

SECURITIES AND EXCHANGE COMMISSION

FORM SC 13D

Schedule filed to report acquisition of beneficial ownership of 5% or more of a class of equity securities

Filing Date: **1998-06-19**
SEC Accession No. **0000826675-98-000021**

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SUBJECT COMPANY

DYNEX CAPITAL INC

CIK: **826675** | IRS No.: **521549373** | State of Incorporation: **VA** | Fiscal Year End: **1231**
Type: **SC 13D** | Act: **34** | File No.: **005-41043** | Film No.: **98651033**
SIC: **6798** Real estate investment trusts

Mailing Address
*10900 NUCKOLS ROAD
SUITE 650
RICHMOND VA 23060*

Business Address
*10900 NUCKOLS ROAD
SUITE 650
RICHMOND VA 23060
8049675800*

FILED BY

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

SCHEDULE 13D
(Rule 13d-101)

INFORMATION TO BE INCLUDED IN STATEMENTS FILED PURSUANT TO RULE 13-d-1(a)
AND AMENDMENTS THERETO FILED PURSUANT TO RULE 13d-2(a)

AutoBond Acceptance Corporation
(Name of Issuer)

Common Stock, No Par Value-per Share
(Title of Class of Securities)
052918109
(CUSIP Number)

Elizabeth R. Hughes, Esquire
Venable, Baetjer and Howard, LLP
1800 Mercantile Bank & Trust Building
2 Hopkins Plaza
Baltimore, MD 21201
(410) 244-7400

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

June 9, 1998
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(e), 13d-1(f) or 13d-1(g), check the following box [].

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 052918109

1. NAME OF REPORTING PERSON: Dynex Holding, Inc.

S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON: 541809773

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) (b)

3. SEC USE ONLY

4. SOURCE OF FUNDS: AF

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) or 2(e)

6. CITIZENSHIP OR PLACE OF ORGANIZATION: Virginia

NUMBER OF
SHARES
BENEFICIALLY
OWNED BY
EACH
REPORTING
PERSON
WITH

7. SOLE VOTING POWER: 5,974,500 shares

8. SHARED VOTING POWER: 0 shares

9. SOLE DISPOSITIVE POWER: 5,974,500 shares

10. SHARED DISPOSITIVE POWER: 0 shares

11. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:
5,974,500 shares

12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES

13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11): 91.5%

14. TYPE OF REPORTING PERSON: CO

USIP No.: 052918109 13D

1. NAME OF REPORTING PERSON: Dynex Capital, Inc.

S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON: 521549373

2. CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) (b)

3. SEC USE ONLY

4. SOURCE OF FUNDS: WC

5. CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) or 2(e)

6. CITIZENSHIP OR PLACE OF ORGANIZATION: Virginia

NUMBER OF

- | | |
|--------------|---|
| SHARES | 7. SOLE VOTING POWER: 5,974,500 shares |
| BENEFICIALLY | |
| OWNED BY | 8. SHARED VOTING POWER: 0 shares |
| EACH | |
| REPORTING | 9. SOLE DISPOSITIVE POWER: 5,974,500 shares |
| PERSON | |
| WITH | 10. SHARED DISPOSITIVE POWER: 0 shares |
11. AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON: 5,974,500 shares
12. CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES []
13. PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11): 91.5%
14. TYPE OF REPORTING PERSON: CO

Item 1. Security and Issuer.

The class of equity to which this statement refers is common stock, no par value (the "Common Stock"), of AutoBond Acceptance Corporation (the "Issuer"), which has its principal executive office at 301 Congress Avenue, Austin, Texas 78701.

Item 2. Identity and Background.

(i) Dynex Holding, Inc., a Virginia corporation, ("Holding"), is in the business of originating loans and mortgages, with its principal business and office located at 10900 Nuckols Road, Third Floor, Richmond, Virginia 23060. Holding has not been convicted in a criminal proceeding during the last five years (excluding traffic violations or similar misdemeanors). Holding has not been a party to a civil proceeding described in Item 2(e) of Schedule 13D during the last five years.

(ii) Dynex Capital, Inc., a Virginia corporation ("Dynex"), is a mortgage and consumer finance company which has elected to be treated as a real estate investment trust for federal income tax purposes. Dynex uses its loan production operations to create investments for its portfolio. Dynex's principal business and office are located at 10900 Nuckols Road, Third Floor, Richmond, Virginia 23060. Dynex has not been convicted in a criminal proceeding during the last five years (excluding traffic violations or similar misdemeanors). Dynex has not been a party to a civil proceeding described in Item 2(e) of Schedule 13D during the last five years.

(iii) The executive officers of Holding are Thomas H. Potts, Lynn K. Geurin, Brian Murray and Stephen J. Benedetti. The directors of Holding are Thomas H. Potts, Lynn K. Geurin, Brian Murray and Stephen J. Benedetti. Each person controlling Holding is Thomas H. Potts, Lynn K. Geurin, Brian Murray and

Stephen J. Benedetti.

(iv) The executive officers of Dynex are Thomas H. Potts, Lynn K. Geurin, William J. Moore, William Robertson and William H. West, Jr. The directors of Dynex are J. Sidney Davenport, Richard C. Leone, Thomas H. Potts, Paul S. Reid, Donald B. Vaden, Henry W. Haunns, Jr., and Barry S. Shein.

For information required by Instruction C to Schedule 13D with respect to the persons set forth in the foregoing Item 2(ii) and (iv) ("Covered Persons"), reference is made to Schedule I annexed hereto and incorporated hereby by reference.

Item 3. Source and Amount of Funds or Other Consideration.

Holding, Issuer and certain of Issuer's stockholders have entered into a stock option agreement (the "Stock Option Agreement") pursuant to which Holding may purchase all of the 5,474,500 shares of the Common Stock owned by such stockholders and any shares acquired by such stockholders during the term of the Stock Option Agreement (the "Stock Option"). The exercise price of the Stock Option is payable in shares of a newly issued series of preferred stock of Dynex, which number of shares is determined as set forth in Section 1.3, pages 2-3, of the Stock Option Agreement which is incorporated hereby by reference as Exhibit 3.1 hereto. The right to exercise the Stock Option expires June 9, 1999.

Dynex has purchased from Issuer a 12% convertible senior note due 2003 (the "Note"), with face amount of \$3,000,000, convertible into 500,000 shares of Common Stock, subject to adjustment under certain circumstances, which circumstances are set forth in Section 8.04, pages 23-26, of that certain Senior Note Agreement dated as of the date hereof (the "Senior Note Agreement") which is incorporated hereby by reference as Exhibit 3.2 hereto. The purchase price of such Note was \$3,000,000 and was provided by working capital. The right to convert the Note into Common Stock expires May 31, 1999.

Item 4. Purpose of Transaction.

Dynex has entered into a credit arrangement with the Issuer to provide funding for the production of automobile loans originated by the Issuer. In connection therewith, Holding has entered into the Stock Option Agreement with the Issuer and Dynex has purchased the Note from the Issuer. The Stock Option expires June 9, 1999 and the right to convert into Common Stock under the Note expires May 31, 1999. During the term of the Stock Option Agreement, Holding and Dynex each intend to consider its right to exercise the Stock Option and to convert the Note, as the case may be, in light of various factors, including the Issuer's business, results of operations, financial condition and future prospects and general economic and industry conditions. Based upon such review, Holding or Dynex, as the case may be, will take such action as it deems appropriate in light of the circumstances existing from time to time. As a result of such review, Dynex may convert the Note and Holding may exercise its rights under the Stock Option. No decision with respect thereto has been made as of the date hereof.

Neither Holding nor Dynex has at the present time formulated any plans or proposals of the type referred to in clauses (a) through (j) of Item 4 of Schedule 13D.

Item 5. Interest in Securities of the Issuer.

(a) Aggregate Number of Shares of Common Stock Beneficially Owned: 5,974,500 shares of Common Stock are deemed beneficially owned by Dynex and Holding. Of this amount, 5,474,500 shares are deemed beneficially owned pursuant to the right to acquire such shares under the Stock Option Agreement at any time and 500,000 shares are deemed beneficially owned pursuant to the right to acquire such shares upon conversion under the Note at any time.

Percentage of Class: 91.5% (as contained in Amendment No. 1 to the 1997 Form 10-K of the Issuer).

(b) Upon exercise of the Stock Option, Holding will have sole power to vote and dispose of the 5,474,500 shares beneficially owned by it as set forth in Item 5(a). Upon conversion of the Note, Dynex will have sole power to vote and dispose of the 500,000 shares beneficially owned by it as set forth in Item 5(a).

(c) Not applicable.

(d) Not applicable.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.

Although no arrangement exists between Holding and Dynex with respect to the Note and the Stock Option, Dynex owns substantially all of the outstanding capital stock of Holding. Further, certain of the executive officers, directors and stockholders of Holding are executive officers and directors of Dynex, as set forth in Item 2 above. Therefore, Holding and Dynex may be deemed to be under common control.

Holding, Issuer and certain of Issuer's stockholders have entered into the Stock Option Agreement pursuant to which Holding may purchase all of the 5,474,500 shares of the Common Stock owned by such stockholders and any shares acquired by such stockholders during the term of the Stock Option. The exercise price of the Stock Option is payable in shares of a newly issued series of preferred stock of Dynex, which number of shares is determined as set forth in Section 1.3, pages 2-3, of the Stock Option Agreement which is incorporated hereby by reference as Exhibit 3.1 hereto. The right to exercise the Stock Option expires June 9, 1999.

Dynex has purchased from Issuer the Note which is a 12% convertible senior note due 2003, with face amount of \$3,000,000, convertible into 500,000 shares of Common Stock, subject to adjustment under certain circumstances, which

circumstances are set forth in Section 8.04, pages 23-26, of the Senior Note Agreement which is incorporated hereby by reference as Exhibit 3.2 hereto. The right to convert the Note into Common Stock expires May 31, 1999.

Item 7. Material to be Filed as Exhibits.

Exhibit No.	Item
3.1	Stock Option Agreement
3.2	Senior Note Agreement
99.1	Joint Filing Agreement

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: June 19, 1998

DYNEX HOLDING, INC.

By: s/ Stephen J. Benedetti
Stephen J. Benedetti
Vice President and Treasurer

DYNEX CAPITAL, INC.

By: s/ Stephen J. Benedetti
Stephen J. Benedetti
Vice President and Treasurer

Schedule I

Information with Respect to Covered Persons*

Item 2. Identity and Background.

(a) and (b)

Thomas H. Potts	10900 Nuckols Road, Suite 300 Glen Allen, VA 23060
Lynn K. Geurin	10900 Nuckols Road, Suite 300 Glen Allen, VA 23060
William J. Moore	10900 Nuckols Road, Suite 300 Glen Allen, VA 23060
William Robertson	10900 Nuckols Road, Suite 300 Glen Allen, VA 23060
William H. West, Jr.	10900 Nuckols Road, Suite 300 Glen Allen, VA 23060
J. Sidney Davenport	7202 Glen Forest Drive, Suite 202 Richmond, VA 23226
Richard C. Leone	41 East 70th Street New York, NY 10021
Paul S. Reid	1125 15th Street, N.W. Washington, DC 20005-2766
Donald B. Vaden	136 Matthew Scribener Williamsburg, VA 23185
Henry W. Haunns, Jr.	1345 Avenue of the Americas New York, NY 10105
Barry S. Shein	1423 Lincolnway East Goshen, IN 46526
Stephen J. Benedetti	10900 Nuckols Road, Suite 300 Glen Allen, VA 23060
Brian K. Murray	10900 Nuckols Road, Suite 300 Glen Allen, VA 23060

(c)

Thomas H. Potts President	Dynex Capital, Inc. 10900 Nuckols Road, Suite 300 Glen Allen, VA 23060
Lynn K. Geurin Executive Vice President and	Dynex Capital, Inc. 10900 Nuckols Road, Suite 300

Chief Financial Officer	Glen Allen, VA 23060
William J. Moore Executive Vice President	Dynex Capital, Inc. 10900 Nuckols Road, Suite 300 Glen Allen, VA 23060
President	Dynex Commercial, Inc. 10900 Nuckols Road, Suite 300 Glen Allen, VA 23060
William Robertson Executive Vice President	Dynex Capital, Inc. 10900 Nuckols Road, Suite 300 Glen Allen, VA 23060
President	Dynex Financial, Inc. 10900 Nuckols Road, Suite 300 Glen Allen, VA 23060
William H. West, Jr. Executive Vice President	Dynex Capital, Inc. 10900 Nuckols Road, Suite 300 Glen Allen, VA 23060
J. Sidney Davenport Executive Vice President	Ryland Mortgage Company 7202 Glen Forest Drive, Suite 202 Richmond, VA 23226
Richard C. Leone President	Twentieth Century Fund 41 East 70th Street New York, NY 10021
Paul S. Reid Executive Vice President	Mortgage Bankers Association of America 1125 15th Street N.W. Washington, DC 20005
Donald B. Vaden Attorney	Attorney 136 Matthew Scribener Williamsburg, VA 23185
Henry W. Haunns, Jr. Managing Director	UBS Asset Management (NY) Inc. 1345 Avenue of the Americas New York, NY 10105
Barry S. Shein President	Commodore Corporation 1423 Lincolnway East Goshen, IN 46526
Stephen J. Benedetti Vice President, Treasurer and Controller	Dynex Capital, Inc. 10900 Nuckols Road, Suite 300 Glen Allen, VA 23060
Brian K. Murray	Dynex Capital, Inc.

(d)

During the last five years, no Covered Person has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

(e)

During the last five years, no Covered Person has been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, Federal or State securities laws or finding any violation with respect to such laws, except for Thomas H. Potts. In July 1995, the Securities and Exchange Commission ("SEC") approved the settlement of its investigation with respect to a 1992 purchase of Dynex's common stock by Mr. Potts, Dynex's president. In connection with such settlement, the SEC filed a complaint in the United States District Court for the District of Maryland, and Mr. Potts agreed to (i) entry of an injunction permanently enjoining him from violating Section 10(b) of the

*Certain of this information is not available at the date of this Schedule 13D. It is expected that such information will be added through an amendment.

EXHIBIT INDEX

Exhibit No.	Item
3.1	Stock Option Agreement
3.2	Senior Note Agreement
99.1	Joint Filing Agreement

STOCK OPTION AGREEMENT

THIS STOCK OPTION AGREEMENT (this "Agreement"), dated as of June __, 1998, is by and between Dynex Holding, Inc., a company organized and existing under the laws of the Commonwealth of Virginia ("Grantee"); Messrs. Adrian Katz, William O. Winsauer and John S. Winsauer (each a "Stockholder" and, collectively, the "Stockholders"), each owners of shares of the common stock of AutoBond Acceptance Corporation ("AutoBond"), a company organized and existing under the laws of Texas; and AutoBond.

In consideration of the mutual representations, warranties, covenants and agreements contained herein, and intending to be legally bound hereby, the parties agree as follows:

1. Option to Purchase Shares.

1.1 Grant of Option. Each Stockholder, severally and not jointly, hereby grants to Grantee an irrevocable option to purchase all of the issued and outstanding shares of AutoBond common stock, no par value (the "AutoBond Common Stock"), owned by such Stockholder, as set forth opposite such Stockholder's name on Schedule A attached hereto (the "Existing Shares"), and AutoBond Common Stock acquired by such Stockholder after the date hereof and prior to the termination hereof, whether upon exercise of options or warrants, conversion of convertible securities, purchase, exchange or otherwise, (such shares with the Existing Shares referred to as the "Shares") on the terms and subject to the conditions set forth herein (the "Option").

1.2 Exercise of Option.

(a) The Option may be exercised by Grantee, as a whole and not in part, at any time, commencing upon the date hereof and on or prior to the first anniversary of the date hereof (the "Expiration Date") (such period, the "Term"); provided, however, this Option shall terminate at such time as Dynex Capital terminates or breaches its obligation to fund under the Credit Agreement between Dynex Capital, Inc. and AutoBond of even date herewith.

(b) In the event Grantee wishes to exercise the Option, Grantee shall send a written notice to each of the Stockholders of its intention to so exercise the Option (a "Notice"), specifying the place, time and date (the "Closing Date") of the closing of such purchase (the "Closing"). The Closing Date shall occur on a date to be determined by Grantee of not less than 20 days and not more than 90 days after the date on which such Notice is delivered; provided that the Closing shall be held only if: (i) such purchase would not otherwise violate, or cause

the violation of, any applicable law or regulations or the rules of the NYSE, Nasdaq National Market or the AMEX the result of which violation would have a material adverse effect on AutoBond, Grantee or Stockholders; and (ii) no statute, rule, regulation, decree, order or injunction shall have been promulgated, enacted, entered into, or enforced by any government, governmental agency or authority or court which prohibits delivery of the Shares pursuant to the exercise of the Option, whether temporary, preliminary or permanent (provided, however, that the parties hereto shall use their best efforts to have any such order, decree or injunction vacated or reversed). In the event the Closing is delayed pursuant to clause (i) or (ii) above, the Closing Date shall be within five business days following the cessation of such restriction, violation, potential violation, order, decree or injunction, as the case may be, provided that no other such restriction, violation, potential violation, order, decree or injunction, as the case may be, shall have occurred.

(c) Subject to Section 1.3, at the Closing, each Stockholder shall deliver to Grantee all of such Stockholder's Shares to be delivered pursuant to the Notice by delivery of a certificate or certificates evidencing such Shares in the denominations designated by Grantee, duly endorsed to Grantee or accompanied by stock powers duly executed in favor of Grantee, with all necessary stock transfer stamps affixed.

1.3 Exercise Price. The exercise price of the Option shall be payable in shares of newly issued Series of Preferred Stock of Dynex Capital, Inc. ("Dynex Shares") set forth in the form of Articles of Amendment attached as Exhibit A and the number of shares to be issued in payment of such exercise price shall be determined as follows: The product derived by multiplying the number of Shares subject to the Option by \$6.00 shall be divided by a number equal to the average of the closing prices per share of the common stock of Dynex Capital, Inc. for the ten (10) consecutive trading days ending immediately prior to the date of exercise of the Option by Grantee such average price to be rounded up to the nearest \$0.05 ("Average Price") multiplied by 115%. At Closing Grantee will deliver to each Stockholder 80% of his pro rata share of the Dynex Shares issued to him at the Closing of the exercise of the Option. The balance of the Dynex Shares issued to each Stockholder at Closing shall be held by Grantee subject to the terms set forth below and the Employment Agreement between Grantee and such Stockholder attached as Exhibit B. The Dynex Shares of each Stockholder held by Grantee shall be subject to forfeiture in the event (i) the employment of Stockholder with Grantee shall be terminated for "cause" as defined in Section 5(c)(i), (ii), (iii) or (v) of the Employment Agreement for such Stockholder and as defined in Section 5(c)(iv) of the Employment Agreement, provided such gross negligence causes material damage to the Business (as defined in the Employment Agreement) or the business relationships of the Grantee or its affiliates or (ii) such Stockholder voluntarily terminates such employment. Termination due to death or total disability shall not be deemed a voluntary termination for this purpose. Grantee shall release to each Stockholder on each anniversary of the Closing that percentage of the Dynex Shares so held by Grantee determined by dividing one by the initial term (expressed in years) of the Employment Agreement with such Stockholder. The initial term of employment to be provided in the employment agreements for Adrian Katz, William O. Winsauer and John S. Winsauer shall be three, three and four years, respectively. Each Dynex Share

shall have a Liquidation Preference and an initial Conversion Price as defined in Exhibit A equal to 115% of the Average Price. Each Dynex Share shall be entitled to a dividend per quarter as set forth in Section 3(a)(i) of Exhibit A determined by multiplying the Liquidation Preference by 9% and dividing the product thereof by four.

