

November 3, 2010

REDWOOD
TRUST

Redwood Trust Reports Third Quarter 2010 Results

MILL VALLEY, Calif., Nov. 3, 2010 /PRNewswire-FirstCall/ -- Redwood Trust, Inc. (NYSE: RWT) today reported net income for the third quarter of 2010 of \$20 million, or \$0.25 per fully diluted share. This compares to net income of \$29 million, or \$0.35 per fully diluted share, for the second quarter of 2010, and net income of \$27 million, or \$0.34 per fully diluted share, for the third quarter of 2009.

Redwood also reported an estimated taxable loss of \$9 million, or \$0.11 per share, during the third quarter of 2010. This compares to estimated taxable loss of \$3 million, or \$0.03 per share, for the second quarter of 2010, and a taxable loss of \$23 million, or \$0.30 per share, for the third quarter of 2009.

At September 30, 2010, GAAP book value was \$13.02 per share, an increase of \$0.31 per share from June 30, 2010, and management's estimate of non-GAAP economic value was \$13.73 per share, an increase of \$0.36 per share from June 30, 2010.

During the third quarter of 2010, Redwood acquired \$50 million of residential securities. Redwood ended the quarter with a total securities portfolio of \$797 million, up from \$734 million at the beginning of the quarter, and with \$189 million of cash and cash equivalents.

Please see the tables that follow for reconciliations between GAAP and non-GAAP metrics. Additional information on Redwood's business, financial results, and on non-GAAP metrics is available in Redwood's Quarterly Report on Form 10-Q for the three months ended September 30, 2010, which was filed today with the Securities and Exchange Commission, and is also available on Redwood's website at www.redwoodtrust.com.

The accounting concepts and disclosures relating to Redwood's financial statements are complex. The Redwood Review is an additional publication that provides information about Redwood. Today, The Redwood Review was released covering the third quarter of 2010 and is available on our website.

Cautionary Statement: This press release contains forward-looking statements within the meaning of 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 beliefs, 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, 2009, under the caption "Risk Factors." Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected may be described from time to time in reports we file with the Securities and Exchange Commission (SEC), including reports on Forms 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.

REDWOOD TRUST, INC.

| Consolidated Income Statements | Third | Second | First | Fourth | Third |
|--|---------|---------|---------|---------|---------|
| (\$ in millions, except share data) | Quarter | Quarter | Quarter | Quarter | Quarter |
| | 2010 | 2010 | 2010 | 2009 | 2009 |
| Interest income | \$ 59 | \$ 56 | \$ 58 | \$ 62 | \$ 70 |
| Interest expense | (24) | (21) | (18) | (21) | (25) |
| Net interest income | 35 | 35 | 40 | 41 | 45 |
| Provision for loan losses | (2) | (4) | (9) | (9) | (10) |
| Market valuation adjustments, net | (2) | (7) | (11) | (4) | (11) |
| Net interest income after provision and market valuation adjustments | 31 | 24 | 20 | 28 | 24 |
| Operating expenses | (12) | (11) | (17) | (11) | (15) |
| Realized gains, net | 2 | 16 | 44 | 20 | 18 |
| Benefit from income taxes | - | - | - | 3 | - |
| Net income | 21 | 29 | 47 | 40 | 27 |
| Less: Net income attributable to noncontrolling interest | 1 | - | - | - | - |
| GAAP Net Income | \$ 20 | \$ 29 | \$ 47 | \$ 40 | \$ 27 |
| Average diluted shares (thousands) | 78,961 | 78,852 | 78,542 | 78,101 | 78,059 |

| | | | | | |
|---|---------|---------|---------|---------|---------|
| Diluted earnings per share | \$ 0.25 | \$ 0.35 | \$ 0.58 | \$ 0.51 | \$ 0.34 |
| Regular dividends declared per common share | \$ 0.25 | \$ 0.25 | \$ 0.25 | \$ 0.25 | \$ 0.25 |

REDWOOD TRUST, INC.

