

The Effect of Rising Interest Rates on Redwood Trust, Inc.

April 2018

REDWOOD TRUST

Cautionary Statements

This presentation may contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including estimated financial results for the quarter ended March 31, 2018. 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, 2017 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, 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: the pace at which we redeploy our available capital into new investments; interest rate volatility, changes in credit spreads, and changes in liquidity in the market for real estate securities and loans; changes in the demand from investors for residential mortgages and investments, and our ability to distribute residential mortgages through our whole-loan distribution channel; our ability to finance our investments in securities and our acquisition of residential mortgages with short-term debt; changes in the values of assets we own; general economic trends, the performance of the housing, real estate, mortgage, credit, and broader financial markets, and their effects on the prices of earning assets and the credit status of borrowers; federal and state legislative and regulatory developments, and the actions of governmental authorities, including the new U.S. presidential administration, and in particular those affecting the mortgage industry or our business (including, but not limited to, the Federal Housing Finance Agency’s rules relating to FHLB membership requirements and the implications for our captive insurance subsidiary’s membership in the FHLB); strategic business and capital deployment decisions we make; developments related to the fixed income and mortgage finance markets and the Federal Reserve’s statements regarding its future open market activity and monetary policy; our exposure to credit risk and the timing of credit losses within our portfolio; the concentration of the credit risks we are exposed to, including due to the structure of assets we hold and the geographical concentration of real estate underlying assets we own; our exposure to adjustable-rate mortgage loans; the efficacy and expense of our efforts to manage or hedge credit risk, interest rate risk, and other financial and operational risks; changes in credit ratings on assets we own and changes in the rating agencies’ credit rating methodologies; changes in interest rates; changes in mortgage prepayment rates; changes in liquidity in the market for real estate securities and loans; our ability to finance the acquisition of real estate-related assets with short-term debt; the ability of counterparties to satisfy their obligations to us; our involvement in securitization transactions, the profitability of those transactions, and the risks we are exposed to in engaging in securitization transactions; exposure to claims and litigation, including litigation arising from our involvement in securitization transactions; ongoing litigation against various trustees of RMBS transactions; whether we have sufficient liquid assets to meet short-term needs; our ability to successfully compete and retain or attract key personnel; our ability to adapt our business model and strategies to changing circumstances; changes in our investment, financing, and hedging strategies and new risks we may be exposed to if we expand our business activities; our exposure to a disruption or breach of the security of our technology infrastructure and systems; exposure to environmental liabilities; our failure to comply with applicable laws and regulations; our failure to maintain appropriate internal controls over financial reporting and disclosure controls and procedures; the impact on our reputation that could result from our actions or omissions or from those of others; changes in accounting principles and tax rules; our ability to maintain our status as a REIT for tax purposes; limitations imposed on our business due to our REIT status and our status as exempt from registration under the Investment Company Act of 1940; decisions about raising, managing, and distributing capital; and other factors not presently identified.

This presentation contains estimates and information concerning our industry, including market size and growth rates of the markets in which we participate, that are based on industry publications and reports. This information involves many assumptions and limitations, and you are cautioned not to give undue weight to these estimates. We have not independently verified the accuracy or completeness of the data contained in these industry publications and reports. The industry in which we operate is subject to a high degree of uncertainty and risk due to a variety of factors, including those referred to above, that could cause results to differ materially from those expressed in these publications and reports.

What Makes Redwood Unique

- While we are often categorized by our mortgage REIT tax election, we operate as a specialty finance company with a unique mortgage banking platform and an ability to create attractive investments for our credit-focused investment portfolio

