of the Board of Governors of the Federal Reserve System;
- ownership shifts under Section 382 that further limit the use of our tax NOL carryforward;
- systems failures or cybersecurity incidents; and
- exposure to current and future claims and litigation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to losses resulting from changes in market factors. Our business strategy exposes us to a variety of market risks, including interest rate, spread, prepayment, reinvestment, credit, and liquidity risks. These risks can and do cause fluctuations in our comprehensive income and book value as discussed below.

Interest Rate Risk

Investing in interest-rate sensitive investments such as MBS and TBA securities subjects us to interest rate risk. Interest rate risk results from investing in securities that have a fixed coupon or when the coupon may not immediately adjust for changes in interest rates. Interest rate risk also results from the mismatch between the duration of our assets versus the duration of our liabilities and hedges.

The measures of an instrument's price sensitivity to interest rate fluctuations are its duration and convexity. Duration measures the percentage change in projected market value of our investments and derivative instruments given a change in interest rates. The duration of RMBS and TBA securities tend to increase when interest rates rise and decrease when interest rates fall, which is commonly referred to as negative convexity. This occurs because prepayments of the mortgage loans underlying the RMBS tend to decline when interest rates rise (which extends the life of the security) and increase when interest rates fall (which shortens the life of the security). The fair value of TBA securities react similarly to RMBS to changes in interest rates as they are based on an underlying non-specified pool of fixed-rate residential mortgage loans. CMBS and CMBS IO, however, generally have little convexity because the mortgage loans underlying the securities usually contain some form of prepayment protection provision (such as prepayment lock-outs) or prepayment compensation provisions (such as yield maintenance or prepayment penalties) which create an economic disincentive for the loans to prepay.

We attempt to manage our exposure to changes in interest rates that results from the duration mismatch between our assets and liabilities by entering into interest rate swaps and other derivative instruments to hedge this risk. We manage interest rate risk within tolerances set by our Board of Directors. Our portfolio duration changes based on the composition of our investment portfolio and our hedge positions as well as market factors. We calculate our portfolio duration based on modeled projected cash flows, and such calculated duration can be an imprecise measure of actual interest rate risk. In the case of Agency RMBS and TBA securities, the primary input to the calculated duration is the anticipated prepayment speed of the underlying mortgage loans, which is sensitive to future interest rates and borrowers' behavior. Changes in the level of interest rates can affect the rate of mortgage prepayments and the market value of our assets. Our hedging techniques are highly complex and are partly based on assumed levels of prepayments of our assets. If prepayments are slower or faster than assumed, the maturity our investments will also differ from our expectations, which could reduce the effectiveness of our hedging strategies and may cause losses on such transactions and adversely affect our cash flow. Estimates of prepayment speeds can vary significantly by investor for the same security, and therefore estimates of security and portfolio duration can vary significantly.

During a period of rising interest rates (particularly short-term rates in a flattening yield curve environment), normally 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 our portfolio, our hedging strategy, the effectiveness of our hedging instruments as well as the magnitude and the duration of the increase in interest rates.

Changes in types of our 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 shown in the tables below. There can be no assurance that assumed events used to model the results shown below will occur, or that other events will not occur, that will affect the outcomes; therefore, the modeled results shown in the tables below and all related disclosures constitute forward-looking statements.

The table below shows the projected sensitivity of our net interest income and net periodic interest benefit/cost on our interest rate swaps as of the periods indicated assuming an instantaneous parallel shift in interest rates:

	Projected Change in Net Interest Income and Net Periodic Interest Benefit/Cost Due To			
	Decrease in Interest Rates of		Increase in Interest Rates of	
	100 Basis Points	50 Basis Points	50 Basis Points	100 Basis Points
September 30, 2019	6.9 %	0.1 %	(4.4)%	(12.3)%
December 31, 2018	(21.1)%	(8.0)%	4.2 %	6.1 %

(1) Includes estimated changes in net interest income as well as net periodic interest benefit/cost on our interest rate swaps recorded in "gain (loss) on derivatives instruments, net" and does not include estimated changes to TBA drop income generated by TBA dollar roll transactions, which are accounted for as derivative instruments in accordance with GAAP.