2. Representations and Warranties.

2.1 Representations and Warranties of Grantee. Grantee hereby represents and warrants to AutoBond and Stockholders as follows:

(a) Due Authorization. This Agreement has been duly and validly executed and delivered by Grantee and constitutes a valid and binding agreement of Grantee, enforceable against Grantee in accordance with its terms, except that such enforceability: (i) may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting or relating to enforcement of creditor' rights generally; and (ii) is subject to general principles of equity.

(b) No Conflicts. Except for: (i) the applicable requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and the Securities Act of 1933, as amended (the "Securities Act"); (ii) the applicable requirements of state securities, takeover or Blue Sky laws; and (iii) listing requirements of the New York Stock Exchange ("NYSE") and the Nasdaq National Market, (A) no filing with, and no permit, authorization, consent or approval of, any state, federal or foreign public body or authority is necessary for the execution of this Agreement by Grantee and the consummation by Grantee of the transactions contemplated hereby (including the exercise of the Option) and (B) the execution and delivery of this Agreement by Grantee shall not (1) conflict with or result in any breach of any provision of the articles of incorporation or the by-laws (or similar documents) of Grantee, or (2) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Grantee, or any of its properties or assets, except in the case of (2) for violations, breaches or defaults which would not in the aggregate materially impair the ability of Grantee to perform its obligations hereunder.

(c) Good Standing. Grantee is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia and has all requisite corporate power and authority to execute and deliver this Agreement.

(d) Distribution. Any shares acquired by Grantee upon exercise of the Option will not be sold, assigned, transferred or otherwise disposed of except in a transaction registered or exempt from registration under the Securities Act and applicable state and Blue Sky securities laws. Grantee is an "accredited" investor as defined in Regulation D promulgated pursuant to the Securities Act.

2.2 Representations and Warranties of the Stockholders. Each Stockholder hereby represents and warrants to Grantee as follows:

(a) Due Authorization. Each of the Stockholders has all requisite legal capacity, power and authority to enter into and perform all of such

Stockholder's obligations under this Agreement. This Agreement has been duly and validly authorized, executed and delivered by each of the Stockholders and constitutes a valid and binding agreement of such Stockholder, enforceable against such Stockholder in accordance with its terms. The execution, delivery and performance of this Agreement by such Stockholder will not violate any other agreement to which such Stockholder is a party or by which such Stockholder is bound, including without limitation any voting agreement, stockholder's agreement, voting trust or other agreement. There is no beneficiary of or holder of a voting trust certificate whose consent is required for the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

(b) Ownership of Shares.

(i) Except as set forth in Exhibit G, each Stockholder is the sole record holder and sole beneficial owner of the number of the Existing Shares set forth opposite such Stockholder's name on Schedule A attached hereto. All Shares have been duly authorized and validly issued and are fully paid and non-assessable and good and marketable title thereto free and clear of all claims, liens, encumbrances, security interests and charges of any nature whatsoever shall be delivered to Grantee upon exercise of this Option.

(ii) On the date hereof, the Existing Shares set forth opposite such Stockholder's name on Schedule A attached hereto constitute all of the shares of AutoBond Common Stock owned by such Stockholder.

(iii) Each Stockholder has: (A) sole power of disposition, (B) sole voting power, and (C) sole power to demand dissenter's or appraisal rights, in each case with respect to all of such Stockholder's Existing Shares and with no restrictions on such rights, subject to applicable federal securities laws and the terms of this Agreement.

(c) No Conflicts. Except as set forth in Exhibit G and except for: (i) the applicable requirements of the Exchange Act and the Securities Act; (ii) the applicable requirements of state securities or Blue Sky laws; and (iii) listing requirements of the AMEX, (A) no filing with, and no permit, authorization, consent or approval of, any state, federal or foreign public body or authority is necessary for the execution of this Agreement by any of the Stockholders and the consummation by each of the Stockholders of the transactions contemplated hereby and (B) neither the execution and delivery of this Agreement by each of the Stockholders nor the consummation by each of the Stockholders of the transactions contemplated hereby (including the exercise of the Option) nor compliance by each of the Stockholders with any of the provisions hereof shall (x) conflict with or result in any breach of, (y) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, material modification or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, contract, agreement or other instrument or obligation to which any of the Stockholders is a party or by which any of them or any of their properties or assets may be bound, or (z) violate any order, writ, injunction, decree, statute, rule or regulation

applicable to any of the Stockholders, and of its subsidiaries or any of the properties or assets.

(d) Each Stockholder represents that (i) his acquisition of the Dynex Shares is for his own account and not with a view to the distribution thereof and (ii) such Stockholder is an accredited investor within the meaning of Regulation D promulgated pursuant to the Securities Act; and (iii) that the Dynex Shares will not be sold, assigned, transferred or otherwise disposed of except in a transaction registered or exempt from registration under the Securities Act and applicable state and Blue Sky securities laws.

(e) All actions necessary to exempt the granting of the Option to Grantee and the exercise by Grantee of such Option from any applicable takeover, business combination, control share acquisition or similar law in effect under the laws of Texas have been validly taken.

(f) Exhibit H represents all the shares of AutoBond Common Stock that have been pledged or assigned or otherwise encumbered by the Stockholders. There are no breaches or defaults under any of the agreements related to such pledges or assignments except for any breach or default caused by the granting of this Option for which Stockholders agree to obtain within 5 days of the date hereof a waiver from the pledgee or assignee for 30 days of such breach or default and within 30 days of the date hereof, a permanent waiver of such breach or default. Stockholders will immediately notify Grantee of any such breaches or defaults. The Stockholders agree to obtain within 30 days of the date hereof the waiver of any breach or default caused by the grant of Option to Grantee and the agreement of each pledgee or assignee to provide Grantee with notice of any default or breach under the agreements creating such pledge or assignment and a reasonable opportunity to cure such default or breach. In the event Grantee elects to cure such default or breach, the Stockholder with respect to which such default or breach was cured shall transfer to Grantee that number of shares derived by dividing the amount paid by Grantee to cure such default or breach (including the extinguishment of any debt related to such pledge or assignment) by \$6.00 and the number of shares deliverable or exercise of this Option shall be reduced proportionately. In the event Grantee cures any such default or breach and elects not to exercise the Option, Grantee shall have the right to require the Stockholder in respect of whom such cure was made to repurchase such shares from Grantee for an amount equal to the amount Grantee paid in respect of such cure, plus interest thereon at 18% per annum. Grantee shall be under no obligation to cure any such default or breach.

2.3 Representations and Warranties of AutoBond. AutoBond hereby represents and warrants to Grantee as follows:

(a) Due Authorization. AutoBond has taken all corporate proceedings necessary to authorize this Agreement and to consummate the transactions contemplated hereby (including the exercise of the Option). This Agreement has been duly and validly executed and delivered by AutoBond and constitutes a valid and binding agreement of AutoBond, enforceable against AutoBond in accordance with its terms, except that such enforceability: (i) may be limited by bankruptcy, insolvency, moratorium or other similar laws affecting or relating

to enforcement of creditors' rights generally; and (ii) is subject to general principles of equity. The Shares have been duly authorized and are subject to no preemptive rights.

(b) No Conflicts. Except as set forth on Exhibit G and except for: (i) the applicable requirements of the Exchange Act and the Securities Act; (ii) the applicable requirements of state securities or Blue Sky laws; and (iii) listing requirements of the AMEX, (A) no filing with, and no permit, authorization, consent or approval of, any state, federal or foreign public body or authority is necessary for the execution of this Agreement by AutoBond and the consummation by AutoBond of the transactions contemplated hereby and (B) neither the execution and delivery of this Agreement by AutoBond nor the consummation by AutoBond of the transactions contemplated hereby nor compliance by AutoBond with any of the provisions hereof shall (x) conflict with or result in any breach of, or require any notice under any provision of the Restated Articles of Incorporation or bylaws of AutoBond, (y) result in a violation or breach of, or constitute (with or without notice or lapse of time or both) a default (or give rise to any third party right of termination, cancellation, material modification or acceleration) or trigger any rights under change of control or similar provisions under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, contract, agreement or other instrument or obligation to which AutoBond or any of its subsidiaries is a party or by which any of them or any of their properties or assets may be bound, or (z) violate any order, writ, injunction, decree, statute, rule or regulation applicable to AutoBond, and of its subsidiaries or any of their properties or assets.

(c) Status. AutoBond has all requisite power and authority to execute and deliver this Agreement.

(d) Texas Business Combination Statute. All corporate action necessary to exempt the grant of the Option pursuant to this Agreement and any exercise by Grantee thereof from the application of any applicable takeover, business combination, control share acquisition or similar law in effect in Texas has been validly taken.

2.4 Representations and Warranties of AutoBond and Stockholders. AutoBond and each of the Stockholders hereby represents and warrants as follows:

(a) All documents filed by AutoBond and Stockholders, as the case may be, prior to the date hereof with the Securities and Exchange Commission ("Commission") conformed in all material respects to the requirements of the Securities Act or Exchange Act, as applicable, and the rules and regulations of the Commission thereunder, and none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and any further documents so filed when such documents are filed, with the Commission will conform in all material respects to the requirements of the Securities Act or Exchange Act, as applicable, and the rules and regulations of the Commission thereunder and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

(b) AutoBond and each of its subsidiaries have been duly incorporated and are validly existing as corporations in good standing under the laws of their respective jurisdictions of incorporation, are duly qualified to do business and are in good standing as foreign corporations in each jurisdiction in which their respective ownership or lease of property or the conduct of their respective businesses requires such qualification except where the failure to so qualify would not have a material adverse effect on the consolidated financial position, shareholders' equity, results of operations, business or prospects of AutoBond and its subsidiaries and affiliates, taken as a whole (hereinafter "Material Adverse Effect"), and have all power and authority necessary to own or hold their respective properties and to conduct the business in which they are engaged.

(c) The financial statements of AutoBond (including the related notes and supporting schedules) including any amendments or supplements thereto filed with the Commission, present fairly the financial condition, results of operations and cash flows of the entities purported to be shown thereby, at the dates and for the periods indicated, and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved.

(d) There are no legal or governmental proceedings pending, or to the knowledge of AutoBond threatened, to which AutoBond or any of its subsidiaries or affiliates is a party or of which are any property or assets of AutoBond or any of its subsidiaries or affiliates is the subject which, if determined adversely to AutoBond or any of its subsidiaries or affiliates, would have a Material Adverse Effect.

(e) Attached hereto as Exhibit C is a complete and accurate description of the material terms of the securities and debt of AutoBond currently outstanding, including, without limitation, options, warrants and securities convertible into capital stock of AutoBond.

(f) Attached hereto as Exhibit D are the waivers of all officers and employees of AutoBond of any "change in control" provisions that may be triggered by the transactions contemplated by this Option Agreement.

3. Covenants.

3.1 Covenants of AutoBond and Stockholders. The Stockholders and AutoBond shall:

(a) Within 20 days after the end of each month furnish to Grantee projections of the next 12 months cashflow, all certified by such Stockholders as based on assumptions they believe to be reasonable.

(b) Within 20 days after the end of each month furnish to Grantee the general ledgers, bank statements and such other financial information relating to AutoBond as Grantee may request.

(c) Use their best efforts to achieve and not deviate in any material respect from the Business strategy and plan attached as Exhibit E hereto.

(d) If any event triggering the right of the holders of the Class B Notes issued in connection with the 1997-B and 1997-C securitizations occurs pursuant to which such holders are entitled to receive or exchange securities for convertible securities, pay off such Class B Notes and extinguish any such entitlement.

(e) During the Term of this Option AutoBond shall furnish promptly to Grantee a copy of each report or document filed or received by it pursuant to the requirements of federal and state securities laws or which may have material effect on its business and shall provide Grantee's employees, attorneys, accountants and advisors access to such information regarding AutoBond as they may request. AutoBond shall make available such members of management as Grantee shall request for purposes of performing its due diligence. Grantee agrees to keep confidential information received pursuant to this Section 3(e) until such time as (i) such information becomes publicly available or (ii) ordered to disclose such information by a court order or order of governmental agency; provided, however, Grantee may disclose such information to its affiliates, advisors and attorneys, subject to the agreement such person to keep such information confidential to the extent provided in this Section 3(e).

(f) Cancel all options for AutoBond Common Stock held by Stockholders as of the date of Closing, or if requested by Grantee, exercise such options as Grantee may request and transfer the stock issuable upon such exercise to Grantee for an amount equal to the exercise price, along with any proxy to vote such AutoBond Common Stock as Grantee may request.

3.2 Negative Covenants of AutoBond. During the Term, without the prior written consent of Grantee, AutoBond shall not:

(a) Issue any new shares of capital stock, except pursuant to existing options, warrants and convertible securities.

(b) Issue any debt of AutoBond with a term in excess of one year.

(c) Make any changes in the compensation of each of the Stockholders.

(d) Make any additional loans to the Stockholders.

(e) Declare or pay any dividends on the AutoBond Common Stock.

(f) Issue or sell any warrants, options or other securities exercisable for or convertible into capital stock of AutoBond, except for the issuance of options to employees (other than the Stockholders) in the ordinary course of business not to exceed 150,000 shares in the aggregate.

(g) Enter into any transactions between AutoBond and any of its affiliates outside the normal course of business.

(h) Enter into any extraordinary corporate action such as a merger, consolidation, share exchange, sale of all or substantially all of its assets or similar transaction.

(i) Amend its Articles of Incorporation or by-laws.

(j) Change its underwriting or servicing practices and guidelines in any material respect.

3.3 Negative Covenants of Each Stockholder. During the Term, without the prior written consent of Grantee, each Stockholder shall not:

(a) Sell, assign, pledge, encumber or otherwise dispose of any of the Existing Shares or grant a proxy or power of attorney with respect to the Shares or deposit any Shares into a voting agreement or trust.

(b) Take any action that would make any representation or warranty contained herein incorrect or have the effect of preventing or disabling the Stockholder from performing the Stockholder's obligations under this Agreement.

(c) Subject to such stockholders' duties in their capacity as directors, directly or indirectly (including through advisors, agents or other intermediaries), initiate, solicit, negotiate, encourage or provide confidential information to facilitate any proposal or offer by any Person that constitutes or could reasonably be expected to lead to an Acquisition Transaction (as hereinafter defined). Acquisition Transaction means any proposal or offer (including, without limitation, any proposal or offer to its stockholders) to acquire all or any substantial part of the business and properties of the AutoBond and its subsidiaries or more than fifty percent (50%) of the capital stock of AutoBond and its subsidiaries, whether by merger, purchase of assets, tender offer or otherwise, whether for cash, securities or any other consideration or combination thereof except for the transaction contemplated herein. If Stockholder receives any such inquiry or proposal, then Stockholder shall promptly inform Grantee of the material terms and conditions, if any, of such inquiry or proposal and the identity of the Person making it. Stockholder will immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any of the foregoing.

(d) Vote his shares in favor and agrees, unless otherwise directed by Grantee, to vote his Shares against any Acquisition Transaction, amendment to the articles of incorporation of AutoBond or other extraordinary corporate action with any party other than Grantee or its affiliates.

(e) Exercise any of the options for AutoBond Common Stock held by such Stockholder as of the date hereof.

3.4 Stop Transfer. Each Stockholder agrees with, and covenants to, Dynex that such Stockholder shall not request that AutoBond register the transfer (book-entry or otherwise) of any certificate or uncertificated interest representing any of such Stockholder's Shares, unless such transfer is made in

compliance with this Agreement. Each Stockholder agrees, with respect to any Shares in certificated form, that such Stockholder will tender to AutoBond, within ten business days after the date hereof, the certificates representing such Shares and AutoBond will inscribe upon such certificates the following legend: "The shares of Common Stock, no par value per share, of AutoBond Acceptance Corporation (the "Company") represented by this certificate are subject to a Stock Option Agreement dated as of June , 1998, and may not be sold or otherwise transferred, except in accordance therewith. Copies of such Agreement may be obtained at the principal executive offices of the Company." Each Stockholder agrees that within ten business days after the date hereof, such Stockholder will no longer hold any Shares, whether certificated or uncertificated, in "street name" or in the name of any nominee.

4. Conditions to Closing. In addition to the satisfaction of the conditions set forth in Sections 1.2(i) and (ii) hereof, the obligation of Grantee to close upon exercise of the Option is subject to the satisfaction of the following conditions unless waived by Grantee:

4.1. The representations and warranties of AutoBond are the Stockholders set forth herein shall be true and correct as of the date of Closing and AutoBond and Stockholders shall have complied with each covenant and agreement set forth herein and each shall deliver to Grantee a certificate certifying thereto.

4.2. All regulatory and other approvals necessary in connection with the exercise of the Option shall have been approved and the expiration of any waiting periods (including those required under the Hart-Scott-Rodino Improvements Act of 1976) with respect to any such Combination shall have occurred.

4.3. Grantee and Stockholders shall have entered into the employment agreements attached as Exhibit B.

4.4 AutoBond and Stockholders shall have delivered the opinion attached hereto as Exhibit F.

5. Certain Events. Each Stockholder agrees that this Agreement and the obligations hereunder shall attach to such Stockholder's Shares and shall be binding upon any Person to which legal or beneficial ownership of such Shares shall pass, whether by operation of law or otherwise.

6. Indemnification. AutoBond and each of the Stockholders agrees to indemnify and hold harmless the Grantee, its directors, officers, employees and agents and each person who controls the Grantee against any and all losses, claims, damages or liabilities to which they or any of them may become subject insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any breach of a representation or warranty made by any of them hereunder or failure to perform any covenant made by any of them herein. The obligations set forth in this Section 6 shall expire one year after the Closing.

7. Survival of Representations and Warranties. The respective representations and warranties of AutoBond, the Stockholders and Grantee contained herein or in any certificates or other documents delivered at or prior to the Closing shall survive the closing of the transactions contemplated hereby for one year.

8. Miscellaneous.

8.1 Entire Agreement; Assignment. This Agreement, the Note Agreement and the Credit Agreement of even date herewith: (i) constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all other prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof; and (ii) shall not be assigned by operation of law or otherwise, provided that Grantee may assign its rights and obligations hereunder to any direct or indirect wholly owned subsidiary or an affiliate of Grantee, but no such assignment shall relieve Grantee of its obligations hereunder if such assignee does not perform such obligations.

8.2 Waiver and Amendment. Any provision of this Agreement may be waived at any time by the party that is entitled to the benefits of such provision. This Agreement may not be modified, amended, altered or supplemented, except upon the execution and delivery of a written agreement executed by the parties hereto.

8.3 Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly received if so given) by hand delivery, telegram, telex or telecopy or by mail (registered or certified mail, postage prepaid, return receipt requested) or by any courier service, provided proof of delivery. All communications hereunder shall be delivered to the respective parties at the following address:

If to Grantee:

Dynex Holding, Inc.
10900 Nuckols Road
Third Floor
Richmond, Virginia 23060

copy to:

Venable, Baetjer and Howard, LLP
1800 Mercantile Bank & Trust Building
2 Hopkins Plaza
Baltimore, Maryland 21201
Attention: Elizabeth R. Hughes, Esq.
Telecopy: (410) 244-7742

If to Adrian Katz:

Telecopy:

copy to:

Attention:
Telecopy:

If to William O. Winsauer:

Telecopy:

copy to:

Attention:
Telecopy:

If to John S. Winsauer:

Telecopy:

copy to:

Attention:
Telecopy:

If to AutoBond:

AutoBond Acceptance Corporation
301 Congress Avenue
Austin, Texas 78701

copy to:

Attention:
Telecopy:

or to such other address as the person to whom notice is given may have previously furnished to the others in writing in the manner set forth above.