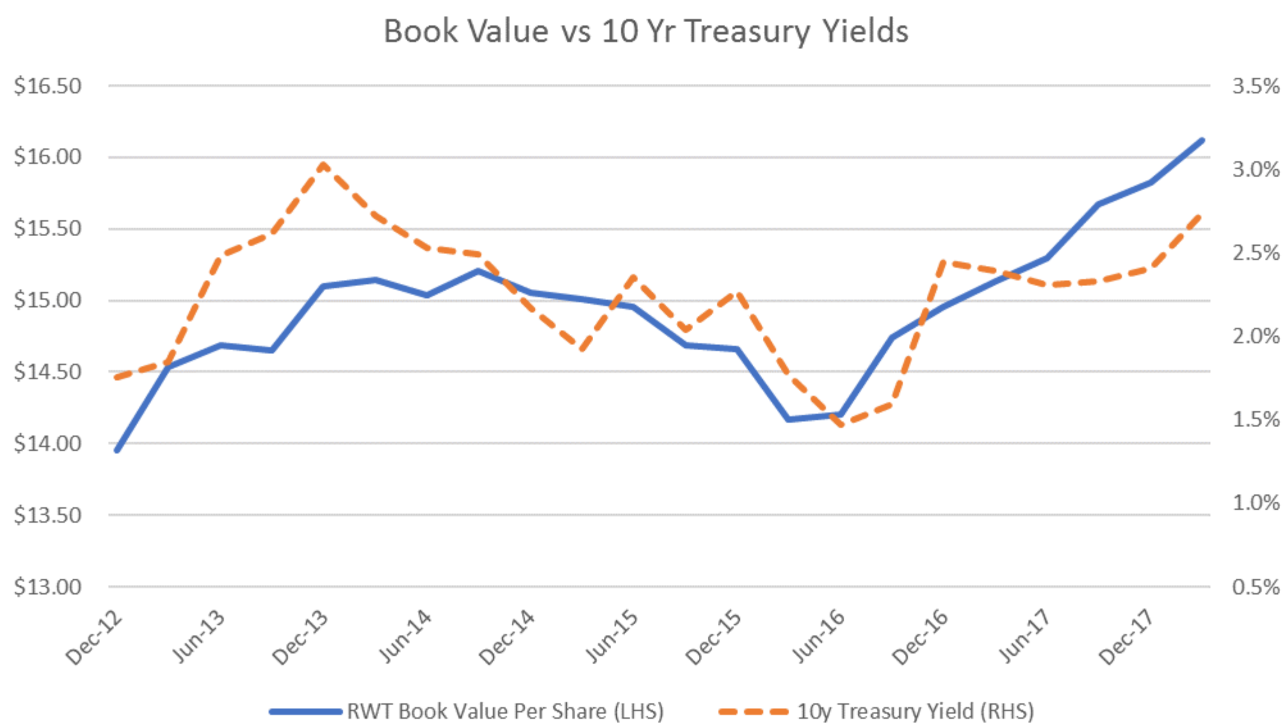
- At times, industry generalizations can create potentially misleading perceptions about the drivers of our earnings and book value, such as changes in benchmark interest rates and the corresponding shape of the yield curve

- Contrary to other mortgage REIT strategies, the success of our business is not generally predicated upon low benchmark interest rates or a steep yield curve

    - Redwood's estimated book value per share increased 1.8% to $16.12 in the first quarter of 2018, in spite of the 10-year Treasury yield increasing 33 basis points and the spread between 2-year and 10-year Treasury yields flattening to less than 50 basis points