| Consolidated Income Statements (\$ in millions, except share data) | Nine Months Ended | |
|--|-----------------------|-----------|
| | September 30, 2010 | 2009 |
| Interest income | \$ 174 | \$ 226 |
| Interest expense | (63) | (112) |
| Net interest income | 111 | 114 |
| Provision for loan losses | (16) | (41) |
| Market valuation adjustments, net | (20) | (83) |
| Net interest income (loss) after provision and market valuation adjustments | 75 | (10) |
| Operating expenses | (41) | (36) |
| Realized gains, net | 62 | 44 |
| Benefit from income taxes | - | 1 |
| Net income (loss) | 96 | (1) |
| Less: Net income attributable to noncontrolling interest | 1 | - |
| GAAP Net Income (Loss) | \$ 95 | \$ (1) |
| | | |
| Average diluted shares (thousands) | 78,764 | 65,363 |
| Diluted earnings (loss) per share | \$ 1.18 | \$ (0.02) |
| Regular dividends declared per common share | \$ 0.75 | \$ 0.75 |

REDWOOD TRUST, INC.

| Consolidated Balance Sheets | 30-Sep | 30-Jun | 31-Mar | 31-Dec | 30-Sep |
|---|----------|----------|----------|----------|----------|
| (\$ in millions, except share data) | 2010 | 2010 | 2010 | 2009 | 2009 |
| Real estate loans | \$ 3,752 | \$ 3,810 | \$ 3,662 | \$ 3,740 | \$ 3,831 |
| Real estate securities, at fair value: | | | | | |
| Trading securities | 310 | 276 | 289 | 278 | 275 |
| Available-for-sale securities | 798 | 741 | 847 | 810 | 787 |
| Other investments | - | 4 | 11 | 20 | 29 |
| Cash and cash equivalents | 189 | 288 | 242 | 243 | 217 |
| Other assets | 113 | 100 | 144 | 162 | 146 |
| Total Assets | \$ 5,162 | \$ 5,219 | \$ 5,195 | \$ 5,253 | \$ 5,285 |
| Short-term debt | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other liabilities | 163 | 142 | 207 | 181 | 203 |
| Asset-backed securities issued - Sequoia entities | 3,568 | 3,681 | 3,557 | 3,645 | 3,728 |
| Asset-backed securities issued - Acacia entities | 264 | 253 | 280 | 298 | 288 |
| Long-term debt | 140 | 140 | 140 | 140 | 140 |
| Total liabilities | 4,135 | 4,216 | 4,184 | 4,264 | 4,359 |
| Stockholders' equity | 1,016 | 991 | 998 | 972 | 907 |
| Noncontrolling interest | 11 | 12 | 13 | 17 | 19 |
| Total equity | 1,027 | 1,003 | 1,011 | 989 | 926 |

| | | | | | |
|------------------------------|----------|----------|----------|----------|----------|
| Total Liabilities and Equity | \$ 5,162 | \$ 5,219 | \$ 5,195 | \$ 5,253 | \$ 5,285 |
|------------------------------|----------|----------|----------|----------|----------|

| | | | | | |
|--|--------|--------|--------|--------|--------|
| Shares outstanding at period end (thousands) | 77,984 | 77,908 | 77,751 | 77,737 | 77,669 |
|--|--------|--------|--------|--------|--------|

| | | | | | |
|---------------------------|----------|----------|----------|----------|----------|
| GAAP book value per share | \$ 13.02 | \$ 12.71 | \$ 12.84 | \$ 12.50 | \$ 11.68 |
|---------------------------|----------|----------|----------|----------|----------|

REDWOOD TRUST,
INC.

