

Redwood Trust, Inc.

Announcement of Option Exercise to Acquire Remaining 80% of 5 Arches, LLC

January 2019

Forward Looking Statements

This presentation may contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements relating to Redwood's business, growth, and prospects, and statements relating to 2019 business purpose loan investments and earnings potential, including target origination volume, associated annual capital deployment, and target return profile. 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.

Transaction Summary

- On January 22, 2019, Redwood exercised its option to acquire the remaining interest in 5 Arches, LLC ("5 Arches"), an Irvine, California-based lender focused on the origination and asset management of business-purpose real estate loans
  - In May 2018, Redwood acquired a 20% minority interest in 5 Arches for $10 million in cash
  - Incremental consideration for the full purchase is $40 million, to be paid in a mix of cash and Redwood stock
    - A portion of the remaining consideration is payable only if 5 Arches reaches agreed-upon origination volumes in the 2-year period post-closing
- The transaction provides Redwood with:
  - Exclusive access to 5 Arches' growing originations pipeline (approximately $850 million of originations in 2018)
  - Robust asset management capabilities for single-family rental and bridge loans for single-family and small-balance multifamily properties

Transaction Rationale and Benefits

Accelerates access to business purpose lending pipeline

- Purchasing 5 Arches provides Redwood with a valuable new competency in business purpose real estate lending
- Scalable market opportunity with 16 million discrete owners of single-family rental properties in the U.S.[1] and aged housing stock that has created a long-term opportunity for business purpose real estate loans

Creates value by applying Redwood's expertise to new loan types

- Allows Redwood to apply its expertise in housing credit, product development, and structured finance to expanding and evolving segments of the housing market
- Recent evolution of financing vehicles for bridge loans has favorably impacted investment economics

Expected to generate EPS & book value growth

- Provides access to meaningful housing credit investments accretive to our earnings and book value per share
- 5 Arches delivered strong top-line revenue and operating margin growth in 2018

(1) Source: HouseCanary

Origination and Investment Creation Potential

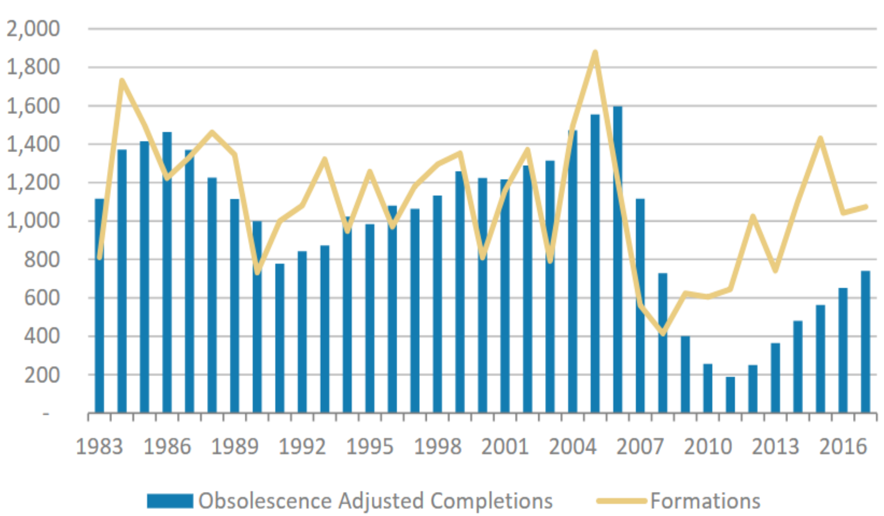
2019 Business Purpose Lending (BPL) Investment & Earnings Potential	
Target Origination Volume [(1)]	$900 million - $1.0 billion
Associated Capital Deployment[(1)]	$200 million - $300 million
Target Return Profile on Investments[(2)]	12-15%

(1) Includes single-family rental and residential bridge loans
(2) Return targets are based on our market observations, estimates, and assumptions, including our assumptions regarding the use of leverage, credit losses, prepayment speeds, and market interest rates. Actual returns may differ based on these or other factors.

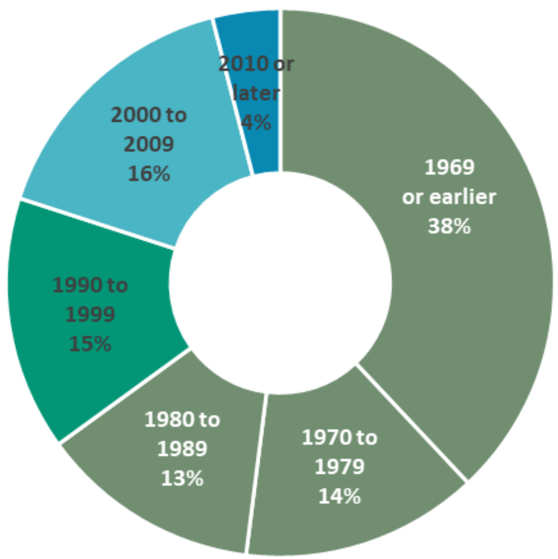
The Macro Environment Continues to Support Growth in the Business Purpose Lending Market

- Demand for housing continues to exceed supply, and housing stock is aging
- Household formations have outpaced completions for the past 10 years (adjusted for housing stock that is no longer inhabitable)
- Almost 70% of U.S. housing stock is over 30 years old

Housing Formations and Completions



U.S. Housing Stock by Year Built



Source: US Census Bureau, Haver Analytics, Morgan Stanley Research. HousingWire, NAHB

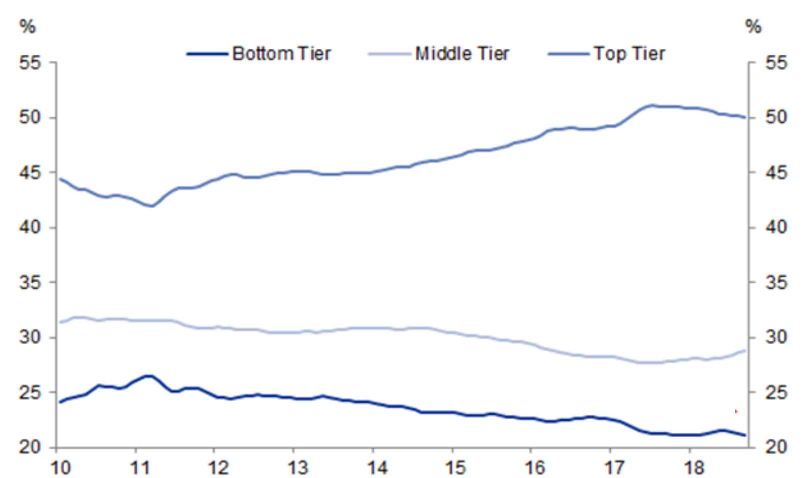
The Single-Family Rental Market is Significant, Though Many Owners Have Limited Access to Funding

- The single-family rental market remains the largest rental market by both valuation and households served
  - Ownership of single-family rental properties remains diffuse across a broad array of investors, many of whom are not served by traditional financing products
- The supply/demand imbalance for low- and middle-tier priced housing continues to grow as household formation exceeds net supply at these price points

SFR Market Share by # of Properties Owned

Portfolio Size	# of Owners	Market Share	Aggregate Property Value
1	8,603,303	49%	$1,827,086,409,887
2-10	2,410,598	42%	$1,554,371,202,484
11-500	80,877	8%	$280,949,066,239
500+	50	1%	$39,636,390,345
	11,094,828	**100.0%**	**$3,702,043,068,955**

Share of U.S. Homes for Sale by Price Tier



Source: RentRange, Goldman Sachs Global Investment Research