8.4 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the Commonwealth of Virginia, regardless of principles of conflicts of law.

8.5 Consent to Jurisdiction. The parties hereto agree that the appropriate and exclusive forum for any dispute between any of the parties hereto arising out of this Agreement or the transactions contemplated hereby shall be in any state or federal court in the Commonwealth of Virginia. The parties hereto further agree that the parties will not bring suit with respect to any dispute arising out of this Agreement or the transactions contemplated hereby, except as expressly set forth below for the execution or enforcement of judgment, in any court or jurisdiction other than the above specified court. The foregoing shall not limit the rights of any party to obtain further execution of judgment in any other jurisdiction. The parties further agree, to the extent permitted by law, that final and unappealable judgment against any of them in any action or proceeding contemplated above shall be conclusive and may be enforced in any other jurisdiction within or outside the United States by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the

fact and amount of such judgment. THE PARTIES HERETO WAIVE ALL RIGHTS TO A JURY TRIAL. The parties agree that, upon request of Grantee, the parties will submit any controversy or claim arising out of or relating to this Agreement for settlement by arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules and any judgment on the award rendered by the arbitrator(s) may be entered in a court selected in accordance with this Section 8.5.

8.6 Further Assurances. From time to time, at any party's request and without further consideration, each other party hereto shall execute and deliver such additional documents and take all such further action as may be necessary or desirable to consummate and make effective, in the most expeditious manner possible, the transactions contemplated by this Agreement, including without limitation to vest in Grantee good title to the Shares purchased hereunder.

8.7 Specific Performance. Each of the parties hereto recognizes and acknowledges that a breach by it of any covenants or agreements contained in this Agreement will cause the other party to sustain damages for which it would not have an adequate remedy at law for money damages, and therefore each of the parties hereto agrees that in the event of any such breach the aggrieved party shall be entitled to the remedy of specific performance of such covenants and agreements and injunctive and other equitable relief in addition to any other remedy to which it may be entitled, at law or in equity.

8.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original, but both of which shall constitute one and the same Agreement.

8.9 Descriptive Headings. The descriptive headings used herein are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

8.10 Severability. Whenever possible, each provision or portion of any provision of this Agreement will be interpreted in such manner as to be

effective and valid under applicable law but if any provision or portion of any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or portion of any provision in such jurisdiction, and this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision or portion or any provision had never been contained herein.

8.11 Definitions. For purposes of this Agreement:

(a) "Beneficially own" or "beneficial ownership" with respect to any securities shall mean having "beneficial ownership" of such securities (as determined pursuant to Rule 13d-3 under the Exchange Act), including pursuant to any agreement, arrangement or understanding, whether or not in writing. Without

duplicative counting of the same securities by the same holder, securities beneficially owned by a Person shall include securities beneficially owned by all other Persons with whom such Person would constitute a "group" as described in Section 13d-3 of the Exchange Act.

(b) "Person" shall mean an individual, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization or other entity.

8.12 Consideration. AutoBond acknowledges the consideration for the representations, agreements and covenants of AutoBond set forth herein is the agreement of Grantee to make available certain funding to AutoBond as set forth in the Note Agreement and Credit Agreement between Grantee and AutoBond of even date herewith. 8.13 Registration Rights.

8.13.1 Requested Registration. If one or more of the Stockholders holding an aggregate of a majority of the common stock issuable upon conversion of the Dynex Shares ("Registrable Securities") shall notify the Grantee in writing that such Stockholder or Stockholders intend to offer or cause to be offered for public sale all or any portion of their Registrable Securities, the Grantee will notify all of the remaining holders of Registrable Securities upon receipt of such notification from such Stockholder or Stockholders. Upon the written request of any such Stockholder delivered to the Grantee within 15 days after receipt from the Grantee of such notification, the Grantee will use its best efforts to cause, at the expense of the Stockholders of such Registrable Securities, such of the Registrable Securities as may be requested by any such Stockholder (including the Stockholder or Stockholders giving the initial notice of intent to register hereunder) to be registered under the Act in accordance with the terms of this Section 8.13. Notwithstanding the foregoing, the Grantee shall not be required to effect, or to take any action to effect, a registration requested pursuant to this Section 8.13 if any of the following conditions exist:

(i) after the Grantee has effected one (1) registration pursuant to this Section 8.13 and such registration has been declared or ordered effective by the Commission;

(ii) if a prior registration has become effective, regardless of the manner in which it was initiated, within six (6) months of the date of the demand; or

(iii) if the request for registration has been received by the Grantee subsequent to the giving of written notice by the Grantee, made in good faith, to the Stockholders of Registrable Securities to the effect that the Grantee is commencing to prepare a Grantee-initiated registration statement (other than a registration effected solely to implement an employee benefit plan or a transaction to which Rule 145 or any other similar rule of the Commission under the Securities Act is applicable);

provided, however, that, in the case of the condition described in clause (ii), the Grantee shall use its best efforts to achieve such effectiveness promptly following such six-month period if the request pursuant to this Section

8.13 has been made prior to the expiration of such six-month period. The Grantee may postpone the filing of any registration statement requested hereunder for a reasonable period of time, not to exceed 120 days, if the Grantee has been advised by legal counsel that such filing would require the disclosure of a material transaction or other factor and the Grantee determines reasonably and in good faith that such disclosure would have a material adverse effect on the Grantee.

(b) If the Grantee shall have received notice of a requested registration under Section 8.13 and the Grantee shall have obtained an opinion of counsel, which opinion is concurred in by counsel for the requesting holder or holders, that registration under the Act is not required in connection with such proposed disposition, the Grantee shall have no obligation to comply with such request, and the receipt of such opinion shall not be construed as a registration under Section 8.13 for the purpose of determining the Grantee's obligations under Section 8.13 hereof.

8.13.2 Piggy-Back Registration. If the Grantee proposes to file a registration statement under the Act with respect to an offering by the Grantee for its own account or for the account of others of any class of security other than a registration statement on Forms S-4 or S-8 or filed in connection with an exchange offer or an offering of securities solely to the Grantee's existing stockholders), then the Grantee shall in each case give written notice of such proposed filing to the Stockholders at least 30 days prior to the anticipated filing date, and such notice shall offer such Stockholders the opportunity to register such shares of Registrable Securities as each such holder may request (a "Piggy-Back Registration"). In such case, the holders of the Registrable Securities will bear any incremental expense attributable to the registration of such Registrable Securities. The Grantee shall use its best efforts to cause the managing underwriter or underwriters of a proposed underwritten offering to permit the holders of Registrable Securities requested in writing within fifteen (15) days after the notice given by the Grantee to be included in the registration for such offering to include such securities in such offering on the same terms and conditions as any similar securities of the Grantee included therein. Notwithstanding the foregoing, if the managing underwriter or underwriters of such offering deliver an opinion to the Stockholders that the total amount of securities which they or the Grantee or any other persons or entities intend to include in such offering is sufficiently large to materially and adversely affect the success of such offering, then the amount or kind of securities to be offered for the accounts of Stockholders of Registrable Securities shall be reduced pro rata with respect to each holder to the extent necessary to reduce the total amount of securities to be included in such offering to the amount of securities to be included in such offering to the amount recommended by such managing underwriter or underwriters.

8.13.3 Other Agreements. The Stockholders seeking to register Registrable Securities pursuant to this Section 8.13 agree to enter into such indemnification, hold back and other agreements as may be reasonably requested by the Grantee or managing underwriter or underwriters in connection with such registration.

IN WITNESS WHEREOF, Grantee, AutoBond and the Stockholders have duly executed or have caused this Agreement to be duly executed as of the day and year first above written.

DYNEX HOLDING, INC.

ADRIAN KATZ

By:
Name: Adrian Katz
Title:

WILLIAM O. WINSAUER

JOHN S. WINSAUER

By: William O. Winsauer
By: John S. Winsauer

AUTOBOND ACCEPTANCE CORPORATION

By:
Name:
Title:

For the purpose of agreeing to make available the Dynex Shares on exercise of the Option.

DYNEX CAPITAL, INC.

By:
Name:
Title:

SCHEDULE A

Share Ownership

Name	Number of Shares
Adrian Katz	583,750
William O. Winsauer	3,650,062
John S. Winsauer	1,240,688

Articles of Amendment	A
Employment Agreements	B
Capitalization Description	C
Waiver of Change-in-Control Provisions	D
Business Strategy and Plan	E
Opinion of Counsel	F
Exceptions to Representations	G

EXHIBIT A

ARTICLES OF AMENDMENT
TO
ARTICLES OF INCORPORATION

DYNEX CAPITAL, INC.

1. The name of the Corporation is Dynex Capital, Inc.
2. A new Article IIID shall be inserted following the existing text of Article IIIC and shall read as set forth in Exhibit A hereto.
3. This Amendment to the Articles of Incorporation was duly adopted by the Board of Directors of the Corporation at a meeting held on _____, 1998. In accordance with Sections 13.1-706.6 and 13.1-639 of the Virginia Stock Corporations Act, no shareholder action was required.

IN WITNESS WHEREOF, the undersigned President of the Corporation has executed these Articles of Amendment on behalf of the Corporation.

Date: _____, 199__

DYNEX CAPITAL, INC.

By: /S/ THOMAS H. POTTS
Thomas H. Potts
President

DYNEX CAPITAL, INC.

Section 1. Number of Shares and Designation. This series of Preferred Stock shall be designated as Series _____ 9.00% Cumulative Convertible Preferred Stock (the "Series Preferred Stock") and up to _____ (\$_____) shall be the number of shares of such Preferred Stock constituting such series.

Section 2. Definitions. For purposes of the Series _____ Preferred Stock, the following terms shall have the meanings indicated:

"Act" shall mean the Securities Act of 1933, as amended.

"affiliate" of a person means a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the person specified.

"Board of Directors" shall mean the Board of Directors of the Corporation or any committee authorized by such Board of Directors to perform any of its responsibilities with respect to the Series _____ Preferred Stock.

"Business Day" shall mean any day other than a Saturday, Sunday or a day on which state or federally chartered banking institutions in New York, New York are not required to be open.

"Call Date" shall have the meaning set forth in paragraph (b) of Section 5 hereof.

"Common Stock" shall mean the common stock, \$.01 par value per share, of the Corporation or such shares of the Corporation's capital stock into which such Common Stock shall be reclassified.

"Conversion Price" shall mean the conversion price per share of Common Stock for which each share of Series _____ Preferred Stock is convertible, as such Conversion Price may be adjusted pursuant to paragraph (d) of Section 7. The initial Conversion Price shall be \$_____ (equivalent to an initial conversion rate of one share of Common Stock for each share of Series _____

Preferred Stock).

"Current Market Price" of publicly traded shares of Common Stock or any other class or series of capital stock or other security of the Corporation or of any similar security of any other issuer for any day shall mean the closing price, regular way on such day, or, if no sale takes place on such day, the average of the reported closing bid and asked prices regular way on such day, in either case as reported on the New York Stock Exchange ("NYSE") or, if such security is not listed or admitted for trading on the NYSE, on the principal national securities exchange on which such security is listed or admitted for trading or, if not listed or admitted for trading on any national securities exchange, on the National Market of the Nasdaq Stock Market ("Nasdaq") or, if such security is not quoted on such National Market, the average of the closing bid and asked prices on such day in the over-the-counter market as reported by Nasdaq or, if bid and asked prices for such security on such day shall not have been reported through Nasdaq, the average of the bid and asked prices on such day as furnished by any NYSE or National Association of Securities Dealers, Inc. member firm regularly making a market in such security selected for such purpose by the Chief Executive Officer or the Board of Directors or if any class or series of securities are not publicly traded, the fair value of the shares of such class as determined reasonably and in good faith by the Board of Directors of the Corporation.

"Distribution" shall have the meaning set forth in paragraph (d)(iii) of Section 7 hereof.

"Dividend Payment Date" shall mean, with respect to each Dividend Period, the [last day of _____, _____, _____ and _____,] in each year, commencing on [_____, 199__] with respect to the period commencing on the date of issue and ending [_____, _____]; provided, however, that if any Dividend Payment Date falls on any day other than a Business Day, the dividend payment due on such Dividend Payment Date shall be paid on the Business Day immediately following such Dividend Payment Date.

"Dividend Periods" shall mean quarterly dividend periods commencing on [January 1, April 1, July 1 and October 1] of each year and ending on and including the day preceding the first day of the next succeeding Dividend Period (other than the initial Dividend Period, which shall commence on the Issue Date and end on and include [_____, _____]).

"Fair Market Value" shall mean the average of the daily Current Market Prices of a share of Common Stock during five (5) consecutive Trading Days selected by the Corporation commencing not more than twenty (20) Trading Days before, and ending not later than, the earlier of the day in question and the day before the "ex" date with respect to the issuance or distribution requiring such computation. The term "'ex' date," when used with respect to any issuance or distribution, means the first day on which the share of Common Stock trades regular way, without the right to receive such issuance or distribution, on the exchange or in the market, as the case may be, used to determine that day's Current Market Price.

"Issue Date" shall mean _____, 199__.

"Junior Stock" shall mean the Common Stock and any other class or series of capital stock of the Corporation over which the shares of Series _____ Preferred Stock have preference or priority in the payment of dividends or in the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

"Parity Stock" shall have the meaning set forth in paragraph (b) of Section 8 hereof. Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock are Parity Stock.

"Person" shall mean any individual, firm, partnership, corporation or other entity and shall include any successor (by merger or otherwise) of such entity.

"Press Release" shall have the meaning set forth in paragraph (a)(i) of Section 5 hereof.

"Series A Preferred Stock" shall mean the Series A Cumulative Convertible Preferred Stock of the Corporation as set forth in Article IIIA, Section 1 of the Corporation's Articles of Incorporation (as amended).

"Series B Preferred Stock" shall mean the Series A Cumulative Convertible Preferred Stock of the Corporation set forth in Article IIIB, Section 1 of the Corporation's Articles of Incorporation (as amended).

"Series C Preferred Stock" shall mean the Series C Cumulative Convertible Preferred Stock of the Corporation set forth in Article IIIC, Section 1 of the Corporation's Articles of Incorporation (as amended).

"Series Preferred Stock" shall have the meaning set forth in Section 1 hereof.

"set apart for payment" shall be deemed to include, without any action other than the following, the recording by the Corporation in its accounting ledgers of any accounting or bookkeeping entry which indicates, pursuant to a declaration of dividends or other distribution by the Board of Directors, the allocation of funds to be so paid on any series or class of capital stock of the Corporation; provided, however, that if any funds for any class or series of Junior Stock or any class or series of Parity Stock are placed in a separate account of the Corporation or delivered to a disbursing, paying or other similar agent, then "set apart for payment" with respect to the Series _____ Preferred Stock shall mean placing such funds in a separate account or delivering such funds to a disbursing, paying or other similar agent.

"Trading Day", as to any securities, shall mean any day on which such securities are traded on the NYSE or, if such securities are not listed or admitted for trading on the NYSE, on the principal national securities exchange on which such securities are listed or admitted or, if such securities are not listed or admitted for trading on any national securities exchange, on the National Market of Nasdaq or, if such securities are not quoted on such National

Market, in the securities market in which such securities are traded.

"Transaction" shall have the meaning set forth in paragraph (e) of Section 7 hereof.

"Transfer Agent" means First Union National Bank of North Carolina or such other transfer agent as may be designated by the Board of Directors or their designee as the transfer agent for the Series _____ Preferred Stock.

"Voting Preferred Stock" shall have the meaning set forth in Section 9 hereof.

Section 3. Dividends.

(a) The holders of Series _____ Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors out of funds legally available for that purpose, cumulative dividends payable in cash in an amount per share of Series _____ Preferred Stock equal to \$[] per quarter (the "Base Rate"). The initial Dividend Period shall commence on the Issue Date and end on [_____, 199__]. The dividends payable with respect to the portion of the initial Dividend Period commencing on the Issue Date and ending on [_____, 199__] shall be prorated from the date of issuance and determined by reference to the Base Rate. Such dividends shall be cumulative from the Issue Date, whether or not in any Dividend Period or Periods such dividends shall be declared or there shall be funds of the Corporation legally available for the payment of such dividends, and shall be payable quarterly in arrears on the Dividend Payment Dates, commencing on the first Dividend Payment Date after the Issue Date. Each such dividend shall be payable in arrears to the holders of record of the Series _____ Preferred Stock, as they appear on the stock records of the Corporation at the close of business on a record date which shall be not more than 60 days prior to the applicable Dividend Payment Date and shall be fixed by the Board of Directors to coincide with the record date for the regular quarterly dividends, if any, payable with respect to the Common Stock; provided, however, that the record dates for the Dividend Period ending December 31, may be separated so that the record date for the Common Stock dividend is December 31 and the record date for the Series _____ Preferred Stock dividend is January 1 and vice versa. Accumulated, accrued and unpaid dividends for any past Dividend Periods may be declared and paid at any time, without reference to any regular Dividend Payment Date, to holders of record on such date, which date shall not precede by more than 45 days the payment date thereof, as may be fixed by the Board of Directors.

(b) The amount of dividends payable per share of Series _____ Preferred Stock for the portion of the initial Dividend Period commencing on the Issue Date and ending and including [_____, 199__], or any other period shorter than a full Dividend Period, shall be computed ratably on the basis of twelve 30-day months and a 360-day year. Holders of Series _____ Preferred Stock shall not be entitled to any dividends, whether payable in cash, property or stock, in excess of cumulative dividends, as herein provided, on the Series _____ Preferred Stock. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Series _____

Preferred Stock that may be in arrears.

(c) So long as any of the shares of Series _____ Preferred Stock are outstanding, except as described in the immediately following sentence, no dividends shall be declared or paid or set apart for payment by the Corporation and no other distribution of cash or other property shall be declared or made directly or indirectly by the Corporation with respect to any class or series of Parity Stock for any period unless dividends equal to the full amount of accumulated, accrued and unpaid dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof has been or contemporaneously is set apart for such payment on the Series _____ Preferred Stock for all Dividend Periods terminating on or prior to the Dividend Payment Date with respect to such class or series of Parity Stock. When dividends are not paid in full or a sum sufficient for such payment is not set apart, as aforesaid, all dividends declared upon the Series _____ Preferred Stock and all dividends declared upon any other class or series of Parity Stock shall be declared ratably in proportion to the respective amounts of dividends accumulated, accrued and unpaid on the Series _____ Preferred Stock and accumulated, accrued and unpaid on such Parity Stock.