Consolidating
Income Statement

Three Months
Ended September
30, 2010

| | Redwood | 2010 | Other | Intercompany | Redwood |
|-------------------------------------|----------|---------|----------|--------------|--------------|
| (\$ in millions) | (Parent) | Sequoia | Entities | Adjustments | Consolidated |
| Interest income | \$ 17 | \$ 2 | \$ 30 | \$ - | \$ 49 |
| Net discount amortization | 10 | - | - | - | 10 |
| Total interest income | 27 | 2 | 30 | - | 59 |
| Interest expense | (3) | (1) | (20) | - | (24) |
| Net interest income | 24 | 1 | 10 | - | 35 |
| Provision for loan losses | - | - | (2) | - | (2) |
| Market valuation adjustments, net | - | - | (2) | - | (2) |
| Net interest income after provision | 24 | 1 | 6 | - | 31 |

and market
valuation
adjustments

| | | | | | |
|---|-------|------|------|--------|-------|
| Operating expenses | (12) | - | - | - | (12) |
| Realized gains on sales and calls, net | 2 | - | - | - | 2 |
| Income from 2010 Sequoia | 1 | - | - | (1) | - |
| Income from Other Consolidated Entities | 5 | - | - | (5) | - |
| Noncontrolling interest | - | - | (1) | - | (1) |
| Provision for income taxes | - | - | - | - | - |
| Net Income | \$ 20 | \$ 1 | \$ 5 | \$ (6) | \$ 20 |

Consolidating
Income Statement

Nine Months Ended
September 30,
2010

| (\$ in millions) | Redwood (Parent) | 2010 Sequoia | Other Consolidated Entities | Intercompany Adjustments | Redwood Consolidated |
|-------------------------------------|---------------------|-----------------|-----------------------------------|-----------------------------|-------------------------|
| Interest income | \$ 50 | \$ 3 | \$ 93 | \$ - | \$ 146 |
| Net discount (premium) amortization | 29 | 1 | (2) | - | 28 |
| Total interest income | 79 | 4 | 91 | - | 174 |
| Interest expense | (6) | (3) | (54) | - | (63) |
| Net interest income | 73 | 1 | 37 | - | 111 |
| Provision for loan losses | - | - | (16) | - | (16) |

| | | | | | |
|---|-------|------|-------|---------|-------|
| Market valuation adjustments, net | (7) | - | (13) | - | (20) |
| Net interest income after provision | 66 | 1 | 8 | - | 75 |
| and market valuation adjustments | | | | | |
| Operating expenses | (40) | - | (1) | - | (41) |
| Realized gains on sales and calls, net | 55 | - | 7 | - | 62 |
| Income from 2010 Sequoia | 1 | - | - | (1) | - |
| Income from Other Consolidated Entities | 13 | - | - | (13) | - |
| Noncontrolling interest | - | - | (1) | - | (1) |
| Provision for income taxes | - | - | - | - | - |
| Net Income | \$ 95 | \$ 1 | \$ 13 | \$ (14) | \$ 95 |

REDWOOD TRUST,
INC.

Consolidating
Balance Sheet

September 30, 2010

Other

| | | | | | |
|------------------|----------|---------|--------------|--------------|--------------|
| (\$ in millions) | Redwood | 2010 | Consolidated | Intercompany | Redwood |
| | (Parent) | Sequoia | Entities | Adjustments | Consolidated |

| | | | | | |
|-------------------|-------|--------|----------|------|----------|
| Real estate loans | \$ 64 | \$ 193 | \$ 3,495 | \$ - | \$ 3,752 |
|-------------------|-------|--------|----------|------|----------|

Real estate securities, at fair value:

| | | | | | |
|---|----------|--------|----------|----------|----------|
| Trading securities | 23 | - | 287 | - | 310 |
| Available-for-sale securities | 774 | - | 24 | - | 798 |
| Other investments | - | - | - | - | - |
| Cash and cash equivalents | 189 | - | - | - | 189 |
| Investment in 2010 Sequoia | 26 | - | - | (26) | - |
| Investment in Other Consolidated Entities | 89 | - | - | (89) | - |
| Total earning assets | 1,165 | 193 | 3,806 | (115) | 5,049 |
| Other assets | 59 | 2 | 52 | - | 113 |
| Total Assets | \$ 1,224 | \$ 195 | \$ 3,858 | \$ (115) | \$ 5,162 |
| Short-term debt | \$ - | \$ - | \$ - | \$ - | \$ - |
| Other liabilities | 68 | 1 | 94 | - | 163 |
| Asset-backed securities issued | - | 168 | 3,664 | - | 3,832 |
| Long-term debt | 140 | - | - | - | 140 |
| Total liabilities | 208 | 169 | 3,758 | - | 4,135 |
| Stockholders' equity | 1,016 | 26 | 89 | (115) | 1,016 |
| Noncontrolling interest | - | - | 11 | - | 11 |
| Total equity | 1,016 | 26 | 100 | (115) | 1,027 |
| Total Liabilities and Equity | \$ 1,224 | \$ 195 | \$ 3,858 | \$ (115) | \$ 5,162 |