The projected sensitivity to changes in interest rates on our net interest income and net periodic interest benefit from interest rate swaps has reversed as of September 30, 2019 relative to December 31, 2018 due to changes in our investment portfolio mix and our interest rate hedge positioning. Since December 31, 2018, we have increased the percentage of the portfolio invested in Agency CMBS and shifted the average coupon on Agency RMBS lower. At the same time, we reduced the notional amount of interest rate swaps hedging our exposure to higher interest rates and lowered the average net pay fixed rate by 70 basis points. Relative to December 31, 2018, these changes had the impact of lowering our projected earnings if interest rates increase while increasing our projected earnings if there is a downward parallel shift in interest rates.

The table below shows the projected sensitivity of the market value of our financial instruments (1) and the percentage change in shareholders' equity assuming an instantaneous parallel shift in market interest rates as of the dates indicated:

	September 30, 2019							
	Decrease in Interest Rates of				Increase in Interest Rates of			
	100 Basis Points		50 Basis Points		50 Basis Points		100 Basis Points	
Type of Instrument (1)	% of Market Value	% of Total Equity	% of Market Value	% of Total Equity	% of Market Value	% of Total Equity	% of Market Value	% of Total Equity
RMBS	(0.1)%	(0.7)%	0.2 %	1.5 %	(0.6)%	(5.4)%	(1.6)%	(14.2)%
CMBS	3.4 %	30.7 %	1.6 %	15.0 %	(1.6)%	(14.2)%	(3.1)%	(27.8)%
CMBS IO	0.2 %	2.2 %	0.1 %	1.1 %	(0.1)%	(1.0)%	(0.2)%	(2.0)%
TBAs	0.2 %	2.1 %	0.1 %	1.0 %	(0.1)%	(1.0)%	(0.2)%	(1.9)%
Interest rate hedges	(3.7)%	(33.3)%	(1.8)%	(16.3)%	1.9 %	16.9 %	3.9 %	35.5 %
Total	— %	1.0 %	0.2 %	2.3 %	(0.5)%	(4.7)%	(1.2)%	(10.4)%

	December 31, 2018							
	Decrease in Interest Rates by				Increase in Interest Rates by			
	100 Basis Points		50 Basis Points		50 Basis Points		100 Basis Points	
Type of Instrument (1)	% of Market Value	% of Total Equity	% of Market Value	% of Total Equity	% of Market Value	% of Total Equity	% of Market Value	% of Total Equity
RMBS	1.6 %	11.2 %	1.0 %	7.0 %	(1.3)%	(9.4)%	(2.9)%	(20.6)%
CMBS	2.0 %	14.6 %	1.0 %	7.1 %	(1.0)%	(6.8)%	(1.9)%	(13.4)%
CMBS IO	0.4 %	3.1 %	0.3 %	1.8 %	(0.1)%	(0.7)%	(0.3)%	(1.9)%
TBAs	0.4 %	2.5 %	0.2 %	1.7 %	(0.4)%	(2.9)%	(0.9)%	(6.7)%
Interest rate hedges	(5.5)%	(39.0)%	(2.7)%	(19.0)%	2.5 %	18.1 %	4.9 %	35.3 %
Total	(1.1)%	(7.6)%	(0.2)%	(1.4)%	(0.3)%	(1.7)%	(1.1)%	(7.3)%

(1) Changes in market value of our financings are excluded 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 percentage change in market value for our RMBS and TBAs declined as of September 30, 2019 compared to December 31, 2018 due to declining interest rates during the nine months ended September 30, 2019 as increased prepayment expectations shortened the expected life of cash flows for these securities. As mentioned previously, CMBS generally have some form of prepayment protection, so their market value sensitivity is not similarly impacted by declining interest rates. The increase in the percentage change in market value for CMBS as of September 30, 2019 compared to December 31, 2018 is primarily due to our recent purchases which increased the weighted average life remaining overall for that portion of our portfolio. Unlike our CMBS, the CMBS IO remaining in our portfolio are more seasoned with shorter expected cash flows and fewer prepayment protection provisions remaining, so their percentage change in market value declined as of September 30, 2019 compared to December 31, 2018.