(d) So long as any of the shares of Series _____ Preferred Stock are outstanding, no dividends (other than dividends or distributions paid in shares of or options, warrants or rights to subscribe for or purchase shares of Junior Stock) shall be declared or paid or set apart for payment by the Corporation and no other distribution of cash or other property shall be declared or made directly or indirectly by the Corporation with respect to any shares of Junior Stock, nor shall any shares of Junior Stock be redeemed, purchased or otherwise acquired (other than a redemption, purchase or other acquisition of Common Stock made for purposes of an employee incentive or benefit plan of the Corporation or any subsidiary) for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any shares of any such stock) directly or indirectly by the Corporation (except by conversion into or exchange for Junior Stock), nor shall any other cash or other property otherwise be paid or distributed to or for the benefit of any holder of shares of Junior Stock in respect thereof, directly or indirectly, by the Corporation unless in each case (i) the full cumulative dividends (including all accumulated, accrued and unpaid dividends) on all outstanding shares of Series _____ Preferred Stock and any other Parity Stock of the Corporation shall have been paid or such dividends have been declared and set apart for payment for all past Dividend Periods with respect to the Series _____ Preferred Stock and all past dividend periods with respect to such Parity Stock and (ii) sufficient funds shall have been paid or set apart for the payment of the full dividend for the current Dividend Period with respect to the Series _____ Preferred Stock and the current dividend period with respect to such Parity Stock.

Section 4. Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, before any payment or distribution of the assets of the Corporation (whether capital or surplus) shall be made to or set apart for the holders of Junior Stock, the holders of shares

of Series _____ Preferred Stock shall be entitled to receive [_____ (\$ _____)] per share of Series _____ Preferred Stock ("Liquidation Preference"), plus an amount equal to all dividends (whether or not earned or declared) accumulated, accrued and unpaid thereon to the date of final distribution to such holders; but such holders shall not be entitled to any further payment. Until the holders of the Series _____ Preferred Stock have been paid the Liquidation Preference in full, plus an amount equal to all dividends (whether or not earned or declared) accumulated, accrued and unpaid thereon to the date of final distribution to such holders, no payment will be made to any holder of Junior Stock upon the liquidation, dissolution or winding up of the Corporation. If, upon any liquidation, dissolution or winding up of the Corporation, the assets of the Corporation, or proceeds thereof, distributable among the holders of Series _____ Preferred Stock shall be insufficient to pay in full the preferential amount aforesaid and liquidating payments on any other shares of any class or series of Parity Stock, then such assets, or the proceeds thereof, shall be distributed among the holders of Series _____ Preferred Stock and any such other Parity Stock ratably in the same proportion as the respective amounts that would be payable on such Series _____ Preferred Stock and any such other Parity Stock if all amounts payable thereon were paid in full. For the purposes of this Section 4, (i) a consolidation or merger of the Corporation with one or more corporations, (ii) a sale or transfer of all or substantially all of the Corporation's assets, or (iii) a statutory share exchange shall not be deemed to be a liquidation, dissolution or winding up, voluntary or involuntary, of the Corporation.

(b) Subject to the rights of the holders of any shares of Parity Stock, upon any liquidation, dissolution or winding up of the Corporation, after payment shall have been made in full to the holders of Series _____ Preferred Stock and any Parity Stock, as provided in this Section 4, any other series or class or classes of Junior Stock shall, subject to the respective terms thereof, be entitled to receive any and all assets remaining to be paid or distributed, and the holders of the Series _____ Preferred Stock and any Parity Stock shall not be entitled to share therein.

Section 5. Redemption at the Option of the Corporation.

(a) The Corporation, at its option, may redeem shares of Series _____ Preferred Stock, in whole or from time to time in part, as set forth herein, subject to the provisions described below:

(i) Shares of Series _____ Preferred Stock may be redeemed, in whole or in part, at the option of the Corporation, at any time by issuing and delivering to each holder for each share of Series _____ Preferred Stock to be redeemed such number of authorized but previously unissued shares of Common Stock as equals the Liquidation Preference (which excludes any accumulated, accrued and unpaid dividends which are to be paid in cash as provided below) per share of Series _____ Preferred Stock divided by the Conversion Price as in effect as of the opening of business on the Call Date (as defined in paragraph (b) below); provided, however, that the Corporation may redeem shares of Series _____ Preferred Stock pursuant to this paragraph (a)(i) only if for ten (10) Trading Days, within any period of thirty (30) consecutive Trading Days, including the

last Trading Day of such 30-Trading Day period, the Current Market Price of the Common Stock on each of such ten (10) Trading Days equals or exceeds the Conversion Price in effect on such Trading Day.

(ii) Shares of Series _____ Preferred Stock may be redeemed, in whole or in part, at the option of the Corporation at any time out of funds legally available therefor at a redemption price payable in cash equal to the Liquidation Preference per share of Series _____ Preferred Stock (plus all accumulated, accrued and unpaid dividends as provided below).

(iii) In the event of a redemption pursuant to Section 5(a)(i), the Corporation shall pay in cash all cumulative, accrued and unpaid dividends for all Dividend Periods ending prior to the Dividend Period in which the redemption occurs; but no dividend shall accrue or be payable on the Series _____ Preferred Stock to be redeemed for the Dividend Period in which the redemption occurs unless the Call Date is after the record date for the dividend payable on the Common Stock for such Dividend Period in which event such dividend with respect to the Series _____ Preferred Stock shall accrue and be payable from the period beginning of the Dividend Period in which the redemption occurs and ending on the Call Date. In the event of a redemption pursuant to Section 5(a)(ii), the Corporation shall pay in cash all cumulative, accrued and unpaid dividends for all Dividend Periods ending prior to the Dividend Period in which the redemption occurs, plus the dividend (determined by reference to the Base Rate if the Call Date precedes the date on which the dividend on the Common Stock is declared for such Dividend Period) accrued from the beginning of the Dividend Period in which the redemption occurs and ending on the Call Date.

(b) In order to exercise the redemption option of the Corporation described in Section 5(a), the Corporation shall send a notice of redemption to holders of record and shares of Series _____ Preferred Stock shall be redeemed by the Corporation on the date specified in the notice to holders of record (the "Call Date"). The Call Date shall be selected by the Corporation, shall be specified in the notice of redemption and shall be not less than 20 days nor more than 60 days after the date notice of redemption is sent by the Corporation. In the event of a redemption pursuant to Section 5(a)(i) or 5(a)(ii), if the Call Date falls after a dividend payment record date and prior to the corresponding Dividend Payment Date, then (i) in the event of a redemption pursuant to Section 5(a)(i) each holder of Series _____ Preferred Stock at the close of business on such dividend payment record date shall be entitled to the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the redemption of such shares prior to such Dividend Payment Date and (ii) in the event of a redemption pursuant to Section 5(a)(ii), each holder of Series _____ Preferred Stock at the close of business on such dividend payment record date shall be entitled to the portion of the dividend accrued from the beginning of the Dividend Period in which the redemption occurs and ending on the Call Date notwithstanding the redemption of such shares prior to such Dividend Payment Date. Except as provided above, the Corporation shall make no payment or allowance for accumulated or accrued dividends on shares of Series _____ Preferred Stock called for redemption or on the shares of Common Stock issued upon such redemption.

(c) If full cumulative dividends on all outstanding shares of Series _____ Preferred Stock and any other class or series of Parity Stock of the Corporation have not been paid or declared and set apart for payment, no shares of Series _____ Preferred Stock may be redeemed unless all outstanding shares of Series _____ Preferred Stock are simultaneously redeemed and neither the Corporation nor any affiliate of the Corporation may purchase or acquire shares of Series _____ Preferred Stock, otherwise than pursuant to a purchase or exchange offer made on the same terms to all holders of shares of Series _____ Preferred Stock.

(d) Notice of redemption shall be provided by first class mail, postage prepaid, telecopy or overnight courier at such holder's address as the same appears on the stock records of the Corporation. Any notice which was mailed in the manner herein provided shall be conclusively presumed to have been duly given on the date mailed or sent whether or not the holder receives the notice. Each notice shall state, as appropriate: (1) the Call Date; (2) the number of shares of Series _____ Preferred Stock to be redeemed and, if fewer than all such shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (3) whether redemption will be for shares of Common Stock pursuant to paragraph (a)(i) of this Section 5 or for cash pursuant to paragraph (a)(ii) of this Section 5, and, if redemption will be for Common Stock, the number of shares of Common Stock to be issued with respect to each share of Series _____ Preferred Stock to be redeemed; (4) the place or places at which certificates for such shares are to be surrendered for certificates representing shares of Common Stock; and (5) the then-current Conversion Price. Notice having been mailed or sent as aforesaid, from and after the Call Date (unless the Corporation shall fail to issue and make available the number of shares of Common Stock and/or amount of cash necessary to effect such redemption), (i) except as otherwise provided herein, dividends on the shares of Series _____ Preferred Stock so called for redemption shall cease to accumulate or accrue on the shares of Series _____ Preferred Stock called for redemption (except that, in the case of a Call Date after a dividend record date and prior to the related Dividend Payment Date, holders of Series _____ Preferred Stock on the dividend record date will be entitled on such Dividend Payment Date to receive the dividend payable on such shares), (ii) said shares shall no longer be deemed to be outstanding, and (iii) all rights of the holders thereof as holders of Series _____ Preferred Stock of the Corporation shall cease (except the rights to receive the shares of Common Stock and/or cash payable upon such redemption, without interest thereon, upon surrender and endorsement of their certificates if so required and to receive any dividends payable thereon).

As promptly as practicable after the surrender in accordance with said notice of the certificates for any such shares so redeemed (properly endorsed or assigned for transfer, if the Corporation shall so require and if the notice shall so state), such certificates shall be exchanged for certificates representing shares of Common Stock and/or any cash (without interest thereon) for which such shares have been redeemed in accordance with such notice. If fewer than all the outstanding shares of Series _____ Preferred Stock are to be redeemed, shares to be redeemed shall be selected by the Corporation from outstanding shares of Series _____ Preferred Stock not previously called for redemption by lot or, with respect to the number of shares of Series _____ Preferred Stock held of record by each holder of such shares, pro rata (as

nearly as may be) or by any other method as may be determined by the Board of Directors in its discretion to be equitable. If fewer than all the shares of Series _____ Preferred Stock represented by any certificate are redeemed, then a new certificate representing the unredeemed shares shall be issued without cost to the holders thereof.

(e) In the case of any redemption pursuant to paragraph (a)(i) of this Section 5, no fractional shares of Common Stock or scrip representing fractions of shares of Common Stock shall be issued upon redemption of the shares of Series _____ Preferred Stock. Instead of any fractional interest in a share of Common Stock that would otherwise be deliverable upon redemption of shares of Series _____ Preferred Stock, the Corporation shall pay to the holder of such share an amount in cash (computed to the nearest cent) based upon the Current Market Price of the Common Stock on the Trading Day immediately preceding the Call Date. If more than one share shall be surrendered for redemption at one time by the same holder, the number of full shares of Common Stock issuable upon redemption thereof shall be computed on the basis of the aggregate number of shares of Series _____ Preferred Stock so surrendered.

(f) In the case of any redemption pursuant to paragraph (a)(i) of this Section 5, the Corporation covenants that any shares of Common Stock issued upon redemption of shares of Series _____ Preferred Stock shall be validly issued, fully paid and non-assessable.

Section 6. Stock To Be Retired. All shares of Series _____ Preferred Stock which shall have been issued and reacquired in any manner by the Corporation shall be restored to the status of authorized, but unissued shares of Preferred Stock, without designation as to series. The Corporation may also retire any unissued shares of Series _____ Preferred Stock, and such shares shall then be restored to the status of authorized but unissued shares of Preferred Stock, without designation as to series.

Section 7. Conversion.

Holders of shares of Series _____ Preferred Stock shall have the right to convert all or a portion of such shares into shares of Common Stock, as follows:

(a) Subject to and upon compliance with the provisions of this Section 7, a holder of shares of Series _____ Preferred Stock shall have the right, at such holder's option, at any time to convert such shares, in whole or in part (but not less than the greater of one-half of the initial number of shares of Series _____ Preferred Stock issued to such holder or such remaining shares of Series _____ Preferred Stock held by such holder), into the number of fully paid and non-assessable shares of authorized but previously unissued shares of Common Stock per each share of Series _____ Preferred Stock obtained by dividing the Liquidation Preference (excluding any accumulated, accrued and unpaid dividends) by the Conversion Price (as in effect at the time and on the date provided for in the last clause of paragraph (b) of this Section 7) and by surrendering such shares to be converted, such surrender to be made in the manner provided in paragraph (b) of this Section 7; provided, however, that the right to convert shares of Series _____ Preferred Stock called for redemption pursuant to Section

5 shall terminate at the close of business on the Call Date fixed for such redemption, unless the Corporation shall default in making payment of shares of Common Stock and/or cash payable upon such redemption under Section 5 hereof.

(b) In order to exercise the conversion right, the holder of each share of Series _____ Preferred Stock to be converted shall surrender the certificate representing such share, duly endorsed or assigned to the Corporation or in blank, at the office of the Transfer Agent, accompanied by written notice to the Corporation that the holder thereof elects to convert such share of Series _____ Preferred Stock. Unless the shares issuable on conversion are to be issued in the same name as the name in which such share of Series _____ Preferred Stock is registered, each share surrendered for conversion shall be accompanied by instruments of transfer, in form satisfactory to the Corporation, duly executed by the holder or such holder's duly authorized attorney and an amount sufficient to pay any transfer or similar tax (or evidence reasonably satisfactory to the Corporation demonstrating that such taxes have been paid).

Holders of shares of Series _____ Preferred Stock at the close of business on a dividend payment record date shall be entitled to receive the dividend payable on such shares on the corresponding Dividend Payment Date notwithstanding the conversion thereof following such dividend payment record date and prior to such Dividend Payment Date. Except as provided above, the Corporation shall make no payment or allowance for unpaid dividends, whether or not in arrears, on converted shares or for dividends on the shares of Common Stock issued upon such conversion.

As promptly as practicable after the surrender of certificates for shares of Series _____ Preferred Stock as aforesaid, the Corporation shall issue and shall deliver at such office to such holder, or send on such holder's written order, a certificate or certificates for the number of full shares of Common Stock issuable upon the conversion of such shares of Series _____ Preferred Stock in accordance with provisions of this Section 7, and any fractional interest in respect of a share of Common Stock arising upon such conversion shall be settled as provided in paragraph (c) of this Section 7.

Each conversion shall be deemed to have been effected immediately prior to the close of business on the date on which the certificates for shares of Series _____ Preferred Stock shall have been surrendered and such notice received by the Corporation as aforesaid, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares represented thereby at such time on such date and such conversion shall be at the Conversion Price in effect at such time on such date unless the stock transfer books of the Corporation shall be closed on that date, in which event such person or persons shall be deemed to have become such holder or holders of record at the close of business on the next succeeding day on which such stock transfer books are open, but such conversion shall be at the Conversion Price in effect on the date on which such shares shall have been surrendered and such notice received by the Corporation. If the dividend payment record date for the Series _____ Preferred Stock and Common Stock do not coincide, and the preceding sentence does not operate to ensure that a holder of

shares of Series _____ Preferred Stock whose shares are converted into Common Stock does not receive dividends on both the shares of Series _____ Preferred Stock and the Common Stock into which such shares are converted for the same Dividend Period, then notwithstanding anything herein to the contrary, it is the intent, and the Transfer Agent is authorized to ensure that no conversion after the earlier of such record dates will be accepted until after the latter of such record dates.

(c) No fractional share of Common Stock or scrip representing fractions of a share of Common Stock shall be issued upon conversion of the shares of Series _____ Preferred Stock. Instead of any fractional interest in a share of Common Stock that would otherwise be deliverable upon the conversion of shares of Series _____ Preferred Stock, the Corporation shall pay to the holder of such share an amount in cash based upon the Current Market Price of the Common Stock on the Trading Day immediately preceding the date of conversion. If more than one share shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of Series _____ Preferred Stock so surrendered.

(d) The Conversion Price shall be adjusted from time to time as follows:

(i) If the Corporation shall after the Issue Date (A) pay a dividend or make a distribution on its capital stock in shares of Common Stock, (B) subdivide its outstanding Common Stock into a greater number of shares, (C) combine its outstanding Common Stock into a smaller number of shares or (D) issue any shares of capital stock by reclassification of its Common Stock, the Conversion Price in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or distribution or at the opening of business on the day following the day on which such subdivision, combination or reclassification becomes effective, as the case may be, shall be adjusted so that the holder of any share of Series _____ Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number of shares of Common Stock (or fraction of a share of Common Stock) that such holder would have owned or have been entitled to receive after the happening of any of the events described above had such share of Series _____ Preferred Stock been converted immediately prior to the record date in the case of a dividend or distribution or the effective date in the case of a subdivision, combination or reclassification. An adjustment made pursuant to this paragraph (d)(i) of this Section 7 shall become effective immediately after the opening of business on the day next following the record date (except as provided in paragraph (h) below) in the case of a dividend or distribution and shall become effective immediately after the opening of business on the day next following the effective date in the case of a subdivision, combination or reclassification.

(ii) If the Corporation shall issue after the Issue Date rights, options or warrants to all holders of Common Stock entitling them (for a period expiring within 45 days after the record date described below in this paragraph (d)(ii) of this Section 7) to subscribe for or purchase Common Stock at a price per share less than the Fair Market Value per share of the Common Stock on the

record date for the determination of stockholders entitled to receive such rights or warrants, then the Conversion Price in effect at the opening of business on the day next following such record date shall be adjusted to equal the price determined by multiplying (A) the Conversion Price in effect immediately prior to the opening of business on the day following the date fixed for such determination by (B) a fraction, the numerator of which shall be the sum of (X) the number of shares of Common Stock outstanding on the close of business on the date fixed for such determination and (Y) the number of shares that the aggregate proceeds to the Corporation from the exercise of such rights or warrants for Common Stock would purchase at such Fair Market Value, and the denominator of which shall be the sum of (XX) the number of shares of Common Stock outstanding on the close of business on the date fixed for such determination and (YY) the number of additional shares of Common Stock offered for subscription or purchase pursuant to such rights or warrants. Such adjustment shall become effective immediately after the opening of business on the day next following such record date (except as provided in paragraph (h) below). In determining whether any rights or warrants entitle the holders of Common Stock to subscribe for or purchase Common Stock at less than such Fair Market Value, there shall be taken into account any consideration received by the Corporation upon issuance and upon exercise of such rights or warrants, the value of such consideration, if other than cash, to be determined in good faith by the Board of Directors.

(iii) No adjustment in the Conversion Price shall be required unless such adjustment would require a cumulative increase or decrease of at least 1% in such price; provided, however, that any adjustments that by reason of this paragraph (d)(iii) are not required to be made shall be carried forward and taken into account in any subsequent adjustment until made; and provided, further, that any adjustment shall be required and made in accordance with the provisions of this Section 7 (other than this paragraph (d)(iii)) not later than such time as may be required in order to preserve the tax-free nature of a distribution to the holders of shares of Common Stock. Notwithstanding any other provisions of this Section 7, the Corporation shall not be required to make any adjustment of the Conversion Price for the issuance of any shares of Common Stock pursuant to any plan providing for the reinvestment of dividends or interest payable on securities of the Corporation and the investment of additional optional amounts in shares of Common Stock under such plan. All calculations under this Section 7 shall be made to the nearest cent (with \$.005 being rounded upward) or to the nearest one-tenth of a share (with .05 of a share being rounded upward), as the case may be. Anything in this paragraph (d) of this Section 7 to the contrary notwithstanding, the Corporation shall be entitled, to the extent permitted by law, to make such reductions in the Conversion Price, in addition to those required by this paragraph (d), as it in its discretion shall determine to be advisable in order that any stock dividends, subdivision of shares, reclassification or combination of shares, distribution of rights or warrants to purchase stock or securities, or a distribution of other assets (other than cash dividends) hereafter made by the Corporation to its stockholders shall not be taxable, or if that is not possible, to diminish any income taxes that are otherwise payable because of such event.