Tax / GAAP Differences

Three Months Ended September 30, 2010*

(\$ in millions, except per share data)

| | Tax | GAAP | Differences |
|--|-----------|---------|-------------|
| Interest income | \$ 37 | \$ 59 | \$ (22) |
| Interest expense | (3) | (24) | 21 |
| Net Interest Income | 34 | 35 | (1) |
| Provision for loan losses | - | (2) | 2 |
| Realized credit losses | (31) | - | (31) |
| Market valuation adjustments, net | - | (2) | 2 |
| Operating expenses | (12) | (12) | - |
| Realized gains on sales and calls, net | - | 2 | (2) |
| Provision for income taxes | - | - | - |
| Less: Net income attributable to noncontrolling interest | - | 1 | (1) |
| Net (Loss) Income | \$ (9) | \$ 20 | \$ (29) |
| Estimated (loss) income per share | \$ (0.11) | \$ 0.25 | \$ (0.36) |

* Reconciliation of taxable income to GAAP income for prior quarters is provided in filings for those quarters.

REDWOOD TRUST, INC.

Tax / GAAP Differences

Nine Months Ended September 30, 2010*

(\$ in millions, except per share data)

| | Tax | GAAP | Differences |
|-----------------|--------|--------|-------------|
| Interest income | \$ 108 | \$ 174 | \$ (66) |

| | | | |
|--|-----------|---------|-----------|
| Interest expense | (6) | (63) | 57 |
| Net Interest Income | 102 | 111 | (9) |
| Provision for loan losses | - | (16) | 16 |
| Realized credit losses | (80) | - | (80) |
| Market valuation adjustments, net | - | (20) | 20 |
| Operating expenses | (32) | (41) | 9 |
| Realized gains on sales and calls, net | - | 62 | (62) |
| Provision for income taxes | - | - | - |
| Less: Net income attributable to noncontrolling interest | - | 1 | (1) |
| Net (Loss) Income | \$ (10) | \$ 95 | \$ (105) |
| Estimated (loss) income per share | \$ (0.13) | \$ 1.18 | \$ (1.31) |

* Reconciliation of taxable income to GAAP income for prior quarters is provided in filings for those quarters.

REDWOOD TRUST, INC.

Book Value Per Share and Management's Estimate of Non-GAAP Economic Value Per Share*

(\$ in millions, except per share data)

September 30, 2010

| | |
|-------------|----------------------|
| | Management's |
| GAAP | Estimate of Non-GAAP |
| As Reported | Economic Value |
| Adjustments | |

Cash and cash

| | | | | |
|---|----------|------|-----|----------|
| equivalents | \$ 189 | \$ | | \$ 189 |
| Real estate loans at Redwood | 64 | | | 64 |
| Real estate securities at Redwood | | | | |
| Residential | 788 | | | 788 |
| Commercial | 8 | | | 8 |
| CDO | 1 | | | 1 |
| Subtotal real estate securities | 797 | | | 797 |
| Investments in the Fund | 14 | | | 14 |
| Investments in Sequoia entities | 97 | (19) | (a) | 78 |
| Investments in Acacia entities | 4 | (3) | (b) | 1 |
| Other assets (d) | 59 | | | 59 |
| Total assets | 1,224 | | | 1,202 |
| Long-term debt | (140) | 77 | (c) | (63) |
| Other liabilities (d) | (68) | | | (68) |
| Stockholders' Equity | \$ 1,016 | | | \$ 1,071 |
| Book Value Per Share | \$ 13.02 | | | \$ 13.73 |

(a) Our investments in Sequoia entities consist of interest-only securities and senior and subordinate securities issued by Sequoia entities. We calculated the \$78 million estimate of non-GAAP economic value for these securities using the same valuation process that we follow to fair value our other real estate securities. In contrast, the \$97 million GAAP carrying value of these investments represents the difference between the assets and liabilities owned by the Sequoia entities.

