

December 5, 2007

**REDWOOD
TRUST**

Redwood Trust Announces Sale of \$122 Million of Common Stock to Fund Investment Opportunities

MILL VALLEY, Calif.--(BUSINESS WIRE)--

Redwood Trust, Inc. (NYSE:RWT) today announced the sale of 4,097,609 shares of its common stock through its Direct Stock Purchase and Dividend Reinvestment Plan resulting in net proceeds to Redwood of \$122.5 million. Redwood expects to use the proceeds from the sale to fund investment opportunities and for other general corporate purposes.

"The recent dislocations in the residential mortgage market have strengthened our competitive position and brought about some welcome changes in asset pricing and the credit quality of newly issued mortgages. After several years of restrained growth, we are now finding attractive prime residential and other investment opportunities," said Marty Hughes, Redwood's Chief Financial Officer. "This additional equity bolsters our strong cash position and allows us to take advantage of these investment opportunities and to grow our residential credit-enhancement franchise."

For more information about Redwood Trust, Inc., please visit our website (www.redwoodtrust.com).

CAUTIONARY STATEMENT: This press release contains forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Forward-looking statements are not historical in nature and can be identified by words such as "anticipate," "estimate," "will," "should," "expect," "believe," "intend," "seek," "plan" and similar expressions or their negative forms, or by references to strategy, plans, or intentions. These forward-looking statements are subject to risks and uncertainties, including, among other things, those described in our Annual Report on Form 10-K for the year ended December 31, 2006 under the caption "Risk Factors." Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected are described below and may be described from time to time in reports we file with the Securities and Exchange Commission (SEC), including reports on Forms 10-K, 10-Q, and 8-K. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Important factors, among others, that may affect our actual results include: changes in interest rates; changes in prepayment rates; general economic conditions, particularly as

they affect the price of earning assets and the credit status of borrowers; the availability of high quality assets for purchase at attractive prices; declines in home prices; increases in mortgage payment delinquencies; changes in the level of liquidity in the capital markets which may adversely affect our ability to finance our real estate asset portfolio; changes in liquidity in the market for real estate securities, the re-pricing of credit risk in the capital markets, rating agency downgrades of securities and increases in the supply of real estate securities available for sale, each of which may adversely affect the values of securities we own; the extent of changes in the values of securities we own and the impact of adjustments reflecting those changes on our income statement and balance sheet, including our stockholders' equity; our ability to maintain the positive stockholders' equity necessary to enable us to pay the dividends required to maintain our status as a real estate investment trust for tax purposes; and other factors not presently identified. This press release may contain statistics and other data that in some cases have been obtained from or compiled from information made available by servicers and other third-party service providers.

Source: Redwood Trust, Inc.