(e) If the Corporation shall be a party to any transaction (including without limitation a merger, consolidation, statutory share exchange, issuer or self tender offer for all or a substantial portion of the shares of Common Stock outstanding, sale of all or substantially all of the Corporation's assets or recapitalization of the Common Stock, but excluding any transaction as to which paragraph (d)(i) of this Section 7 applies) (each of the foregoing being referred to herein as a "Transaction"), in each case as a result of which shares of Common Stock shall be converted into the right to receive stock, securities or other property (including cash or any combination thereof), each share of Series _____ Preferred Stock which is not converted into the right to receive stock, securities or other property in connection with such Transaction shall thereupon be convertible into the kind and amount of shares of stock, securities and other property (including cash or any combination thereof) receivable upon such consummation by a holder of that number of shares of Common Stock into which one share of Series _____ Preferred Stock was convertible immediately prior to such Transaction. The Corporation shall not be a party to any Transaction unless the terms of such Transaction are consistent with the provisions of this paragraph (e), and it shall not consent or agree to the occurrence of any Transaction until the Corporation has entered into an agreement with the successor or purchasing entity, as the case may be, for the benefit of the holders of the Series _____ Preferred Stock that will contain provisions enabling the holders of the Series _____ Preferred Stock that remain outstanding after such Transaction to convert into the consideration received by holders of Common Stock at the Conversion Price in effect immediately prior to such Transaction. The provisions of this paragraph (e) shall similarly apply to successive Transactions.

(f) If:

(i) the Corporation shall declare a dividend (or any other distribution) on the Common Stock (other than cash dividends and cash distributions); or

(ii) the Corporation shall authorize the granting to all holders of the Common Stock of rights or warrants to subscribe for or purchase any shares of any class or series of capital stock or any other rights or warrants; or

(iii) there shall be any reclassification of the Common Stock or any consolidation or merger to which the Corporation is a party and for which approval of any stockholders of the Corporation is required, or a statutory share exchange, or an issuer or self tender offer by the Corporation for all or a substantial portion of its outstanding shares of Common Stock (or an amendment thereto changing the maximum number of shares sought or the amount or type of consideration being offered therefor) or the sale or transfer of all or substantially all of the assets of the Corporation as an entirety; or

(iv) there shall occur the voluntary or involuntary liquidation, dissolution or winding up of the Corporation,

then the Corporation shall cause to be filed with the Transfer Agent and shall cause to be mailed to each holder of shares of Series _____ Preferred Stock at such holder's address as shown on the stock records of the Corporation,

as promptly as possible, but at least 15 days prior to the applicable date hereinafter specified, a notice stating (A) the record date for the payment of such dividend, distribution or rights or warrants, or, if a record date is not established, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution or rights or warrants are to be determined or (B) the date on which such reclassification, consolidation, merger, statutory share exchange, sale, transfer, liquidation, dissolution or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property, if any, deliverable upon such reclassification, consolidation, merger, statutory share exchange, sale, transfer, liquidation, dissolution or winding up or (C) the date on which such tender offer commenced, the date on which such tender offer is scheduled to expire unless extended, the consideration offered and the other material terms thereof (or the material terms of any amendment thereto). Failure to give or receive such notice or any defect therein shall not affect the legality or validity of the proceedings described in this Section 7.

(g) Whenever the Conversion Price is adjusted as herein provided, the Corporation shall promptly file with the Transfer Agent an officer's certificate setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment which certificate shall be conclusive evidence of the correctness of such adjustment absent manifest error. Promptly after delivery of such certificate, the Corporation shall prepare a notice of such adjustment of the Conversion Price setting forth the adjusted Conversion Price and the effective date such adjustment becomes effective and shall mail such notice of such adjustment of the Conversion Price to each holder of shares of Series _____ Preferred Stock at such holder's last address as shown on the stock records of the Corporation.

(h) In any case in which paragraph (d) of this Section 7 provides that an adjustment shall become effective on the day next following the record date for an event, the Corporation may defer until the occurrence of such event (A) issuing to the holder of any share of Series _____ Preferred Stock converted after such record date and before the occurrence of such event the additional Common Stock issuable upon such conversion by reason of the adjustment required by such event over and above the Common Stock issuable upon such conversion before giving effect to such adjustment and (B) paying to such holder any amount of cash in lieu of any fraction pursuant to paragraph (c) of this Section 7.

(i) There shall be no adjustment of the Conversion Price in case of the issuance of any capital stock of the Corporation in a reorganization, acquisition or other similar transaction except as specifically set forth in this Section 7.

(j) If the Corporation shall take any action affecting the Common Stock, other than action described in this Section 7, that in the opinion of the Board of Directors would materially adversely affect the conversion rights of the holders of Series _____ Preferred Stock, the Conversion Price for the Series _____ Preferred Stock may be adjusted, to the extent permitted by law, in such manner, if any, and at such time as the Board of Directors, in its sole

discretion, may determine to be equitable under the circumstances.

(k) The Corporation shall at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued Common Stock solely for the purpose of effecting conversion of the Series _____ Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of Series _____ Preferred Stock not theretofore converted into Common Stock. For purposes of this paragraph (k), the number of shares of Common Stock that shall be deliverable upon the conversion of all outstanding shares of Series _____ Preferred Stock shall be computed as if at the time of computation all such outstanding shares were held by a single holder.

The Corporation covenants that any shares of Common Stock issued upon conversion of the shares of Series _____ Preferred Stock shall be validly issued, fully paid and non-assessable.

(l) The Corporation will pay any and all documentary stamp or similar issue or transfer taxes payable in respect of the issue or delivery of shares of Common Stock or other securities or property on conversion or redemption of shares of Series _____ Preferred Stock pursuant hereto; provided, however, that the Corporation shall not be required to pay any tax that may be payable in respect of any transfer involved in the issue or delivery of shares of Common Stock or other securities or property in a name other than that of the holder of the shares of Series _____ Preferred Stock to be converted or redeemed, and no such issue or delivery shall be made unless and until the person requesting such issue or delivery has paid to the Corporation the amount of any such tax or established, to the reasonable satisfaction of the Corporation, that such tax has been paid.

Section 8. Ranking. Any class or series of capital stock of the Corporation shall be deemed to rank:

(a) prior or senior to the Series _____ Preferred Stock, as to the payment of dividends and as to distribution of assets upon liquidation, dissolution or winding up, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be, in preference or priority to the holders of Series _____ Preferred Stock;

(b) on a parity with the Series _____ Preferred Stock, as to the payment of dividends and as to distribution of assets upon liquidation, dissolution or winding up, whether or not the dividend rates, dividend payment dates or redemption or liquidation prices per share thereof be different from those of the Series _____ Preferred Stock, if the holders of such class of stock or series and the Series _____ Preferred Stock shall be entitled to the receipt of dividends and of amounts distributable upon liquidation, dissolution or winding up in proportion to their respective amounts of accrued and unpaid dividends per share or liquidation preferences, without preference or priority one over the other ("Parity Stock"); and

(c) junior to the Series _____ Preferred Stock, as to the payment of dividends or as to the distribution of assets upon liquidation, dissolution or winding up, if such stock or series shall be Common Stock or if the holders of Series _____ Preferred Stock shall be entitled to receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be, in preference or priority to the holders of shares of such class or series ("Junior Stock").

Section 9. Record Holders. The Corporation and the Transfer Agent may deem and treat the record holder of any share of Series _____ Preferred Stock as the true and lawful owner thereof for all purposes, and neither the Corporation nor the Transfer Agent shall be affected by any notice to the contrary.

SENIOR NOTE AGREEMENT dated as of June 9, 1998,
between AUTOBOND ACCEPTANCE
CORPORATION, a Texas corporation (the "Company"),
and DYNEX CAPITAL, INC., as Agent (the "Agent").

The Company has duly authorized the execution and delivery of this Agreement to provide for the creation of an issue of its 12% Convertible Senior Notes Due 2003 (the "Securities"), of substantially the tenor and amount hereinafter set forth, and to provide therefor the Company has duly authorized the execution and delivery of this Agreement.

Each party agrees as follows for the benefit of the other party and for the equal and ratable benefit of the Holders of the Securities:

ARTICLE 1.

Definitions and Incorporation by Reference

SECTION 1.1 Definitions

"Affiliate" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; provided that beneficial ownership of 51% or more of the voting securities of a Person shall be deemed to be control.

"Agent" means the party named as such in this Agreement until a successor replaces it and, thereafter, means the successor.

"Agreement" means this Agreement as amended or supplemented from time to time.

"Asset Disposition" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) of assets (of any kind, nature, or description) by the Company or any Subsidiary, including any disposition by means of a merger, consolidation or similar transaction.

"Associate" of any Person, means (1) any corporation or organization (other than the Company or a Subsidiary of the Company) of which such Person is an

officer, employee or partner or is, directly or indirectly, the beneficial owner of 10% or more of any class of equity securities, (2) any trust or other estate in which such Person has a substantial beneficial interest or as to which such Person serves as agent or in a similar fiduciary capacity, and (3) any relative or spouse of such Person, or any relative of such spouse, who has the same home as such Person or who is a director or officer of the Company or any of its Affiliates.

"Average Life" means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing (i) the sum of the products of numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment by (ii) the sum of all such payments.

"Board of Directors" means the Board of Directors of the Company or any committee thereof duly authorized to act on behalf of such Board.

"Business Day" means each day which is not a Legal Holiday.

"Capital Lease Obligations" means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

"Capital Stock" of any Person means, (i) in the case of a corporation, corporate stock, (ii) in the case of an association, trust or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock, (iii) in the case of a partnership, partnership interests (whether general or limited) and (iv) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Change of Control" means the occurrence of any of the following: (i) the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of the assets of the Company to any Person, (ii) the adoption of a plan relating to the liquidation or dissolution of the Company, or (iii) the acquisition by any Person, together with any Affiliates or Associates of a direct or indirect interest in more than 51% of the voting power of the voting stock of the Company, by way of merger or consolidation or otherwise.

"Code" means the Internal Revenue Code of 1986, as amended.

"Common Stock" means any stock of any class of the Company which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company

and which is not subject to redemption by the Company. However, subject to the provisions of Section 8.11, shares issuable on conversion of Securities shall include only shares of the class designated as Common Stock of the Company at the date of this instrument (or, at the option of the Holder, non-voting Common Stock) or shares of any class or classes resulting from any reclassification or reclassifications thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company and which are not subject to redemption by the Company; provided that if any time there shall be more than one such resulting class, the shares of each such class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

"Company" means the party named as such in this Agreement until a successor replaces it and, thereafter, means the successor.

"Consolidated Restricted Subsidiary" means a Restricted Subsidiary (i) 80% of the Capital Stock and 80% of the Voting Stock of which is owned by the Company or one or more Consolidated Restricted Subsidiaries and (ii) which is treated as a consolidated subsidiary for the purpose of the Company's U.S. Federal income tax reporting.

"Current Market Price" shall have the meaning specified in Section 8.04(6).

"Currency Agreement" means in respect of a Person any foreign exchange contract, currency option, currency swap agreement or other similar agreement to which such Person is a party or a beneficiary.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Excess Spread" means, over the life of a "pool" of Receivables that have been sold by a Person to a trust or other Person in a securitization or sale, the rights retained by such Person or its Restricted Subsidiaries at or subsequent to the closing of such securitization or sale to receive cash flows attributable to such "pool."

"Excess Spread Receivables" of a Person means the contractual or certificated right to Excess Spread capitalized on such Person's consolidated balance sheet (the amount of which shall be the present value of the Excess Spread, calculated in accordance with GAAP).

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time, as set forth (i) in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants, (ii) in the statements and pronouncements of the Financial Accounting Standards Board and (iii) in such other statements by such other entity as approved by a significant segment of the accounting profession.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any Person; provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business.

"Hedging Obligations" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement.

"Holder" or "Securityholder" means the Person in whose name a Security is registered on the Registrar's books; initially, the Agent.

"Indebtedness" means, with respect to any Person on any date of determination (without duplication), (i) the principal of and premium (if any) in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable; (ii) all Capital Lease Obligations of such Person; (iii) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding trade accounts payable and expense accruals arising in the ordinary course of business); (iv) all obligations of such Person for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in (i) through (iii) above) entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth Business Day following receipt by such Person of a demand for reimbursement following payment on the letter of credit); (v) accrued net liabilities under Hedging Obligations; (vi) Warehouse Indebtedness; (vii) in connection with each sale by such Person of any Receivables, the maximum aggregate contractual claim (if any) that the purchaser thereof could have against such Person if the amounts anticipated at the time of such sale to be received by such purchaser in connection with such Receivables are not received by such purchaser; (viii) all obligations of the type referred to in clauses (i) through (vii) of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any Guarantee; and (ix) all obligations of the type referred to in clauses (i) through (viii) of other Persons secured by any Lien on any property or asset of such Person (whether or not such obligation is assumed by such Person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured. The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date. Notwithstanding the foregoing, any securities issued in a securitization by a special purpose corporation (including a Subsidiary) or similar entity formed by or on behalf of a Person and to which Receivables or Excess Spread Receivables have been sold or otherwise transferred by or on

behalf of such Person or its Subsidiaries shall not be treated as Indebtedness of such Person or its Subsidiaries under this Agreement, regardless of whether such securities are treated as indebtedness for tax purposes.

"Initial Purchaser" means Dynex Capital, Inc., a Virginia corporation.

"interest," when used with respect to any Security, means the amount of all interest accruing on such Security.

"Interest Rate Agreement" means any interest rate swap agreement, interest rate cap agreement, repurchase agreement, futures contract or other financial agreement or arrangement designed to protect the Company or any Restricted Subsidiary against fluctuations in interest rates.

"Issue Date" means the date on which the Securities are originally issued.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"Obligations" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

"Officer" means the Chairman of the Board, the Vice Chairman, the President, the Chief Financial Officer, or the Secretary of the Company.

"Officers' Certificate" means a certificate signed by two Officers.

"Opinion of Counsel" means a written opinion from legal counsel who is acceptable to the Agent. The counsel may be an employee of or counsel to the Company or the Agent.

"Person" means any individual, corporation, partnership, joint venture, association, joint-stock company, limited liability company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Preferred Stock", as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"Qualified Institutional Buyer" or "QIB" shall have the meaning specified in Rule 144A under the Securities Act.

"Receivables" means consumer loans, leases and receivables acquired by the Company, any Restricted Subsidiary or a Strategic Alliance Client in the ordinary course of business; provided, however, that for purposes of determining the amount of a Receivable at any time, such amount shall be determined in

accordance with GAAP, consistently applied, as of the most recent practicable date.

"Refinance" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. "Refinanced" and "Refinancing" shall have correlative meanings.

"Refinancing Indebtedness" means Indebtedness incurred by the Company or any Restricted Subsidiary that Refinances any Indebtedness of the Company or such Restricted Subsidiary existing on the Issue Date or incurred in compliance with this Agreement, including Indebtedness that Refinances Refinancing Indebtedness; provided, however, that (a) such Refinancing Indebtedness has an aggregate principal amount (or if incurred with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding or committed (plus fees and expenses, including any premium and defeasance costs) under the Indebtedness being Refinanced, (b) such Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a weighted Average Life equal to or greater than the weighted Average Life of, such Refinancing Indebtedness and (c) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment of the Securities, such Refinancing Indebtedness is subordinated in right of payment to the Securities on terms at least as favorable to the Holders of Securities as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

"Related Business" means any consumer finance business or any consumer financial services business.

"Restricted Payment" with respect to any Person means (i) the declaration or payment of any dividends or any other distributions of any sort in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (A) dividends or distributions payable solely in its Capital Stock, (B) dividends or distributions payable solely to the Company or a Restricted Subsidiary, (C) so long as no Event of Default has occurred and is continuing, dividends or distributions on the Company's 15% Series A Cumulative Preferred Stock, and (D) pro rata dividends or other distributions made by a Subsidiary that is not a Wholly Owned Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation)), (ii) the purchase, redemption or other acquisition or retirement for value of any Capital Stock of the Company held by any Person or of any Capital Stock of a Restricted Subsidiary held by any Affiliate of the Company (other than a Restricted Subsidiary), including the exercise of any option to exchange any Capital Stock (other than into Capital Stock of the Company) or (iii) any payments due on Subordinated Obligations, or the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated

Obligations (other than the purchase, repurchase or other acquisition of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of acquisition).

"Restricted Subsidiary" means any Subsidiary of the Company that is not an Unrestricted Subsidiary.

"Rule 144A" means Rule 144A under the Securities Act.

"SEC" means the Securities and Exchange Commission.

"Securities" has the meaning stated in the first recital of this Agreement.

"Securities Act" means the Securities Act of 1933.

"Significant Subsidiary" means any Restricted Subsidiary that would be a "Significant Subsidiary" of the Company within the meaning of Rule 1-02 under Regulation S-X promulgated by the SEC.

"Stated Maturity" means, with respect to any obligation, the date specified in such security as the fixed date on which the final payment of principal of such obligation is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such obligation at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"Strategic Alliance Client" means any Person (other than a Restricted Subsidiary) engaged in a Related Business to which the Company provides, or reasonably expects to provide, origination, servicing, financing or asset securitization expertise.

"Subordinated Obligation" means any Indebtedness of the Company (whether outstanding on the Issue Date or thereafter incurred) which is pari passu, subordinate or junior in right of payment to the Securities pursuant to a written agreement to that effect.

"Subsidiary" means, in respect of any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or agents thereof is at the time owned or controlled, directly or indirectly, by (i) such Person, (ii) such Person and one or more Subsidiaries of such Person or (iii) one or more Subsidiaries of such Person.

"Uniform Commercial Code" means the Texas Uniform Commercial Code as in effect from time to time.

"Unrestricted Subsidiary" means (i) any Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the

Board of Directors in the manner provided below and (ii) any Subsidiary of an Unrestricted Subsidiary. The Board of Directors may designate any Subsidiary of the Company (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary, but only so long as such Subsidiary (a) has no Indebtedness other than Non-Recourse Debt, (b) is not party to any agreement, contract, arrangement or understanding with the Company or any Restricted Subsidiary of the Company unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Company or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Company, (c) is a person with respect to which neither the Company nor any of its Restricted Subsidiaries has any direct or indirect obligation (i) to subscribe for additional equity or (ii) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results, and (d) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Company or any of its Restricted Subsidiaries. Any such designation by the Board of Directors shall be evidenced by the Company to the Agent by promptly filing with the Agent a copy of the board resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

"U.S. Government Obligations" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer's option.

"Voting Stock" of a Person means all classes of Capital Stock or other interests (including partnership interests or membership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or agents thereof.

"Warehouse Facility" means any funding arrangement with a financial institution or other lender or purchaser exclusively to finance the acquisition of Receivables by the Company, a Subsidiary of the Company or a Strategic Alliance Client for the purpose of pooling such Receivables prior to securitization or sale in the ordinary course of business, including purchase and sale facilities pursuant to which the Company or a Subsidiary of the Company sells Receivables or debt of a Strategic Alliance Client secured by Receivables owned or financed by such Strategic Alliance Client to a financial institution and retains a right of first refusal upon the subsequent resale of such Receivables or debt by such financial institution.

"Warehouse Indebtedness" means advances outstanding to the borrower under a Warehouse Facility.

