

November 5, 2007

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

Redwood Trust Declares a Fourth Quarter Regular Dividend and a Special Dividend

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

Redwood Trust, Inc. (NYSE:RWT) today announced the declaration of a regular quarterly dividend and a special dividend.

Redwood's Board of Directors authorized the payment of a fourth quarter regular cash dividend of \$0.75 per share, payable on January 22, 2008 to stockholders of record at the close of business on December 31, 2007.

Redwood's Board of Directors also authorized payment of a special cash dividend of \$2.00 per share, payable on December 7, 2007 to stockholders of record on November 26, 2007.

"Our primary financial goal is to deliver the highest sum of dividends per share over time," said George Bull, Redwood's Chairman and CEO. "With the payment of these dividends, we will have paid over \$945 million to shareholders since the inception of the Company in 1994. The Board has indicated it intends to maintain Redwood's regular dividend rate of \$0.75 per share per quarter during 2008."

As in prior years, to support the maintenance of the regular quarterly dividend in 2008, Redwood intends to defer the distribution of a portion of REIT taxable income earned in 2007 until 2008. Based on the number of currently outstanding shares, Redwood expects the amount of the deferred 2007 taxable income to exceed three quarters of dividends at its anticipated 2008 regular dividend rate. Furthermore, Redwood intends to retain approximately 10% of the ordinary REIT taxable income it earns during 2007, and intends to retain the income earned at taxable subsidiaries. Retaining earnings helps Redwood to build book value per share, which should help support long-term growth in earnings and dividends per share. Redwood expects all of its 2007 dividends to be taxable as ordinary income. Redwood will distribute information on the tax composition of its 2007 dividends prior to January 31, 2008.

Redwood Trust, Inc. invests in and manages residential and commercial real estate assets. For tax purposes, we are structured as a real estate investment trust (REIT).

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.