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 percentage change in projected market value of our financial instruments (1) for instantaneous changes in the shape of the U.S. Treasury ("UST") curve (with similar changes to the interest rate swap curves) as of the dates indicated:

		September 30, 2019			December 31, 2018		
Basis Point Change in		Percentage Change in			Percentage Change in		
2-year UST	10-year UST	Market Value of Investments (1)	Shareholders' Equity	Portfolio Duration	Market Value of Investments (1)	Shareholders' Equity	Portfolio Duration
+25	+50	(0.5)%	(4.2)%	117.0%	(0.1)%	(0.8)%	118.0%
+50	+25	(0.3)%	(2.3)%	109.0%	(0.2)%	(1.1)%	109.0%
+50	+100	(1.0)%	(9.3)%	132.0%	(0.8)%	(5.7)%	134.0%
-25	0	(0.1)%	(0.4)%	97.0%	0.2 %	1.4 %	99.0%
-25	-75	0.3 %	2.6 %	77.0%	(0.8)%	(5.4)%	72.0%
-50	-10	— %	(0.1)%	92.0%	0.3 %	1.8 %	95.0%
-75	-25	— %	0.2 %	85.0%	0.2 %	1.7 %	88.0%

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

Spread Risk

Spread risk is the risk of loss from an increase in the market spread between the yield on an investment versus its benchmark index. Changes in market spreads represent the market's valuation of the perceived riskiness of an asset relative to risk-free rates, and widening spreads reduce the market value of our investments as market participants require additional yield to hold riskier assets. Market 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. While we use derivative instruments to mitigate interest rate risk on our financial instruments, we do not hedge spread risk given the complexity of hedging credit spreads and the lack of liquid instruments available to use as hedges.

Fluctuations in spreads typically vary based on the type of investment. Sensitivity to changes in market spreads is derived from models that are dependent on various assumptions, and actual changes in market value in response to changes in market spreads could differ materially from the projected sensitivity if actual conditions differ from these assumptions.

The table below shows the projected sensitivity of the market value of our investments [(1)] given the indicated change in market spreads as of the dates indicated:

	September 30, 2019		December 31, 2018	
	Percentage Change in		Percentage Change in	
Basis Point Change in Market Spreads	**Market Value of Investments [(1)]**	**Shareholders' Equity**	**Market Value of Investments [(1)]**	**Shareholders' Equity**
+20/+50 [(2)]	(1.2)%	(11.0)%	(1.3)%	(9.5)%
+10	(0.6)%	(5.2)%	(0.6)%	(4.5)%
-10	0.6 %	5.4 %	0.7 %	5.0 %
-20/-50 [(2)]	1.3 %	11.4 %	1.5 %	11.0 %

(1) Includes changes in market value of our MBS investments, including TBA securities.
(2) Assumes a 20-basis point shift in Agency and non-Agency RMBS and CMBS and a 50-basis point shift in Agency and non-Agency CMBS IO.

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 are amortized as a reduction in interest income using the effective yield method under GAAP. 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.

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.

Prepayments on the loans underlying our RMBS generally accelerate in a declining interest rate environment, as the loans age, and, with respect to ARMS, as the loans near their respective interest rate reset dates, particularly the initial reset date, or if expectations are that interest rates will rise in the future. Our prepayment models anticipate an acceleration of prepayments in these events. To the extent the actual prepayments exceed our modeled prepayments, or, with respect to adjustable-rate RMBS, if we change our future prepayment expectations, we will record adjustments to our premium amortization which may negatively impact our net interest income. In addition, changes in market expectations of prepayments could impact the fair value of our RMBS.