"Wholly Owned Subsidiary" means a Restricted Subsidiary all the Capital Stock of which (other than directors' qualifying shares and shares held by other Persons to the extent such shares are required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary) is owned by the

SECTION 1.2 Other Definitions Defined in Term Section

"Bankruptcy Law".....	5.01
"Custodian".....	5.01
"Event of Default".....	5.01
"Legal Holiday".....	11.05
"Registrar".....	2.03
"Successor Company".....	4.01

SECTION 1.3 Rules of Construction. Unless the context otherwise requires:

- (a) a term has the meaning assigned to it;
- (b) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;
- (c) "or" is not exclusive;
- (d) "including" means including without limitation;
- (e) words in the singular include the plural and words in the plural include the singular;
- (f) unsecured Indebtedness shall not be deemed to be subordinate or junior to Secured Indebtedness merely by virtue of its nature as unsecured Indebtedness;
- (g) the principal amount of any noninterest bearing or other discount security at any date shall be the principal amount thereof that would be shown on a balance sheet of the issuer dated such date prepared in accordance with GAAP and accretion of principal on such security shall be deemed to be the incurrence of Indebtedness; and
- (h) the principal amount of any Preferred Stock shall be (i) the maximum liquidation value of such Preferred Stock or (ii) the maximum mandatory redemption or mandatory repurchase price with respect to such Preferred Stock, whichever is greater.

ARTICLE 2.

The Securities

SECTION 2.1 Form and Dating The Securities shall be substantially in the form of Exhibit A which is hereby incorporated in and expressly made a part of this Agreement. In addition, the Securities may be evidenced by a combined certificate. The Securities may have notations, legends or endorsements required by law, stock exchange rule, agreements to which the Company is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form

acceptable to the Company and the Agent). Each Security shall be dated the date of its issuance. The terms of the Securities set forth in Exhibit A are part of the terms of this Agreement.

SECTION 2.2 Execution. Any Officer may sign the Securities for the Company by manual signature.

The aggregate principal amount of the Securities outstanding at any time may not exceed \$3,000,000.00, in each case except as provided in Section 2.07.

SECTION 2.3 Registrar and Paying Agent. The Company shall maintain an office or agency where Securities may be presented for registration of transfer or for exchange (the "Registrar") and an office or agency where Securities may be presented for payment (the "Paying Agent"). The Registrar shall keep a register of the Securities and of their transfer and exchange. The Company may have one or more co-registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent.

The Company shall enter into an appropriate agency agreement with any Registrar, Paying Agent or co-registrar not a party to this Agreement. The agreement shall implement the provisions of this Agreement that relate to such agent. The Company shall notify the Agent of the name and address of any such agent. If the Company fails to maintain a Registrar or Paying Agent, the Agent shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 6.07. The Company may act as Paying Agent, Registrar, co-registrar or transfer agent.

The Company initially will act as Paying Agent and Registrar in connection with the Securities.

SECTION 2.4 Paying Agent. By 11:00 a.m., Texas on each due date of the principal and interest on any Security, the Company shall deposit with the Paying Agent a sum sufficient to pay such principal and interest when so becoming due. The Company shall require each Paying Agent (other than the Agent) to agree in writing that the Paying Agent shall hold in trust for the benefit of Securityholders all money held by the Paying Agent for the payment of principal of or interest on the Securities and shall notify the Agent of any default by the Company in making any such payment. The Paying Agent shall make payments to Holders in immediately available funds when due. The Company at any time may require a Paying Agent to pay all money held by it to the Agent and to account for any funds disbursed by the Paying Agent. Upon complying with this Section, the Paying Agent shall have no further liability for the money paid to the Agent.

SECTION 2.5 Securityholder Lists. The Agent shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Securityholders. If the Agent is not the Registrar, the Company shall furnish to the Agent, in writing at least five Business Days before each interest payment date and at such other times as the Agent may request in writing, a list in such form and as of such date as the Agent may reasonably require of the names and addresses of Securityholders.

SECTION 2.6 Transfer and Exchange. The Securities shall be issued in registered form and shall be transferable only upon the surrender of a Security for registration of transfer. Subject to the restrictions on transfer set forth in Section 2.12, when a Security is presented to the Registrar or a co-registrar with a request to register a transfer, the Registrar shall register the transfer as requested if the requirements of the Uniform Commercial Code are met. To permit registration of transfers and exchanges, the Company shall execute Securities at the Registrar's or co-registrar's request. The Company may require payment of a sum sufficient to pay all taxes, assessments or other governmental charges in connection with any transfer or exchange pursuant to this Section. The Company shall not be required to make and the Registrar need not register transfers or exchanges of Securities for a period of 15 days before an interest payment date.

Prior to the due presentation for registration of transfer of any Security, the Company, the Agent, the Paying Agent, the Registrar or any co-registrar may deem and treat the person in whose name a Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and interest on such Security and for all other purposes whatsoever, whether or not such Security is overdue, and none of the Company, the Agent, the Paying Agent, the Registrar or any co-registrar shall be affected by notice to the contrary.

SECTION 2.7 Replacement Securities. If a mutilated Security is surrendered to the Registrar or if the Holder of a Security claims that the Security has been lost, destroyed or wrongfully taken, the Company shall issue a replacement Security if the requirements of the Uniform Commercial Code are met and the Holder satisfies any other reasonable requirements of the Agent. If required by the Agent or the Company, such Holder shall furnish an indemnity agreement sufficient in the reasonable judgment of the Company and the Agent to protect the Company, the Agent, the Paying Agent, the Registrar and any co-registrar from any loss which any of them may suffer if a Security is replaced. The Company and the Agent may charge the Holder for their expenses in replacing a Security.

SECTION 2.8 Outstanding Securities. Securities outstanding at any time are all Securities executed by the Company except for those delivered to it for cancellation and those described in this Section as not outstanding. A Security does not cease to be outstanding because the Company or an Affiliate of the Company holds the Security.

If a Security is replaced pursuant to Section 2.07, it ceases to be outstanding unless the Agent and the Company receive proof satisfactory to them that the replaced Security is held by a bona fide purchaser.

SECTION 2.9 Temporary Securities. Until definitive Securities are ready for delivery, the Company may prepare temporary Securities. Temporary Securities shall be substantially in the form of definitive Securities but may have variations that the Company reasonably considers appropriate for temporary Securities. Without unreasonable delay, the Company shall prepare definitive Securities and deliver them in exchange for temporary Securities.

SECTION 2.10 Cancellation. The Company at any time may deliver Securities to the Agent for cancellation. The Registrar and the Paying Agent shall forward to the Agent any Securities surrendered to them for registration of transfer, exchange or payment. The Agent and no one else shall cancel and destroy all Securities surrendered for registration of transfer, exchange, replacement in the event of a mutilated security, payment or cancellation and deliver a certificate of such destruction to the Company unless the Company directs the Agent to deliver canceled Securities to the Company. The Company may not issue new Securities to replace Securities it has redeemed, paid or delivered to the Agent for cancellation.

SECTION 2.11 Defaulted Interest. If the Company defaults in a payment of interest on the Securities, the Company shall pay defaulted interest (plus interest on such defaulted interest to the extent lawful) in any lawful manner. The Company may pay the defaulted interest to the persons who are Securityholders on a subsequent special record date. The Agent shall fix or cause to be fixed any such special record date (which shall be no less than 10 days prior to the payment date) and payment date and shall promptly mail to each Securityholder a notice that states the special record date, the payment date and the amount of defaulted interest to be paid, which notice shall be mailed not less than 10 days prior to such special record date.

SECTION 2.12 Special Transfer Provisions. No transfer of any Security may be made unless such transfer satisfies one of the following: (i) such transfer is in compliance with Rule 144A under the Securities Act, to a person who the transferor reasonably believes is a Qualified Institutional Buyer (as defined in Rule 144A) that is purchasing for its own account or for the account of a Qualified Institutional Buyer and to whom notice is given that such transfer is being made in reliance upon Rule 144A under the Securities Act as certified by such transferee in a letter in the form of Exhibit B hereto; (ii) after the appropriate holding period, such transfer is pursuant to an exemption from registration under the Securities Act provided by Rule 144 under the Securities Act; (iii) such transfer is to a transferee who is an accredited investor in a transaction exempt from the registration requirements of the Securities Act, in each case in accordance with any applicable securities laws of any State of the United States or (iv) such transfer is otherwise exempt from the registration requirements of the Securities Act. The Company will require, in order to assure compliance with such laws, that the Securityholder's prospective transferee referred to in the preceding clauses (iii) or (iv) deliver an investment letter certifying to the Company and the Agent as to the facts surrounding such transfer in the Form of Exhibit C hereto. Except in the case of a transfer of Securities to a transferee referred to in the preceding clause (i), a transfer to an Affiliate of the Agent or of a Holder, or, in general, a transfer that is to be made after two years from the Issuance Date, the Agent shall require an opinion of counsel satisfactory to it to the effect that such transfer may be made pursuant to an exemption from the Securities Act without such registration (which opinion of counsel shall not be an expense of the Agent or the Company).

ARTICLE 3.

Covenants

SECTION 3.1 Payment of Securities. The Company shall promptly pay the principal of and interest on the Securities on the dates and in the manner provided in the Securities and in this Agreement. Principal and interest shall be considered paid on the date due if by 2:00 p.m. Texas time on such date the Agent has received from the Company or the Paying Agent in immediately available funds money sufficient to pay all principal, interest, premiums and any other amounts then due. The Company shall pay interest on overdue principal at the rate specified therefor in the Securities, and it shall pay interest on overdue installments of interest at the same rate to the extent lawful.

SECTION 3.2 SEC Reports. The Company shall file with the SEC and provide the Agent and Securityholders with such annual reports and such information, documents and other reports as are specified in Sections 13 and 15(d) of the Exchange Act and applicable to a U.S. corporation subject to such Sections, such information, documents and other reports to be so filed and provided at the time specified for the filing of such information, documents and reports under such Sections.

(a) The Company shall not, and shall not permit any Restricted Subsidiary, directly or indirectly, to make a Restricted Payment if at the time the Company or such Restricted Subsidiary makes such Restricted Payment or immediately thereafter an Event of Default shall have occurred and be continuing (or would result therefrom). (b) The provisions of Section 3.03(a) shall not prohibit: (i) any purchase or redemption of Capital Stock or Subordinated Obligations of the Company made by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company by the Company (other than Capital Stock issued or sold to a Subsidiary of the Company or an employee stock ownership plan or to a trust established by the Company or any of its Subsidiaries for the benefit of their employees); (ii) the exercise or conversion of an option, warrant or other security convertible or exchangeable for an equity security of a Strategic Alliance Client in connection with a substantially simultaneous sale or other disposition by the Company or a Restricted Subsidiary of such equity security.

SECTION 3.4 Further Assurances. The Company will from time to time execute and deliver all such supplements and amendments hereto and all such financing statements, continuation statements, instruments of further assurance, and other instruments, and will take such other action as may be necessary or advisable to maintain or preserve the lien of this Agreement or carry out more effectively the purposes hereof.

SECTION 3.5 Limitation on Investment Company Status. The Company shall not take any action, or otherwise permit to exist any circumstance, that would require the Company to register as an "investment company" under the Investment Company Act of 1940, as amended.

ARTICLE 4.

Successor Company

SECTION 4.1 When Company May Merge or Transfer Assets. Subject to Article 13, the Company shall not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of related transactions, all or substantially all its assets to, any Person, unless:

(i) the resulting, surviving or transferee Person (the "Successor Company") shall be a Person organized and existing under the laws of the United States of America, any State thereof or the District of Columbia and the Successor Company (if not the Company) shall expressly assume, by an Agreement supplemental hereto, executed and delivered to the Agent, in form satisfactory to the Agent, all the obligations of the Company under the Securities, this Agreement, and, if applicable, the Purchase Agreement;

(ii) immediately after giving effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Company or any Subsidiary as a result of such transaction as having been incurred by the Successor Company or such Subsidiary at the time of such transaction), no Default shall have occurred and be continuing (including on a pro forma basis); and

(iii) the Company shall have delivered to the Agent an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental Agreement (if any) comply with this Agreement.

The Successor Company shall be the successor to the Company and shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Agreement, but the predecessor Company in the case of a lease of all or substantially all its assets shall not be released from the obligation to pay the principal of and interest on the Securities.

Notwithstanding the foregoing clauses, any Restricted Subsidiary may consolidate with, merge into or transfer all or part of its properties and assets to the Company.

Defaults and Remedies

SECTION 5.1 Events of Default. An "Event of Default" occurs if:

(1) the Company defaults in any payment of interest on any Security when the same becomes due and payable, and such default continues for a period of 20 Business Days;

(2) the Company defaults in the payment of the principal of any Security when the same becomes due and payable at its Stated Maturity, upon declaration or otherwise;

(3) the Company fails to comply with Section 3.03 or 4.01;

(4) the Company fails to comply with any of its covenants or agreements in the Securities, this Agreement (other than those referred to in (1), (2) or (3) above) and such failure continues for 30 days after the occurrence thereof;

(5) Indebtedness of the Company or any Significant Subsidiary is not paid within any applicable grace period after final maturity or is accelerated by the holders thereof because of a default and the aggregate amount of all such unpaid or accelerated Indebtedness exceeds \$1,000,000 or its foreign currency equivalent at the time or if there is a default under that certain Stock Option Agreement dated as of June 9, 1998 (the "Option Agreement") by and between Dynex Holding, Inc. and Messrs. Adrian Katz, William O. Winsauer and John S. Winsauer (collectively, the "Stockholders") by the Company or the Stockholders, which default materially impairs the value of the Option (as defined in the Option Agreement);

(6) the Company within the meaning of any Bankruptcy Law:

(A) commences a voluntary case;

(B) is dissolved (other than pursuant to a consolidation, amalgamation or merger);

(C) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;

(D) has a resolution passed for its winding-up, reorganization or liquidation (other than pursuant to a consolidation, amalgamation or merger);

(E) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter;

(F) consents to the entry of an order for relief against it in an involuntary case;

(G) seeks to consents to the appointment of a Custodian of it or for substantially all of its assets; or

(H) makes a general assignment, arrangement or composition with, or for the benefit of, its creditors;

or takes any comparable action under any foreign laws relating to insolvency;

(7) a court of competent jurisdiction enters an order or decree under any

Bankruptcy Law that:

(A) is for relief against the Company in an involuntary case;

(B) appoints a Custodian of the Company or for any substantial part of its property; or

(C) orders the winding up or liquidation of the Company;

or any similar relief is granted under any foreign laws and the order or decree remains unstayed and in effect for 60 days;

(8) any judgments or decrees for the payment of money in excess of \$1,000,000 in the aggregate (for all such judgments and decrees) or its foreign currency equivalent at the time is entered against the Company or any Significant Subsidiary and is not discharged or satisfied and there is a period of 45 days following the entry of such judgment or decree during which such judgment or decree is not discharged, satisfied, waived or the execution thereof stayed;

(9) the Agent or any Affiliate of the Agent is a Securityholder, the material breach of any representation, warranty or covenant of the Company contained in or the occurrence of a default by the Company under, the Purchase Agreement, if any, and if such breach or default is susceptible of cure and the Company is pursuing, and continues to pursue, such cure to the Agent's reasonable satisfaction, such breach or default remains uncured for 30 days after its occurrence; or

(10) there shall occur a Change of Control of the Company

The foregoing will constitute Events of Default whatever the reason for any such Event of Default and whether it is voluntary or involuntary or is effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body.

The term "Bankruptcy Law" means Title 11, United States Code, or any similar Federal or state law for the relief of debtors. The term "Custodian" means any receiver, Trustee, assignee, liquidator, custodian or similar official under any Bankruptcy Law.

The Company shall deliver to the Agent, promptly, and in any event within 5 days after the occurrence thereof, written notice in the form of an Officers' Certificate of any Default, its status and what action the Company is taking or proposes to take with respect thereto.

SECTION 5.2 Acceleration. If an Event of Default (other than an Event of Default specified in Section 5.01(6) or (7) with respect to the Company) occurs and is continuing, the Agent by notice to the Company, or the Holders of at least 25% in principal amount of the Securities by notice to the Company and the Agent, may declare the principal of and accrued but unpaid interest on all the Securities to be due and payable. Upon such a declaration, such principal and

interest shall be due and payable immediately. If an Event of Default specified in Section 5.01(6) or (7) with respect to the Company occurs and is continuing, the principal of and interest on all the Securities shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Agent or any Securityholders. The Agent or the Holders of a majority in principal amount of the Securities by notice to the Agent may in their sole discretion rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of acceleration. No such rescission shall affect any subsequent Default or impair any right consequent thereto.

SECTION 5.3 Other Remedies. If an Event of Default occurs and is continuing, the Agent may pursue any available remedy to collect the payment of principal of or interest on and any other amounts due under the Securities or to enforce the performance of any provision of the Securities or this Agreement, including remedies available under the Uniform Commercial Code.

The Agent may maintain a proceeding even if it does not possess any of the Securities or does not produce any of them in the proceeding. A delay or omission by the Agent or any Securityholder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative.

SECTION 5.4 Waiver of Past Defaults. The Holders of a majority in principal amount of the Securities by notice to the Agent may waive an existing Default and its consequences except (i) a Default in the payment of the principal of or interest on a Security or (ii) a Default in respect of a provision that under Section 8.02 cannot be amended without the consent of each Securityholder affected. When a Default is waived, it is deemed cured, but no such waiver shall extend to any subsequent or other Default or impair any consequent right.

SECTION 5.5 Control by Majority. The Holders of a majority in principal amount of the Securities may direct the time, method and place of conducting any proceeding for any remedy available to the Agent or of exercising any power conferred on the Agent. However, the Agent may refuse to follow any direction that conflicts with law or this Agreement or, subject to Section 6.01, that the Agent determines is unduly prejudicial to the rights of other Securityholders or would involve the Agent in personal liability; provided, however, that the Agent may take any other action deemed proper by the Agent that is not inconsistent with such direction. Prior to taking any action hereunder, the Agent shall be entitled to indemnification satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

SECTION 5.6 Limitation on Suits. A Securityholder may not pursue any remedy with respect to this Agreement or the Securities unless:

(1) the Holder gives to the Agent written notice stating that an Event of Default is continuing;

(2) the Holders of at least 25% in principal amount of the Securities make a written request to the Agent to pursue the remedy;

(3) such Holder or Holders offer to the Agent reasonable security or indemnity against any loss, liability or expense;

(4) the Agent does not comply with the request within 60 days after receipt of the request and the offer of security or indemnity; and

(5) the Holders of a majority in principal amount of the Securities do not give the Agent a direction inconsistent with the request during such 60-day period.

A Securityholder may not use this Agreement to prejudice the rights of another Securityholder or to obtain a preference or priority over another Securityholder.

SECTION 5.7 Rights of Holders To Receive Payment. Notwithstanding any other provision of this Agreement, the right of any Holder to receive payment of principal of and interest on and any other amounts due under the Securities held by such Holder, on or after the respective due dates expressed in the Securities, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

SECTION 5.8 Collection Suit by Agent. If an Event of Default occurs and is continuing, the Agent may recover judgment in its own name and on behalf of the Holders against the Company for the whole amount then due and owing (together with interest on any unpaid interest to the extent lawful) and the amounts provided for in Section 6.07.

