

January 17, 2007

**R E D W O O D
T R U S T**

Redwood Trust, Inc. Announces Dividend Tax Information for 2006

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

Redwood Trust, Inc. (NYSE:RWT) today announced tax information regarding its dividend distributions for 2006.

Shareholders should check the tax statements they receive from brokerage firms to make sure the Redwood dividend information reported in those statements conforms to the information reported here. Furthermore, shareholders should consult their tax advisors to determine the amount of taxes that should be paid on Redwood's dividend income.

Under the tax rules applicable to real estate investment trusts (REITs) such as Redwood, the \$0.70 per share fourth quarter 2005 regular common stock dividend that had a record date of December 30, 2005 and a payment date of January 23, 2006 was reportable on shareholders' 2005 tax returns.

All of the other common stock dividends paid during 2006 are reportable on shareholders' 2006 tax returns, including three \$0.70 per share quarterly regular dividends and the fourth quarter special dividend of \$3.00 per share. In addition, the \$0.70 per share fourth quarter 2006 common stock dividend with a record date of December 29, 2006 that will be paid on January 22, 2007 is also reportable on shareholders' 2006 tax returns.

Thus, for 2006, Redwood shareholders that held stock for this entire period should report a total of \$5.80 per share of common stock dividends for tax purposes.

Under the tax rules applicable to REITs, each of Redwood's 2006 dividend distributions are characterized for tax purposes as 100% ordinary income. None of Redwood's 2006 dividend distributions are characterized for tax purposes as long-term capital gain dividends.

The distributions made in 2006 do not include any return of capital.

As a REIT, the portion of Redwood's dividends that is characterized as ordinary income is generally taxed at full ordinary income rates.

The table below provides more detailed information for each of Redwood's common stock dividends that are taxable in 2006.

Common Stock (CUSIPs 758075 40 2)

Dividend Declaration Type	Record Dates	Payable Dates	Total Distribution Per Share	Ordinary Income
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Regular	3/10/2006	3/31/2006	4/21/2006	\$0.70	\$0.70
Regular	5/12/2006	6/30/2006	7/21/2006	\$0.70	\$0.70
Regular	8/24/2006	9/29/2006	10/23/2006	\$0.70	\$0.70
Special	11/13/2006	11/27/2006	12/8/2006	\$3.00	\$3.00
Regular	11/13/2006	12/29/2006	1/22/2007	\$0.70	\$0.70
Total				\$5.80	\$5.80

Return of Capital	Long Term Capital Gains	#Of Shares	Total \$ Paid
\$0.00	\$0.00	25,381,858	\$17,767,301
\$0.00	\$0.00	25,667,553	\$17,967,287
\$0.00	\$0.00	26,053,016	\$18,237,111
\$0.00	\$0.00	26,317,065	\$78,951,195
\$0.00	\$0.00	26,733,460	\$18,713,422
\$0.00	\$0.00		\$151,636,316

For shareholders that are corporations, Redwood's dividends are not generally eligible for the corporate dividends-received deduction.

No portion of Redwood's 2006 dividends consisted of unrelated business taxable income (UBTI), which is subject to specialized tax reporting and other rules applicable for certain tax exempt investors.

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.

Statements that are not historical in nature, including the words "anticipated," "estimated," "should," "expect," "believe," "intend," and similar expressions, are intended to identify forward-looking statements. These forward-looking statements are subject to risks and uncertainties, including, among other things, those described in our 2005 Annual Report on Form 10-K under Item 1A "Risk Factors." Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected are detailed from time to time in reports filed by us with the Securities and Exchange Commission, including Forms 10-K, 10-Q, and 8-K. Important factors that may impact our actual results include changes in interest rates and market values; changes in prepayment rates; general economic conditions, particularly as they affect the price of earning assets and the credit status of borrowers; the level of liquidity in the capital markets as it affects our ability to finance our real estate asset portfolio; and other factors not presently identified. In light of these risks, uncertainties, and assumptions, the forward-looking events mentioned in, discussed in, or incorporated by reference into this press release might not occur. Accordingly, our actual results may differ from our current expectations, estimates, and projections. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Source: Redwood Trust, Inc.