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, when we invest in RMBS at a premium to the security's par value, we tend to favor securities in which we believe the underlying borrowers have some disincentive to refinance as a result of the size of each loan's principal balance, credit characteristics of the borrower, or geographic location of the property, among other factors.

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 or TBA securities. If we are unable to find suitable reinvestment opportunities or if yields on assets in which we reinvest are lower than yields on existing assets, our results and 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 capital or pay dividends to return capital to shareholders rather than reinvest capital, or if we invest capital in lower yielding assets for liquidity reasons, the size of our investment portfolio and the amount of 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. Credit losses on loans could result in lower or negative yields on our investments.

Agency RMBS and Agency CMBS 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. Since Agency CMBS IO represent the right to excess interest and not principal on the underlying loans, these securities are exposed to the loss of investment basis in the event a loan collateralizing the security liquidates without paying yield maintenance or prepayment penalty, which typically occurs when an involuntarily liquidating loan repays all or a portion of its related principal balance.

We attempt to mitigate our credit risk on our non-Agency securities through asset selection and by purchasing higher quality securities. Our non-Agency MBS are typically investment grade rated securities which we believe will have good credit performance. The majority of our non-Agency securities are CMBS IO and 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 generally are more negatively impacted by liquidations of loans in the underlying loan pool.

Liquidity Risk

We have liquidity risk principally from the use of recourse repurchase agreements to finance our ownership of securities. 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, declines in the market value of our investments pledged as collateral for repurchase agreement borrowings may result in counterparties initiating margin calls for additional collateral.

Our use of TBA long positions as a means of investing in and financing Agency RMBS also exposes us to liquidity risk in the event that we are unable to roll or terminate our TBA contracts prior to their settlement date. If we are unable to roll or terminate our TBA long positions, we could be required to take physical delivery of the underlying securities and settle our obligations for cash, which could negatively impact our liquidity position or force us to sell assets under adverse conditions if financing is not available to us on acceptable terms.

The increase in our overall leverage recently increases our liquidity risk and reduces the amount of available assets to meet margin calls on our repurchase agreements. Although leverage remains within Board authorized limits and the Company believes that it has adequate access to liquidity and repurchase agreement capacity, we have increased our exposure to an adverse market environment as a result of this increase in our leverage.

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 I, 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 September 30, 2019 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

There were no changes in our internal control over financial reporting during the three months ended September 30, 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As previously disclosed in the Company’s 2018 Form 10-K, in January 2019, the U.S. District Court, Northern District of Texas (the “Northern District Court”) dismissed the amended complaint of Basic Capital Management, Inc., et al. (the “DCI Plaintiffs”) against the Company and DCI Commercial, Inc. (“DCI”), a former affiliate of the Company and formerly known as Dynex Commercial, Inc., regarding the activities of DCI while it was an operating subsidiary of an affiliate of the Company. The DCI Plaintiffs filed an amended complaint in April 2019. On October 28, 2019, the Northern District Court dismissed with prejudice the DCI Plaintiffs’ fraudulent transfer claims and alter ego claim for failure to state a claim under Federal Rule of Civil Procedure 12(b)(6). The Court also denied the plaintiffs’ requests for exemplary damages and attorneys’ fees.