SECTION 5.9 Agent May File Proofs of Claim. The Agent may file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Agent and the Securityholders allowed in any judicial proceedings relative to the Company, its creditors or its property and, unless prohibited by law or applicable regulations, may vote on behalf of the Holders in any election of a trustee in bankruptcy or other Person performing similar functions, and any Custodian in any such judicial proceeding is hereby authorized by each Holder to make payments to the Agent and, in the event that the Agent shall consent to the making of such payments directly to the Holders, to pay to the Agent any amount due it for the reasonable compensation, expenses, disbursements and advances of the Agent, its agents and its counsel, and any other amounts due the Agent under Section 6.06.

SECTION 5.10 Priorities. If the Agent collects any money or property pursuant to this Article 5, it shall pay out the money or property in the following order:

FIRST: to the Agent for amounts due under Section 6.07;

SECOND: to Securityholders for amounts due and unpaid on the Securities,

ratably, without preference or priority of any kind, according to the amounts due and payable on the Securities; and

THIRD: after all amounts due under the Securities have indefeasibly been paid in full to the Holders, to the Company.

The Agent may fix a record date and payment date for any payment to Securityholders pursuant to this Section. At least 15 days before such record date, the Company shall mail to each Securityholder and the Agent a notice that states the record date, the payment date and amount to be paid.

SECTION 5.11 Undertaking for Costs. In any suit for the enforcement of any right or remedy under this Agreement or in any suit against the Agent for any action taken or omitted by it as Agent, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Agent or by a Holder against the Company,

SECTION 5.12 Waiver of Stay or Extension Laws. The Company (to the extent it may lawfully do so) shall not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Agreement; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and shall not hinder, delay or impede the execution of any power herein granted to the Agent or to any Holder, but shall suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE 6.

The Agent

SECTION 6.1 Duties of The Agent. (a) If an Event of Default has occurred and is continuing, the Agent shall exercise such of the rights and powers vested in it by this Agreement and use the same degree of care and skill in their exercise as the Agent would exercise or use under the circumstances in the conduct of the Agent's own affairs.

(b) Except during the continuance of an Event of Default:

(1) the Agent undertakes to perform such duties and only such duties as are specifically set forth in this Agreement and no implied covenants or obligations shall be read into this Agreement against the Agent; and

(2) in the absence of bad faith on its part, the Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Agent and

conforming to the requirements of this Agreement. However, the Agent shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Agreement.

(c) The Agent may not be relieved from liability for its own grossly negligent action, its own grossly negligent failure to act or its own wilful misconduct, except that:

(1) this paragraph does not limit the effect of paragraph (b) of this Section;

(2) the Agent shall not be liable for any error of judgment made in good faith unless it is proved that the Agent was grossly negligent in ascertaining the pertinent facts; and

(3) the Agent shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 5.05.

(d) Every provision of this Agreement that in any way relates to the Agent is subject to paragraphs (a), (b) and (c) of this Section.

(e) The Agent shall not be liable for interest on any money received by it.

(f) Money held in trust by the Agent need not be segregated from other funds except to the extent required by law.

(g) No provision of this Agreement shall require the Agent to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(h) Every provision of this Agreement relating to the conduct or affecting the liability of or affording protection to the Agent shall be subject to the provisions of this Section.

SECTION 6.2 Rights of Agent. (a) The Agent may rely on any document reasonably believed by it to be genuine and to have been signed or presented by the proper Person. The Agent need not investigate any fact or matter stated in the document.

(b) Before the Agent acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel. The Agent shall not be liable for any action it takes or omits to take in good faith in reliance on the Officers' Certificate or Opinion of Counsel.

(c) The Agent may act through agents or employees.

(d) The Agent shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; provided, however, that the Agent's conduct does not constitute wilful misconduct or gross negligence.

(e) The Agent may consult with counsel with respect to legal matters relating to this Agreement and the Securities shall be fully and completely protected from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

SECTION 6.3 Individual Rights of Agent. The Agent in its individual or any other capacity may become the owner or pledgee of Securities and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Agent. Any Paying Agent, Registrar, co-registrar or co-paying agent may do the same with like rights. However, the Agent must comply with Section 6.09.

SECTION 6.4 Agent's Disclaimer. The Agent shall not be responsible for and makes no representation as to the validity or adequacy of this Agreement or the Securities, it shall not be accountable for the Company's use of the proceeds from the Securities, and it shall not be responsible for any statement of the Company in the Agreement or in any document issued in connection with the sale of the Securities or in the Securities.

SECTION 6.5 Notice of Defaults. If a Default occurs and is continuing and if the Agent receives written notice thereof, the Agent shall mail to each Securityholder notice of the Default within 90 days after it occurs. Except in the case of a Default in payment of principal of or interest on any Security (including payments pursuant to purchase provisions of such Security, if any), the Agent may withhold the notice if and so long as it in good faith determines that withholding the notice is in the interests of Securityholders.

SECTION 6.6 Compensation and Indemnity. If neither the Agent nor any of its Affiliates is a Securityholder, the Company shall pay to the Agent from time to time reasonable compensation for its services. The Company shall reimburse the Agent upon request for all reasonable out-of-pocket expenses incurred or made by it, including costs of collection, in addition to the compensation for its services in connection with its performance of its duties under this Agreement. Such expenses shall include the reasonable compensation and expenses, disbursements and advances of the Agent's agents, counsel, accountants and experts. The Company shall indemnify the Agent against any and all loss, liability or reasonable expense (including reasonable attorneys' fees) incurred by it in connection with the administration of this agreement and the performance of its duties hereunder. The Agent shall notify the Company promptly of any claim for which it may seek indemnity. Failure by the Agent to so notify the Company shall not relieve the Company of its obligations hereunder. The Company shall defend the claim and the Agent may have separate counsel but the fees and expenses of such counsel shall be at the expense of the Agent unless (i) the employment of such counsel shall have been authorized in writing by the Company, (ii) the Company shall not have employed counsel to have charge of the defense of such action within 10 days after notice of commencement of the

action, or (iii) the Agent shall have reasonably concluded that there may be defenses available to it which are different from or additional to the those available to the Company, in any of which events such fees and expenses shall be paid by the Company. The Company shall not be liable for any settlement of any claim or action except with its written consent, which consent shall not be unreasonably withheld. The Company need not reimburse any expense or indemnify against any loss, liability or expense to the extent incurred by the Agent through the Agent's own wilful misconduct, negligence or bad faith.

To secure the Company's payment obligations in this Section, the Agent shall have a lien prior to the Securities on all money or property held or collected by the Agent other than money or property held in trust to pay amounts due under particular Securities.

The Company's payment obligations pursuant to this Section shall survive the discharge of this Agreement. When the Agent incurs expenses after the occurrence of a Default specified in Section 5.01(6) or (7) with respect to the Company, the expenses are intended to constitute expenses of administration under the Bankruptcy Law.

SECTION 6.7 Successor Agent by Merger. If the Agent consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Agent.

ARTICLE 7.

Discharge of Agreement

SECTION 7.1 Discharge of Liability on Securities. (a) When all outstanding Securities have become due and payable and the Company irrevocably and indefeasibly deposits with the Agent immediately available funds sufficient to pay at maturity all outstanding Securities, including interest thereon to maturity and any applicable premiums and other amounts due thereunder and payable hereunder by the Company, then this Agreement shall, subject to Section 7.01(b), cease to be of further effect. After such irrevocable and indefeasible payment, the Agent shall acknowledge satisfaction and discharge of this Agreement, other than those surviving obligations set forth in Section 7.01(b), on demand of the Company accompanied by an Officers' Certificate and an Opinion of Counsel and at the cost and expense of the Company.

(b) Notwithstanding clause (a) above, the Company's obligations in Sections 2.03, 2.04, 2.05, 2.06, 2.07, 6.06 and 6.07 and this Article 7 shall survive until the Securities have been paid in full. Thereafter, the Company's obligations in Sections 6.06, 7.04 and 7.05 shall survive.

SECTION 7.2 Repayment to Company. The Agent and the Paying Agent shall promptly turn over to the Company upon request any excess money or securities held by them at any time.

Subject to any applicable abandoned property law and the right of the Agent to publish or mail notice to Securityholders prior to making such payment to the Company, the Agent and the Paying Agent shall pay to the Company upon request any money held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, Securityholders entitled to the money must look to the Company for payment as general creditors.

ARTICLE 8.

Optional Conversion of Securities

SECTION 8.1 Optional Conversion Privilege and Conversion Price

Subject to and upon compliance with the provisions of this Article, at the option of the Holder thereof, any Security or any portion of the principal amount thereof which is \$100,000 or an integral multiple of \$1,000 in excess thereof may be converted at the principal amount thereof (without premium), or of such portion thereof, into fully paid and nonassessable shares (calculated as to each conversion to the nearest 1/100 of a share) of voting, or at the Holder's option, nonvoting Common Stock of the Company, at the conversion price, determined as hereinafter provided, in effect at the time of conversion. Such conversion right commences on and after June 9, 1998 and shall expire on May 31, 1999.

The price at which shares of Common Stock shall be delivered upon conversion (herein called the "conversion price") shall be initially \$6.00 per share of Common Stock. The Conversion Price shall be adjusted in certain instances as provided in paragraphs (1), (2), (3), (4), (7) and (8) of Section 8.04.

SECTION 8.2 Exercise of Optional Conversion Privilege

In order to exercise the conversion privilege, the Holder of any Security to be converted shall surrender such Security, duly endorsed or assigned to the Company or in blank, at any office or agency of the Company maintained for that purpose accompanied by written notice to the Company at such office or agency that the Holder elects to convert such Security or, if less than the entire principal amount thereof is to be converted, the portion thereof to be converted.

Securities shall be deemed to have been converted immediately prior to the close of business on the day of surrender of such Securities for conversion in accordance with the foregoing provisions, and at such time the rights of the Holders of such Securities as Holders shall cease, and the Person or Persons entitled to receive the Common Stock issuable upon conversion shall be treated for all purposes as the record holder or holders of such Common Stock at such time. As promptly as practicable on or after the conversion date, the Company shall issue and shall deliver at such office or agency a certificate or

certificates for the number of full shares of Common Stock issuable upon conversion, together with payment in lieu of any fraction of a share, as provided in Section 8.03.

In the case of any Security which is converted in part only, upon such conversion the Company shall execute and deliver to the Holder thereof, at the expense of the Company, a new Security or Securities of authorized denominations in aggregate principal amount equal to the unconverted portion of the principal amount of such Security.

SECTION 8.3 Fractions of Shares.

No fractional shares of Common Stock shall be issued upon conversion of Securities. If more than one Security shall be surrendered for conversion at one time by the same Holder, the number of full shares which shall be issuable upon conversion thereof shall be computed on the basis of the aggregate principal amount of the Securities (or specified portions thereof) so surrendered. Instead of any fractional share of Common Stock which would otherwise be issuable upon conversion of any Security or Securities (or specified portions thereof), the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction of the market price per share of Common Stock (as determined by the Board of Directors or in any manner prescribed by the Board of Directors) at the close of business on the day of conversion.

SECTION 8.4 Adjustment of Conversion Price

(1) In case the Company shall pay or make a dividend or other distribution on any class of capital stock of the Company in Common Stock, the conversion price in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be reduced by multiplying such conversion price by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination and the denominator shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination. For the purposes of this paragraph (1), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

(2) In case the Company shall issue or sell to any Person shares of Common Stock or rights or warrants entitling such Person to subscribe for or purchase shares of Common Stock at a price per share less than the higher of the current conversion price or the Current Market Price per share (determined as provided in paragraph (6) of this Section) of the Common Stock on the date fixed for the determination of stockholders entitled to receive such rights or warrants (or, in the case of rights or warrants not exercisable until the occurrence of a contingent event other than the passage of time or other event that is certain

to occur, on the date that such contingent event occurs), the conversion price in effect at the opening of business on the day following the date fixed for such determination or the date such contingent event occurs, as the case may be, shall be reduced by multiplying such conversion price by a fraction of which the numerator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination or the date such contingent event occurs, as the case may be, plus the number of shares of Common Stock which the aggregate of the offering price of the total number of shares of Common Stock so offered for subscription or purchase would purchase at the higher of the current conversion price or such Current Market Price and the denominator shall be the number of shares of Common Stock outstanding at the close of business on the date fixed for such determination or the date such contingent event occurs, as the case may be, plus the number of shares of Common Stock so offered for subscription or purchase, such reduction to become effective immediately after the opening of business on the day following the date fixed for such determination or the date such contingent event occurs, as the case may be. For the purposes of this paragraph (2), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not issue any rights or warrants in respect of shares of Common Stock held in the treasury of the Company.

(3) In case outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the conversion price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and, conversely, in case outstanding shares of Common Stock shall each be combined into a smaller number of shares of Common Stock, the conversion price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(4) In case the Company shall, by dividend or otherwise, distribute to all holders of its Common Stock evidences of its indebtedness or assets (including securities, but excluding any rights or warrants referred to in paragraph (2) of this Section, any dividend or distribution paid in cash out of the retained earnings of the Company and any dividend or distribution referred to in paragraph (1) of this Section), the conversion price shall be adjusted so that the same shall equal the price determined by multiplying the conversion price in effect immediately prior to the close of business on the date fixed for the determination of stockholders entitled to receive such distribution by a fraction of which the numerator shall be the lower of the current conversion price or the Current Market Price per share (determined as provided in paragraph (6) of this Section) of the Common Stock on the date fixed for such determination less the then fair market value (as determined in good faith by the Board of Directors, whose determination shall be supported by a fairness opinion by a nationally recognized investment banking firm and described in a Board Resolution filed with the Agent) of the portion of the assets or evidences

of indebtedness so distributed applicable to one share of Common Stock and the denominator shall be the lower of the current conversion price or such Current Market Price per share of the Common Stock, such adjustment to become effective immediately prior to the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such distribution.

(5) The reclassification of Common Stock into securities including other than Common Stock (other than any reclassification upon a consolidation or merger to which Section 8.11 applies) shall be deemed to involve (a) a distribution of such securities other than Common Stock to all holders of Common stock (and the effective date of such reclassification shall be deemed to be "the date fixed for the determination of stockholders entitled to receive such distribution" and "the date fixed for such determination" within the meaning of paragraph (4) of this Section), and (b) a subdivision or combination, as the case may be, of the number of shares of Common Stock outstanding immediately prior to such reclassification into the number of shares of Common Stock outstanding immediately thereafter (and the effective date of such reclassification shall be deemed to be "the day upon which such subdivision becomes effective" or "the day upon which such combination becomes effective", as the case may be, and "the day upon which such subdivision or combination becomes effective" within the meaning of paragraph (3) of this Section).

(6) For the purpose of any computation under paragraphs (2) and (4) of this Section, the current market price per share of Common Stock on any date (the "Current Market Price") shall be deemed to be the average of the daily closing prices per share of the Company's Common Stock for the 30 consecutive trading days immediately before the day in question; provided, however, that in the case of (i) a primary underwritten public offering at a price in excess of the then current conversion price, the Current Market Price shall be deemed the price to the underwriter set forth in the prospectus, and (ii) stock options issued to employees and directors pursuant to a plan adopted by the Company's Board of Directors, the Current Market Price shall be the exercise price of such options. The closing price for each day shall be the last reported sale price regular way or, in case no such reported sale takes place on such day, the average of the reported closing bid and asked prices regular way, on the principal national securities exchange on which the Common Stock is listed or admitted to trading or stock market if the Common Stock is not listed or admitted to trading on any national securities exchange or stock market, the average of the closing bid and asked prices in the over-the-counter market as reported by NASDAQ or, if not quoted by NASDAQ on such day, as furnished by any registered broker/dealer selected for that purpose.

(7) The Company may make such reductions in the conversion price, in addition to those required by paragraphs (1), (2), (3) and (4) of this Section, as it considers to be advisable in order that any event treated for Federal income tax purposes as a dividend of stock or stock rights shall not be taxable to the recipients.

(8) No adjustment in the conversion price shall be required unless such adjustment would require an increase or decrease of at least 1% in the conversion price; provided, however, that any adjustments which by reason of

this paragraph (8) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations shall be made to the nearest cent or to the nearest one-thousandth of a share, as the case may be.

(9) The Company represents and warrants that upon (a) the conversion in full of this Note and (b) the exercise in full of the option of Dynex Holding, Inc. ("Dynex") to purchase the shares of the Company's common stock under the Stock Option Agreement by and between Dynex and Messrs. Adrian Katz, William O. Winsauer and John S. Winsauer, dated as of June 9, 1998, the combined shareholdings of Dynex Capital, Inc. and Dynex will be at least 66-2/3% of the shares of the Company's common stock on a fully-diluted basis. If such representation and warranty is breached, then the Company agrees to adjust the conversion price so that such combined holdings would equal 66-2/3%, unless deemed unnecessary by the Agent.

SECTION 8.5 Notice of Adjustments of Conversion Price.

Whenever the conversion price is adjusted as herein provided:

(a) the Company shall compute the adjusted conversion price in accordance with Section 8.04 and shall prepare a certificate signed by the Treasurer of the Company setting forth the adjusted conversion price and showing in reasonable detail the facts upon which such adjustment is based, and such certificate shall forthwith be filed (with a copy to the Agent) at each office or agency maintained for the purpose of conversion of Securities; and

(b) a notice stating that the conversion price has been adjusted and setting forth the adjusted conversion price shall forthwith be required, and as soon as practicable after it is required, such notice shall be mailed by the Company to all Holders at their last addresses as they shall appear in the Security Register.

SECTION 8.6 Notice of Certain Corporate Action

In case:

(a) the Company shall declare a dividend (or any other distribution) on its Common Stock payable otherwise than in cash out of its retained earnings; or

(b) the Company shall authorize the granting to the holders of its Common Stock of rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any other rights; or

(c) of any reclassification of the Common Stock of the Company (other than a subdivision or combination of its outstanding shares of Common Stock), or of any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company; or

(d) of the voluntary or involuntary dissolution, liquidation or winding up

of the Company;

then the Company shall cause to be filed with the Agent and at each office or agency maintained for the purpose of conversion of Securities, and shall cause to be mailed to all Holders at their last addresses as they shall appear in the Security Register, at least 20 days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, rights or warrants, or, if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distribution, rights or warrants are to be determined, or (y) the date on which such reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding up.

SECTION 8.7 Company to Reserve Common Stock

The Company shall at all times reserve and keep available, free from pre-emptive rights, out of its authorized but unissued non-voting and voting Common Stock, for the purpose of effecting the conversion of Securities, the full number of shares of Common Stock then issuable upon the conversion of all outstanding Securities.

SECTION 8.8 Taxes on Conversions

The Company will pay any and all taxes that may be payable in respect of the issue or delivery of shares of Common Stock on conversion of Securities pursuant hereto. The Company shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in a name other than that of the Holder of the Security or Securities to be converted, and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Company the amount of any such tax, or has established to the satisfaction of the Company that such tax has been paid.

SECTION 8.9 Covenant as to Common Stock; Accounting Treatment of Consideration.

The Company covenants that all shares of Common Stock which may be issued upon conversion of Securities will upon issue be fully paid and nonassessable and, except as provided in Section 8.08, the Company will pay all taxes, liens and charges with respect to the issue thereof.