(b) The GAAP carrying value of our investments in Acacia entities was \$4 million and management's estimate of the non-GAAP economic value of those

investments was \$1 million, which primarily reflects the present value of the management fees we expect to earn from these entities. The equity interests and securities we own in the Acacia entities have minimal value.

(c) At September 30, 2010, we had \$140 million of long-term debt outstanding with a stated interest rate of LIBOR plus 225 basis points due in 2037. During the first half of 2010, through interest rate hedging arrangements, we effectively fixed the interest rate on this long-term debt at 6.75% (excluding issuance costs). We calculated the \$63 million estimate of non-GAAP economic value of this long-term debt based on its stated interest rate using the same valuation process used to fair value our other financial assets and liabilities. As a result of declining interest rates during the third quarter of 2010, the fair value of the interest rate hedges related to this long-term debt declined by \$11 million, and is reflected in shareholders' equity on our balance sheet.

(d) Other assets are comprised of \$4 million of accrued interest receivable and \$55 million of other assets. Other liabilities are comprised of dividends payable of \$19 million and accrued interest and other liabilities of \$49 million.

* This table presents supplemental components of book value at September 30, 2010, as reported under GAAP and as estimated by us using fair values for our investments and long-term debt. We show our investments in the Fund, and the Sequoia and Acacia entities as separate line items to highlight our specific ownership interests, as the underlying assets and liabilities of these entities are legally not ours. Our non-GAAP estimated economic value is calculated using bid-side asset marks (or estimated bid-side values) and offer-side marks for our financial liabilities (or estimated offered-side values), as required to determine fair value under GAAP. For additional information to consider when reviewing this table, please see "Factors Affecting Management's Estimate of Economic Value" in our Quarterly Report on Form 10-Q for the three months ended September 30, 2010.

REDWOOD TRUST, INC.

Sources and Uses of Cash (a)

(\$ in millions)

| | Three Months Ended | |
|------------------------|--------------------|---------------|
| | September 30, 2010 | June 30, 2010 |
| Beginning cash balance | \$ 288 | \$ 242 |

Sources of cash

Securities at Redwood - principal and interest

| | | |
|--------------------------------------|----|-----|
| Residential senior | 36 | 42 |
| Residential Re-REMIC | 2 | 2 |
| Residential subordinate | 9 | 8 |
| Commercial and CDO | 2 | 1 |
| Securities at Redwood - sales | - | 116 |
| Investments in Consolidated Entities | 11 | 8 |
| Total sources of cash | 60 | 177 |

Uses of cash

| | | |
|------------------------------------|-------|-------|
| Acquisitions of loans | (62) | - |
| Acquisitions of securities (b) | (48) | (55) |
| Investment in 2010 Sequoia | - | (28) |
| Cash operating expenses | (9) | (10) |
| Interest expense on long-term debt | (2) | (1) |
| Derivative margin posted | (17) | (20) |
| Dividends | (20) | (20) |
| Changes in working capital | (1) | 3 |
| Total uses of cash | (159) | (131) |

Net (uses) sources of cash (99) 46

Ending Cash Balance \$ 189 \$ 288

(a) The sources and uses of cash in the table above are derived from our GAAP Consolidated Statements of Cash Flow by aggregating and netting cash flow in a manner consistent with the way management analyzes it. This table excludes the gross cash flow generated by our Sequoia and Acacia securitization entities and the Fund (cash flow that is not available to Redwood), but does include the cash flow distributed to Redwood as a result of our investments in these entities. The beginning and ending cash balances presented in the table above are GAAP amounts.

(b) Total acquisitions in the third quarter of 2010 were \$50 million, \$3 million which are not reflected in this table because they did not settle until early October. Also, \$1 million of acquisitions made in the

second quarter that did not settle until early July are reflected in this table.

SOURCE Redwood Trust, Inc.