Also as previously disclosed in the 2018 Form 10-K, one of the DCI Plaintiffs also filed a claim (the “Cost Sharing Litigation”) in May 2018 against the Company seeking payment of a judgment previously entered only against DCI (the “DCI Judgment”), with such payment allegedly required pursuant to the provisions of a litigation cost sharing agreement, as amended, entered into initially in December 2000 between the Company and DCI. In June 2018, the Company filed a motion to transfer the lawsuit to the U.S. District Court for the Eastern District of Virginia (the “Eastern District Court”). The Company also filed a declaratory judgment action with the Eastern District Court seeking a declaration that the Company is not obligated under the litigation cost sharing agreement to pay any portion of the DCI Judgment. In March 2019, the Eastern District Court declined to hear the Company’s motions and the Cost Sharing Litigation therefore remains pending before the 68th District Court of Dallas County, Texas. The Company has moved to dismiss the case from the 68th District Court for lack of subject matter jurisdiction. There have been no further developments in this case during the three and nine months ended September 30, 2019.

The Company believes that the above matters against it are baseless and without merit and intends to continue to defend itself vigorously in these actions. The Company believes, based upon information currently available, that the above matters will be resolved without a material adverse effect on the Company’s consolidated financial statements as a whole. The outcome, however, of any legal proceeding, including the above matters, cannot be predicted with certainty. As such, no assurances can be given that the Company will be successful in its defense of these actions on the merits or otherwise. If the Company is not successful in its defense efforts, the resolution of these matters could have a material adverse effect on the Company’s consolidated financial statements in a given future reporting period.

Other than as described above, to the Company’s knowledge, there are no pending or threatened legal proceedings, the resolution of which, in management’s opinion, individually or in the aggregate, could have a material adverse effect on the Company’s results of operations or financial condition.

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 2018 Form 10-K 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 2018 Form 10-K.

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 $40 million of its outstanding shares of common stock through December 31, 2020. 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.

The following table summarizes repurchases of our common stock that occurred during the three months ended September 30, 2019:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
				(in thousands)
July 1, 2019 - July 31, 2019	—	$ —	—	$ 40,000
August 1, 2019 - August 31, 2019	591,517	14.67	591,517	31,322
September 1, 2019 - September 30, 2019	1,117,754	14.63	1,117,754	14,969
Total	1,709,271	$ 14.65	1,709,271	

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).
3.1.1	Articles of Amendment of the Restated Articles of Incorporation, effective June 20, 2019 (incorporated herein by reference to Exhibit 3.1.1 to Dynex's Registration Statement on Form 8-A12B/A filed June 24, 2019).
3.2	Amended and Restated Bylaws, effective as of January 1, 2019 (incorporated herein by reference to Exhibit 3.2 to Dynex's Annual Report on Form 10-K for the year ended December 31, 2018).
4.1	Specimen of Common Stock Certificate (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 September 30, 2019, formatted in iXBRL (Inline Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive Income (Loss), (iii) Consolidated Statements of Shareholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to 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:	November 5, 2019	/s/ Byron L. Boston
		Byron L. Boston Chief Executive Officer, President, Co-Chief Investment Officer, and Director (Principal Executive Officer)
Date:	November 5, 2019	/s/ Stephen J. Benedetti
		Stephen J. Benedetti Executive Vice President, Chief Financial Officer and Chief Operating Officer (Principal Financial Officer)

Exhibit 4.1

ZQ|CERT#|COY|CLS|RGSTRY|ACCT#|TRANSTYPE|RUN#|TRANS#

COMMON STOCK

PAR VALUE $0.01

Certificate Number
ZQ00000000

COMMON STOCK

Shares
000000***************
000000*************
****000000***************
*****000000**************
******000000*************

DYNEX CAPITAL, INC.

INCORPORATED UNDER THE LAWS OF THE COMMONWEALTH OF VIRGINIA

SEE REVERSE FOR CERTAIN DEFINITIONS

CUSIP 26817Q 88

THIS CERTIFIES THAT

MR. SAMPLE & MRS. SAMPLE &
MR. SAMPLE & MRS. SAMPLE

is the owner of

***ZERO HUNDRED THOUSAND
ZERO HUNDRED AND ZERO***

THIS CERTIFICATE IS TRANSFERABLE IN CITIES DESIGNATED BY THE TRANSFER AGENT, AVAILABLE ONLINE AT www.computershare.com

FULLY PAID AND NON-ASSESSABLE SHARES OF THE PAR VALUE OF $0.01 EACH OF THE COMMON STOCK OF

DYNEX CAPITAL, INC., transferable on the books of the Corporation by the holder hereof in person or by duly authorized attorney, upon surrender of this Certificate properly endorsed.