The Company covenants that, upon conversion of Securities as herein provided, there will be credited to Common Stock par capital from the consideration for which the shares of Common Stock issuable upon such conversion are issued an amount per share of Common Stock so issued as determined by the Board of Directors, which amount shall not be less than the amount required by

law and by the Company's certificate of incorporation, as amended, as in effect on the date of such conversion. For the purposes of this covenant the net proceeds received by the Company from the issuance and sale of the Securities converted, less any cash paid in respect of fractional share interests upon such conversion, shall be deemed to be the amount of consideration for which the shares of Common Stock issuable upon such conversion are issued.

SECTION 8.10 Cancellation of Converted Securities

All Securities delivered for conversion shall be delivered to the Company to be canceled.

SECTION 8.11 Provisions in Case of Consolidation, Merger or Sale of Assets.

In case of any consolidation of the Company with, or merger of the Company into, any other Person, any merger of another Person into the Company (other than a merger which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Common Stock of the Company) or any sale or transfer of all or substantially all of the assets of the Company, the Person formed by such consolidation or resulting from such merger or which acquires such assets, as the case may be, shall execute and deliver to the Agent a supplemental Agreement providing that the Holder of each Security then outstanding shall have the right thereafter, during the period such Security shall be convertible as specified in Section 8.01, to convert such Security only into the kind and amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer by a holder of the number of shares of Common Stock of the Company in which such Security might have been converted immediately prior to such consolidation, merger, sale or transfer, assuming such holder of Common Stock of the Company (i) is not a Person with which the Company consolidated or into which the Company merged or which merged into the Company or to which such sale or transfer was made, as the case may be ("constituent Person"), or an Affiliate of a constituent Person and (ii) failed to exercise his rights of election, if any, as to the kind or amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer (provided that if the kind or amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer is not the same for each share of Common Stock of the Company held immediately prior to such consolidation, merger, sale or transfer by others than a constituent Person or an Affiliate thereof and in respect of which such rights of election shall not have been exercised ("non-electing share"), then for the purpose of this Section the kind and amount of securities, cash and other property receivable upon such consolidation, merger, sale or transfer by each non-electing share shall be deemed to be the kind and amount so receivable per share by a plurality of the nonelecting shares). Such supplemental Agreement shall provide for adjustments which, for events subsequent to the effective date of such supplemental Agreement, shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article. The above provisions of this Section shall similarly apply to successive consolidations, mergers, sales or transfers.

SECTION 8.12 Registration and Listing of Shares.

The Company covenants that if any shares of Common Stock, required to be reserved for purposes of conversion of Securities hereunder, require registration with or approval of any governmental authority under any Federal, State or District of Columbia law before such shares may be issued upon conversion, the Company will in good faith and as expeditiously as possible endeavor to cause such shares to be duly registered or approved, as the case may be. The Company further covenants that so long as the Common Stock of the Company is listed on the NASDAQ Stock Market or any national securities exchange, the Company will, if permitted by the rules of NASDAQ or such exchange, list and keep listed on such exchange, upon official notice of issuance, all shares of Common Stock issuable upon conversion of Securities.

SECTION 8.13. Agent and Conversion Agents Not Liable

Neither the Agent nor any conversion agent shall at any time be under any duty or responsibility to any Holder of Securities to determine whether any facts exist which may require any adjustment of the conversion rate, or with respect to the nature or extent of any such adjustment when made, or with respect to the method employed, or herein or in any supplemental Agreement provided to be employed, in making the same. Neither the Agent nor any conversion agent shall be accountable with respect to the validity or value (or the kind or amount) of any shares of Common Stock or of any securities or cash or other property which may at any time be issued or delivered upon the conversion of any Security, or makes any representation with respect thereto. Neither the Agent nor any conversion agent shall be responsible for any failure of the Company to make any cash payment or to issue, transfer or deliver any shares of Common Stock or stock certificates or other securities or property upon the surrender of any Security for the purpose of conversion, or subject to Section 6.01, to comply with any of the covenants of the Company contained in this Article Eight.

SECTION 8.14. Registration Rights.

The Company agrees to provide to the Agent registration rights on substantially the same terms and conditions as those afforded to Messrs. Adrian Katz, William O. Winsauer and John S. Winsauer (the "Stockholders") pursuant to that certain Stock Option Agreement dated as of June 9, 1998 by and between Dynex Holding, Inc. and the Stockholders; provided, however, that the expense of such registration shall be borne by the Company.

ARTICLE 9.

[RESERVED]

ARTICLE 10.

Amendments

SECTION 10.1 Without Consent of Holders. The Company, when authorized by a resolution of its Board of Directors, and the Agent may amend this Agreement or the Securities without notice to or consent of any Securityholder:

(1 to cure any ambiguity, omission, defect or inconsistency;

(2) to comply with Article 4;

(3 to add guarantees with respect to the Securities or to secure the Securities;

(4 to add to the covenants of the Company for the benefit of the Holders or to surrender any right or power herein conferred upon the Company; or

(5 to make any change that does not adversely affect the rights of any Securityholder.

After an amendment under this Section becomes effective, the Company shall mail to Securityholders a notice briefly describing such amendment. The failure to give such notice to all Securityholders, or any defect therein, shall not impair or affect the validity of an amendment under this Section.

SECTION 10.2 With Consent of Holders. The Company, when authorized by a resolution of its Board of Directors, and the Agent may amend this Agreement or the Securities without notice to any Securityholder but with the written consent of the Holders of at least a majority in principal amount of the Securities. However, without the consent of each Securityholder affected, an amendment may not:

(1 reduce the amount of Securities whose Holders must consent to an amendment;

(2 reduce the rate of or extend the time for payment of interest on any Security;

(3 reduce the principal of or extend the Stated Maturity of any Security;

(4 make any Security payable in money other than that stated in the Security; or

(5 make any change in Section 5.04 or 5.07 or the second sentence of this Section.

It shall not be necessary for the consent of the Holders under this Section to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof.

After an amendment under this Section becomes effective, the Company shall mail to Securityholders a notice briefly describing such amendment. The failure

to give such notice to all Securityholders, or any defect therein, shall not impair or affect the validity of an amendment under this Section.

SECTION 10.3 Revocation and Effect of Consents and Waivers. A consent to an amendment or a waiver by a Holder of a Security shall bind the Holder and every subsequent Holder of that Security or portion of the Security that evidences the same debt as the consenting Holder's Security, even if notation of the consent or waiver is not made on the Security. However, any such Holder or subsequent Holder may revoke the consent or waiver as to such Holder's Security or portion of the Security if the Agent receives the notice of revocation before the date the amendment or waiver becomes effective. After an amendment or waiver becomes effective, it shall bind every Securityholder.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Securityholders entitled to give their consent or take any other action described above or required or permitted to be taken pursuant to this Agreement. If a record date is fixed, then notwithstanding the immediately preceding paragraph, those Persons who were Securityholders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to give such consent or to revoke any consent previously given or to take any such action, whether or not such Persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 120 days after such record date.

SECTION 10.4 Notation on or Exchange of Securities. If an amendment changes the terms of a Security, the Agent may require the Holder of the Security to deliver it to the Agent. The Agent may place an appropriate notation on the Security regarding the changed terms and return it to the Holder. Alternatively, if the Company or the Agent so determines, the Company in exchange for the Security shall issue new Security that reflects the changed terms. Failure to make the appropriate notation or to issue a new Security shall not affect the validity of such amendment.

SECTION 10.5 Agent To Sign Amendments. The Agent shall sign any amendment authorized pursuant to this Article 10 if the amendment does not adversely affect the rights, duties, liabilities or immunities of the Agent. If it does, the Agent may but need not sign it. In signing such amendment the Agent shall be entitled to receive indemnity reasonably satisfactory to it and to receive, and (subject to Section 6.01) shall be fully protected in relying upon, an Officers' Certificate and an Opinion of Counsel stating that such amendment is authorized or permitted by this Agreement.

SECTION 10.6 Payment for Consent. Neither the Company nor any Affiliate of the Company shall, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of this Agreement or the Securities unless such consideration is offered to be paid to all Holders that so consent, waive or agree to amend in the time frame set forth in solicitation documents relating to such consent, waiver or agreement.

ARTICLE 11.

Miscellaneous

SECTION 11.1 Notices. Any notice or communication shall be in writing and delivered in person or mailed by first-class mail, overnight delivery by a nationally recognized overnight delivery service, or sent by facsimile transmission addressed as follows:

if to the Company: 301 Congress Avenue 9th Floor
Austin, Texas 78701
Attn: Chairman

Fax: (512) 472-1548
Phone: (512) 472-3600

if to the Agent: 10900 Nuckols Road, Third Floor
Glen Allen, Virginia 23060
Attention: Master Servicing Department

Fax: (804) 217-5935
Phone: (804) 217-5800

if to Initial Holder: Dynex Capital, Inc.
10900 Nuckols Road, Third Floor
Glen Allen, Virginia 23060
Attention: Chief Financial Officer

Fax: (804) 217-5935
Phone: (804) 217-5800

The Company or the Agent by notice to the other may designate additional or different addresses for subsequent notices or communications.

Any notice or communication mailed to a Securityholder shall be mailed to the Securityholder at the Securityholder's address as it appears on the registration books of the Registrar and shall be sufficiently given if so mailed within the time prescribed.

Failure to mail a notice or communication to a Securityholder or any defect in it shall not affect its sufficiency with respect to other Securityholders. If a notice or communication is given in the manner provided above, it is duly given, upon receipt or (a) for mail, three Business Days thereafter, and (b) for overnight delivery on the following Business Day.

SECTION 11.2 Certificate and Opinion as to Conditions Precedent. Upon any request or application by the Company to the Agent to take or refrain from

taking any action under this Agreement, the Company shall furnish to the Agent:

(1 an Officers' Certificate in form and substance reasonably satisfactory to the Agent stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Agreement relating to the proposed action have been complied with; and

(2 an Opinion of Counsel in form and substance reasonably satisfactory to the Agent stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

SECTION 11.3 Statements Required in Certificate or Opinion. Each certificate or opinion with respect to compliance with a covenant or condition provided for in this Agreement shall include:

(1 a statement that the individual making such certificate or opinion has read such covenant or condition;

(2 a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3 a statement that, in the opinion of such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4 a statement as to whether or not, in the opinion of such individual, such covenant or condition has been complied with.

SECTION 11.4 When Securities Disregarded. In determining whether the Holders of the required principal amount of Securities have concurred in any direction, waiver or consent, Securities owned by the Company or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company shall be disregarded and deemed not to be outstanding, except that, for the purpose of determining whether the Agent shall be protected in relying on any such direction, waiver or consent, only Securities which the Agent knows are so owned shall be so disregarded. Also, subject to the foregoing, only Securities outstanding at the time shall be considered in any such determination.

SECTION 11.5 Legal Holidays. A "Legal Holiday" is a Saturday, a Sunday or a day on which banking institutions are not required to be open in the State of New York or in Texas. If a payment date is a Legal Holiday, payment shall be made on the next succeeding day that is not a Legal Holiday, and no interest shall accrue for the intervening period. If a regular record date is a Legal Holiday, the record date shall not be affected.

SECTION 11.6 Governing Law. This Agreement and the Securities shall be governed by, and construed in accordance with, the laws of the State of New York but without giving effect to applicable principles of conflicts of law to the

extent that the application of the laws of another jurisdiction would be required thereby.

SECTION 11.7 No Recourse Against Others. A director, officer, employee or stockholder, as such, of the Company shall not have any liability for any obligations of the Company under the Securities or this Agreement or for any claim based on, in respect of or by reason of such obligations or their creation. By accepting a Security, each Securityholder shall waive and release all such liability. The waiver and release shall be part of the consideration for the issue of the Securities.

SECTION 11.8 Successors. All agreements of the Company in this Agreement and the Securities shall bind its successors. All agreements of the Agent in this Agreement shall bind its successors.

SECTION 11.9 Multiple Originals. The parties may sign any number of copies of this Agreement. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Agreement.

SECTION 11.10 Table of Contents; Headings. The table of contents, cross-reference sheet and headings of the Articles and Sections of this Agreement have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first written above.

AUTOBOND ACCEPTANCE CORPORATION

By:

Name:
Title:

DYNEX CAPITAL, INC.

By:

Name:
Title:

EXECUTION COPY

AUTOBOND ACCEPTANCE CORPORATION

12% Convertible Senior Notes Due 2003

Senior Note Agreement

Dated as of June 9, 1998

DYNEX CAPITAL, INC.,

Agent

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Exhibit A

[FORM OF NOTE]

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. BY ITS ACCEPTANCE HEREOF, EACH PURCHASER REPRESENTS AND AGREES THAT THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT IN COMPLIANCE WITH THE

REGISTRATION PROVISIONS OF THE SECURITIES ACT AND ANY APPLICABLE PROVISIONS UNDER STATE SECURITIES LAWS OR PURSUANT TO AN AVAILABLE EXEMPTION FROM SUCH PROVISIONS. THE TRANSFER OF THIS NOTE IS SUBJECT TO CERTAIN CONDITIONS SET FORTH IN THE AGREEMENT REFERRED TO HEREIN.

12% Convertible Senior Note due 2003

No. §

AutoBond Acceptance Corporation, a corporation duly organized and existing under the laws of Texas (herein called the "Company", which term includes any successor corporation under the Agreement hereinafter referred to), for value received, hereby promises to pay to Dynex Capital, Inc., or registered assigns, the principal sum of \$3,000,000 on June __, 1999 and to pay interest thereon from June __, 1998 or from the most recent Interest Payment Date to which interest has been paid, quarterly on March 1, June 1, September 1, and December 1 in each year, commencing September 1, 1998 (and upon the Stated Maturity), in arrears at the rate of 12% per annum (14% after Stated Maturity), until the principal hereof is paid. Payment of the principal of (and premium, if any) and interest on this Security will be made by wire transfer in immediately available funds to the Holder. Interest shall be computed on the basis of actual days elapsed and a 360-day year consisting of twelve 30-day months.

This Security is one of a duly authorized issue of Securities of the Company designated as its 12% Convertible Notes due 2003 (herein called the "Securities"), limited in aggregate principal amount to \$3,000,000, issued pursuant to the Note Agreement, dated as of June 9, 1998 (herein called the "Agreement"), between the Company and Dynex Capital, Inc., as Note Agent (herein called the "Note Agent", which term includes any successor agent under the Agreement), to which Agreement and all Agreements supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Agent and the Holders of the Securities and of the terms upon which the Securities are, and are to be, executed and delivered.

Optional Conversion. Subject to and upon compliance with the provisions of the Agreement, the Holder of this Security is entitled, at such Holder's option, at any time on or before the close of business on June __, 1999, or in case this Security or a portion hereof is called for redemption, then in respect of this Security or such portion hereof until and including, but (unless the Company defaults in making the payment due upon redemption) not after, the close of business on the Redemption Date, to convert up to the principal amount of this Security (or any portion of the principal amount hereof which is \$100,000 or an integral multiple thereof in excess of \$1,000), at the principal amount hereof, or of such portion, into fully paid and nonassessable shares (calculated as to each conversion to the nearest 1/100 of a share) of Common Stock of the Company at a conversion price equal to \$6.00 in aggregate principal amount of Securities for each share of Common Stock (or at the current adjusted conversion price if

an adjustment has been made as provided in the Agreement) by surrender of this Security, duly endorsed or assigned to the Company or in blank, to the Company, accompanied by written notice to the Company that the holder hereof elects to convert this Security and the portion hereof to be converted. Accrued and unpaid interest to the date of conversion will be payable by the Company to the Holder. No payment or adjustment is to be made on conversion for dividends on the Common Stock issued on conversion. No fractions of shares or scrip representing fractions of shares will be issued on conversion, but instead of any fractional interest the Company shall pay a cash adjustment as provided in the Agreement. The conversion price is subject to adjustment as provided in the Agreement. In addition, the Agreement provides that in case of certain consolidations or mergers to which the Company is a party or the transfer of substantially all of the assets of the Company, the Agreement shall be amended, without the consent of any holders of Securities, so that this Security, if then outstanding, will be convertible thereafter, during the period this Security shall be convertible as specified above, only into the kind and amount of securities, cash and other property receivable upon the consolidation, merger or transfer by a holder of the number of shares of Common Stock into which this Security might have been converted immediately prior to such consolidation, merger or transfer (assuming such holder of Common Stock failed to exercise any rights of election and received per share the kind and amount of securities, cash or other property received per share by a plurality of non-electing shares).

If an Event of Default shall occur and be continuing, the principal of all the Securities and all other amounts due hereunder may be declared due and payable in the manner and with the effect provided in the Agreement.

The Agreement permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities under the Agreement at any time by the Company and the Agent with the consent of the Holders of not less than a majority in aggregate principal amount of the Securities at the time outstanding. The Agreement also contains provisions permitting the Holders of specified percentages in aggregate principal amount of the Securities at the time outstanding, on behalf of the Holders of all the Securities, to waive compliance by the Company with certain provisions of the Agreement and certain past defaults under the Agreement and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

No reference herein to the Agreement and no provision of this Security or of the Agreement shall alter or impair the right of the Holder, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and interest on this Security at the times, place and rate, and in the coin or currency (i.e., U.S. Dollars), herein prescribed or to convert this Security as provided in the Agreement.

As provided in the Agreement and subject to certain limitations therein set

forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities are issuable only in registered form without coupons in denominations of \$100,000 and any integral multiple of \$1,000 in excess thereof. As provided in the Agreement and subject to certain limitations therein set forth, Securities are exchangeable for a like aggregate principal amount of Securities of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Note Agent and any agent of the Company or the Note Agent may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Note Agent nor any such agent shall be affected by notice to the contrary.

This Security shall be governed by the laws of the State of New York (without reference to choice of law rules).

All terms used in this Security which are defined in the Agreement shall have the meanings assigned to them in the Agreement.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated: June 9, 1998

AUTOBOND ACCEPTANCE CORPORATION

By

Name:
Title:

[Form of Election to Convert]

To AutoBond Acceptance Corporation:

The undersigned owner of this Security hereby irrevocably exercises the option to convert this Security, or the portion below designated, into shares of Common Stock of AutoBond Acceptance Corporation in accordance with the terms of the Agreement referred to in this Security, and directs that the shares issuable and deliverable upon conversion, together with any check in payment for fractional shares, be issued in the name of and delivered to the undersigned registered Holder hereof, unless a different name has been indicated in the assignment below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto. Any amount required to be paid by the undersigned on account of interest accompanies this Security.

Dated:

Portion of Security to be converted
(\$1,000 or an integral multiple thereof):

\$

Signature (for conversion only) If shares of Common Stock are to be issued and registered otherwise than to the registered Holder named above, please print or typewrite name and address, including zip code, and social security or other taxpayer identifying number.

Exhibit 99.1

JOINT FILING AGREEMENT

In accordance with Rule 13d-1(k)(1)(iii) of Regulation 13D-G of the Securities Exchange Act of 1934, as amended, the undersigned hereby agree to the joint filing on behalf of each of them of a statement on Schedule 13D with respect to the Common Stock, no par value, of AutoBond Acceptance Corporation, and that this Agreement be included as an Exhibit to such joint filing. This Agreement may be executed in any number of counterparts all of which taken together shall constitute one and the same instrument. IN WITNESS WHEREOF, the undersigned hereby execute this Agreement this 19th day of June, 1998.

DYNEX HOLDING, INC.

Dated: June 19, 1998

By: s/ Stephen J. Benedetti
Stephen J. Benedetti
Vice President and Treasurer

DYNEX CAPITAL, INC.

Dated: June 19, 1998

By: s/ Stephen J. Benedetti
Vice President and Treasurer