Redwood's Book Value Is Correlated to Housing Credit

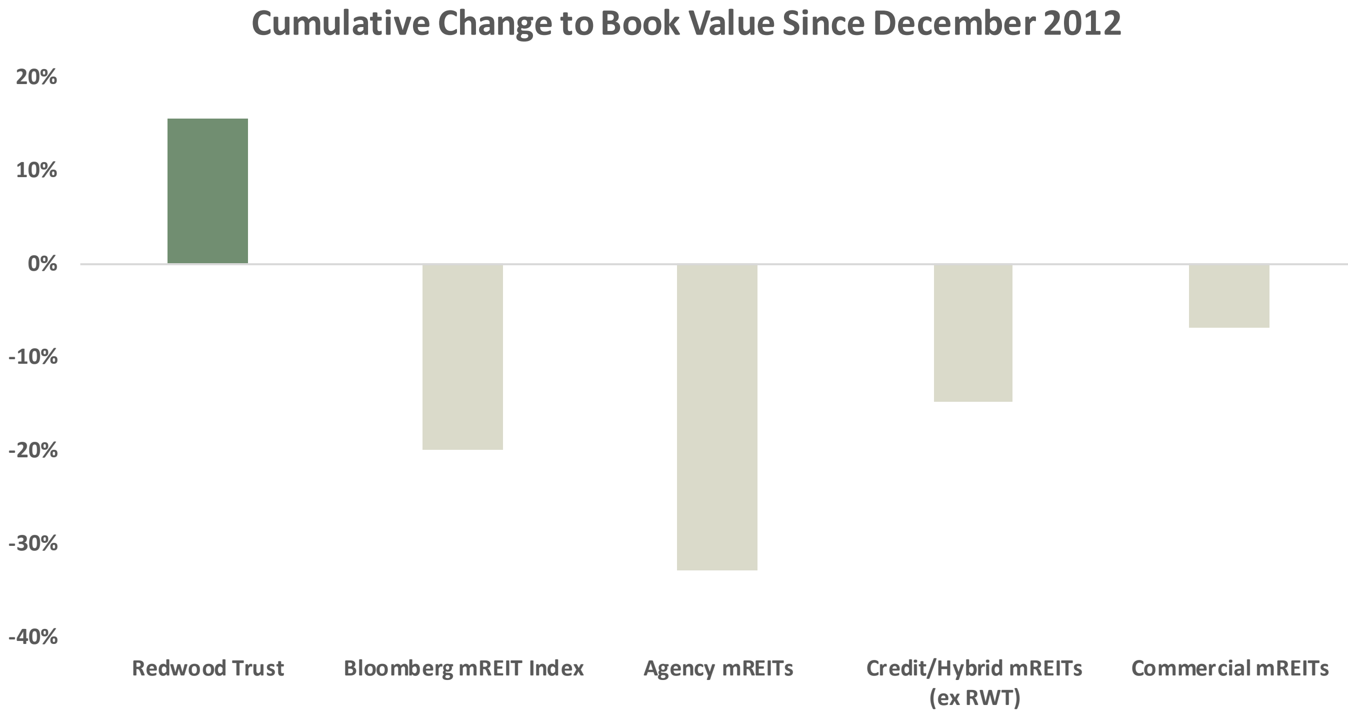
- Higher interest rates have been a general indication of perceived stronger economic growth, fewer defaults and improved housing credit performance
- As a housing credit investor, Redwood's book value has increased over the past five years, as the outlook for economic growth has improved, and the 10-year Treasury yield has correspondingly risen



Source: Bloomberg and Redwood Trust

Redwood's Book Value Has Outperformed Other Mortgage REIT Sectors

- Redwood's book value per share has increased materially compared to book value declines, on average, for other mortgage REIT sectors over the past five years



Notes:

1. Amounts in this table are calculated using the latest publicly available book value as of April 26, 2018, and Redwood's estimated book value as of March 31, 2018
2. Agency, Credit/Hybrid and Commercial mREIT sub-groups include all current members of the Bloomberg mREIT index, except those without publicly available book values as of December 2012, and are weighted based on their weightings in the Bloomberg mREIT index
3. Agency mREITs include NLY, AGNC, CYS, ARR, CMO, ANH; Credit/Hybrid mREITs include RWT, CIM, MFA, TWO, IVR, PMT, MTGE, MITT, WMC, EARN, SLD; Commercial mREITs include STWD, BXMT, ARI, NYMT, ABR, DX, RSO, LOAN, RAS

Investment Portfolio and Mortgage Banking Interest Rate Sensitivity

- Redwood seeks to manage interest rate risk by using a combination of interest rate derivatives and other instruments to hedge the interest rate risk associated with certain of our long-term investments and our mortgage pipeline
- As illustrated by our estimated first quarter 2018 book value increase, the impact of recent interest rate volatility on Redwood was relatively muted due primarily to our emphasis on investing in credit sensitive assets, our hedging strategy, and our lower leverage versus other mortgage REITs

Capital Allocation Detail By Investment Type March 31, 2018 ($ in millions)					Estimated Durations (%) March 31, 2018		
		GAAP Fair Value		Allocated Capital	Assets	Hedges	Duration Gap
Residential loans	$	2,419	$	419	4.5	(4.5)	(0.0)
Securities portfolio		1,445		853	2.5	(2.0)	0.5
Mortgage servicing rights		66		66	(11.6)	13.1	1.5
Total investments	**$**	**3,930**	**$**	**1,338**	**3.5**	**(3.3)**	**0.2**
Residential mortgage banking	**$**	**1,130**	**$**	**200**	**4.3**	**(4.4)**	**(0.1)**
Total	**$**	**5,060**	**$**	**1,538**	**3.7**	**(3.5)**	**0.1**

Notes:
1. Values in table represent estimates and may not foot due to rounding
2. Our corporate debt hedge to fix the interest expense of our long-term trust preferred securities is not included in the table above nor are our fixed-rate convertible debt issuances
3. The hedge duration is adjusted to help comparability by dividing the dollar duration of the hedges by the assets market value