This Certificate is not valid unless countersigned and registered by the Transfer Agent and Registrar.

Witness the facsimile seal of the Corporation and the facsimile signatures of its duly authorized officers.

Executive Vice President

Secretary

DYNEX CAPITAL, INC. CORPORATE SEAL 1988 COMMONWEALTH OF VIRGINIA

DATED DD-MMM-YYYY

COUNTERSIGNED AND REGISTERED:
COMPUTERSHARE TRUST COMPANY, N.A.
TRANSFER AGENT AND REGISTRAR,

By ______________________
AUTHORIZED SIGNATURE

SECURITY INSTRUCTIONS ON REVERSE

1234567

DYNEX CAPITAL, INC.

PO BOX 43004, Providence, RI 02940-3004

MR A SAMPLE
DESIGNATION (IF ANY)
ADD 1
ADD 2
ADD 3
ADD 4

CUSIP/IDENTIFIER	XXXXXX XX X
Holder ID	XXXXXXXXXX
Insurance Value	1,000,000.00
Number of Shares	123456
DTC	12345678 123456789012345

Certificate Numbers	**Num/No.**	**Denom.**	**Total**
1234567890/1234567890	1	1	1
1234567890/1234567890	2	2	2
1234567890/1234567890	3	3	3
1234567890/1234567890	4	4	4
1234567890/1234567890	5	5	5
1234567890/1234567890	6	6	6
Total Transaction			7

DYNEX CAPITAL, INC.

TRANSFER RESTRICTIONS

THE SHARES OF CAPITAL STOCK REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER. IN ACCORDANCE WITH THE CORPORATION'S ARTICLES OF INCORPORATION, ANY ACQUISITION OF SHARES OF THE CORPORATION'S CAPITAL STOCK THAT COULD OR WOULD (I) CAUSE THE CORPORATION TO BE DISQUALIFIED AS A REAL ESTATE INVESTMENT TRUST UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED ("REIT"), (II) RESULT IN THE IMPOSITION OF A PENALTY TAX (A "PENALTY TAX") ON THE CORPORATION (INCLUDING THE IMPOSITION OF AN ENTITY-LEVEL TAX ON ONE OR MORE REAL ESTATE MORTGAGE INVESTMENT CONDUITS ("REMICS") IN WHICH THE CORPORATION HAS ACQUIRED OR PLANS TO ACQUIRE AN INTEREST) OR (III) ENDANGER THE TAX STATUS OF ONE OR MORE REMICS IN WHICH THE CORPORATION HAS ACQUIRED OR PLANS TO ACQUIRE AN INTEREST WILL BE NULL AND VOID TO THE FULLEST EXTENT PERMITTED BY LAW, AND THE INTENDED TRANSFEREE WILL BE DEEMED NEVER TO HAVE HAD AN INTEREST IN SUCH SHARES.

FOR THE PURPOSE OF THE CORPORATION'S MAINTENANCE OF ITS STATUS AS A REIT, THE CORPORATION'S ARTICLES OF INCORPORATION PROHIBIT ANYONE FROM OWNING IN THE AGGREGATE, DIRECTLY OR INDIRECTLY, MORE THAN 9.8% OF THE OUTSTANDING SHARES OF THE CORPORATION'S CAPITAL STOCK, UNLESS AN EXEMPTION IS APPROVED BY THE CORPORATION'S BOARD OF DIRECTORS.

THE CORPORATION'S BOARD OF DIRECTORS HAS THE RIGHT, BUT IS NOT REQUIRED, TO REFUSE TO TRANSFER ANY SHARES OF CAPITAL STOCK OF THE CORPORATION PURPORTEDLY TRANSFERRED IF THE PROPOSED TRANSFEREE IS A "TAX-EXEMPT ORGANIZATION" OR "PASS-THROUGH ENTITY" (AS SUCH TERMS ARE DEFINED IN THE CORPORATION'S ARTICLES OF INCORPORATION).

THE CORPORATION MAY REQUIRE EVIDENCE OF A HOLDER'S OR PROPOSED TRANSFEREE'S STATUS AND OWNERSHIP INTEREST BEFORE PERMITTING ANY TRANSFER AND MAY REDEEM ANY SHARES HELD IN VIOLATION OF THE PRECEDING PARAGRAPHS. THE CORPORATION WILL FURNISH TO ANY STOCKHOLDER WITHOUT CHARGE A FULL STATEMENT OF THE TRANSFER RESTRICTIONS UPON REQUEST TO THE SECRETARY OF THE CORPORATION AT ITS PRINCIPAL OFFICE.

KEEP THIS CERTIFICATE IN A SAFE PLACE. IF IT IS LOST, STOLEN OR DESTROYED THE CORPORATION WILL REQUIRE A BOND OF INDEMNITY AS A CONDITION TO THE ISSUANCE OF A REPLACEMENT CERTIFICATE.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM	- as tenants in common	UNIF GIFT MIN ACT	-..Custodian.. (Cust) (Minor)
TEN ENT	- as tenants by the entireties		under Uniform Gifts to Minors Act.. (State)
JT TEN	- as joint tenants with right of survivorship and not as tenants in common	UNIF TRF MIN ACT	-..Custodian (until age..............................) (Cust)
			............................under Uniform Transfers to Minors Act.................. (Minor) (State)

Additional abbreviations may also be used though not in the above list.

For value received,___________________________ hereby sell, assign and transfer unto [PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE]

____

(PLEASE PRINT OR TYPEWRITE NAME AND ADDRESS, INCLUDING POSTAL ZIP CODE, OF ASSIGNEE)

____

____

____ Shares

of the capital stock represented by the within Certificate, and do hereby irrevocably constitute and appoint

____ Attorney

to transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.

Dated: ____ 20__________________

Signature:____

Signature:____

Notice: The signature to this assignment must correspond with the name as written upon the face of the certificate, in every particular, without alteration or enlargement, or any change whatever.

Signature(s) Guaranteed: Medallion Guarantee Stamp

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (Banks, Stockbrokers, Savings and Loan Associations and Credit Unions) WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM, PURSUANT TO S.E.C. RULE 17Ad-15.

SECURITY INSTRUCTIONS

THIS IS WATERMARKED PAPER, DO NOT ACCEPT WITHOUT NOTING WATERMARK. HOLD TO LIGHT TO VERIFY WATERMARK.

The IRS requires that the named transfer agent ("we") report the cost basis of certain shares or units acquired after January 1, 2011. If your shares or units are covered by the legislation, and you requested to sell or transfer the shares or units using a specific cost basis calculation method, then we have processed as you requested. If you did not specify a cost basis calculation method, then we have defaulted to the first in, first out (FIFO) method. Please consult your tax advisor if you need additional information about cost basis.

If you do not keep in contact with the issuer or do not have any activity in your account for the time period specified by state law, your property may become subject to state unclaimed property laws and transferred to the appropriate state.

1234567

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: November 5, 2019

/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: November 5, 2019

/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 September 30, 2019, 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: November 5, 2019

/s/ Byron L. Boston

Byron L. Boston
Principal Executive Officer

Date: November 5, 2019

/s/ Stephen J. Benedetti

Stephen J. Benedetti
Principal Financial Officer