

May 7, 2008

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

## **Redwood Trust Reports First Quarter 2008 Results**

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

Redwood Trust, Inc. (NYSE:RWT) today reported a GAAP net loss for the first quarter of 2008 of \$172 million, or a loss of \$5.28 per share. This GAAP loss included \$194 million, or \$5.96 per share, of net negative mark-to-market (MTM) adjustments. This compares to net income of \$0.66 per share for the first quarter of 2007, which reflected negative MTM adjustments of \$0.37 per share.

Taxable income for the first quarter was \$26 million, or \$0.79 per share. This taxable income included \$14 million, or \$0.41 per share, of charges related to credit losses. This compares to taxable income of \$29 million, or \$0.91 per share, for the fourth quarter of 2007 and taxable income of \$40 million, or \$1.48 per share, in the first quarter of 2007.

At March 31, 2008, Redwood had \$257 million of cash and only \$2 million of short-term debt. During the quarter, Redwood's investments generated \$52 million of cash flow in excess of operating and interest costs.

"We are committed to being disciplined and patient investors," said Brett Nicholas, Redwood's Chief Investment Officer. "Despite a difficult operating environment, we are encouraged by the pace of investment activity. From the beginning of the fourth quarter of 2007 through May 5, 2008, we have deployed \$272 million of capital. We believe these new investments will provide strong cash flows and future earnings."

The accounting concepts and disclosures relating to our financial statements are complex. Today, we also released our "Redwood Review" covering the first quarter of 2008. The Redwood Review contains a more detailed discussion of our business performance and outlook. The Redwood Review is available on our website at [www.redwoodtrust.com](http://www.redwoodtrust.com).

Additional information on our GAAP results is available in our Quarterly Report on Form 10-Q for the three months ended March 31, 2008 which we filed today with the Securities and Exchange Commission. The Form 10-Q is available on our website at [www.redwoodtrust.com](http://www.redwoodtrust.com). We strongly recommend reading the Redwood Review and 10-Q in conjunction with this press release.

**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 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, 2007 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.

Consolidated Income  
Statement

| (\$ in millions, except<br>share data)                        | First<br>Quarter<br>2008 | Fourth<br>Quarter<br>2007 | Third<br>Quarter<br>2007 | Second<br>Quarter<br>2007 | First<br>Quarter<br>2007 |
|---------------------------------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|--------------------------|
| Interest income                                               | \$ 170                   | \$ 202                    | \$ 219                   | \$ 220                    | \$ 215                   |
| Interest expense                                              | (129)                    | (153)                     | (165)                    | (166)                     | (168)                    |
| Net interest income<br>before market valuation<br>adjustments | 41                       | 49                        | 54                       | 54                        | 47                       |
| Market valuation<br>adjustments, net                          | (194)                    | (1,119)                   | (103)                    | (30)                      | (10)                     |
| Net interest income                                           | (153)                    | (1,070)                   | (49)                     | 24                        | 37                       |
| Operating expenses                                            | (17)                     | (15)                      | (12)                     | (13)                      | (16)                     |
| Severance expense                                             | -                        | (1)                       | -                        | -                         | (2)                      |
| Realized gains on sales<br>and calls, net                     | -                        | 7                         | 2                        | 3                         | 1                        |
| Credit (provision) for<br>income taxes                        | (2)                      | 2                         | (2)                      | (3)                       | (2)                      |

|                                              |           |            |           |         |         |
|----------------------------------------------|-----------|------------|-----------|---------|---------|
| GAAP net (loss) income                       | \$ (172)  | \$ (1,077) | \$ (61)   | \$ 11   | \$ 18   |
|                                              | =====     | =====      | =====     | =====   | =====   |
| Less: severance expense (1)                  | \$ -      | \$ 1       | \$ -      | \$ -    | \$ 2    |
| Less: realized gains on sales and calls, net | -         | (7)        | (2)       | (3)     | (1)     |
| Less: market valuation adjustments, net      | 194       | 1,119      | 103       | 30      | 10      |
|                                              | -----     | -----      | -----     | -----   | -----   |
| Core earnings (2) (3)                        | \$ 22     | \$ 36      | \$ 40     | \$ 38   | \$ 30   |
| Average diluted shares (thousands)           | 32,511    | 29,531     | 27,892    | 28,165  | 27,684  |
| GAAP earnings per share (diluted)            | \$ (5.28) | \$ (36.49) | \$ (2.18) | \$ 0.41 | \$ 0.66 |
| Core earnings per share (diluted) (2) (3)    | \$ 0.68   | \$ 1.21    | \$ 1.43   | \$ 1.35 | \$ 1.08 |
| Regular dividends declared per common share  | \$ 0.75   | \$ 0.75    | \$ 0.75   | \$ 0.75 | \$ 0.75 |
| Special dividends declared per common share  | -         | 2.00       | -         | -       | -       |
|                                              | -----     | -----      | -----     | -----   | -----   |
| Total dividends declared per common share    | \$ 0.75   | \$ 2.75    | \$ 0.75   | \$ 0.75 | \$ 0.75 |

(1) Cost associated with re-alignment of senior management in our commercial and residential operations.

(2) Core earnings is a profitability measure that highlights earnings we believe are more likely to be ongoing in nature. It is not a measure of earnings in accordance with GAAP. In computing core earnings, we start with GAAP income and then exclude realized gains and losses on calls and sales, unrealized market value adjustments, and one-time items that are not likely to be repeated. Because all companies and analysts do not calculate non-GAAP measures, such as core earnings, in the same fashion, our calculation of core earnings may not be comparable to similarly titled measures reported by other companies. Core earnings may not foot from GAAP earnings due to rounding to millions of dollars.

(3) Core earnings for the first quarter of 2008 are not directly comparable to core earnings for prior quarters due to our adoption, on January 1, 2008, of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159), issued by the Financial Accounting Standards Board, for certain assets and liabilities. Prior to the first quarter of 2008, core income included purchase discount amortization on those assets (\$0.28 per share in the fourth quarter of 2007). We no longer calculate purchase discount amortization for those assets since it has become, in effect, one of the components of the FAS 159 adjustments. Consequently, that component of income is now excluded from core income for all periods ending after January 1, 2008.

Consolidating  
Income Statement  
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Three Months Ended

March 31, 2008  
(\$ in millions)

|                                                                  | Redwood  | Sequoia | Acacia  | Intercompany<br>Adjustments | Redwood<br>Consolidated |
|------------------------------------------------------------------|----------|---------|---------|-----------------------------|-------------------------|
| Interest income                                                  | \$ 24    | \$ 94   | \$ 48   | \$ (2)                      | \$ 164                  |
| Net discount<br>(premium)<br>amortization                        | 12       | (7)     | -       | -                           | 5                       |
| Total interest<br>income                                         | 36       | 87      | 48      | (2)                         | 169                     |
| Management fees                                                  | -        | -       | 1       | -                           | 1                       |
| Interest expense                                                 | (3)      | (83)    | (45)    | 2                           | (129)                   |
| Net interest income<br>before market<br>valuation<br>adjustments | \$ 33    | \$ 4    | \$ 4    | \$ -                        | \$ 41                   |
| Market valuation<br>adjustments, net                             | (167)    | -       | (27)    | -                           | (194)                   |
| Net interest (loss)<br>income                                    | (134)    | 4       | (23)    | -                           | (153)                   |
| Operating expenses                                               | (17)     | -       | -       | -                           | (17)                    |
| Realized gains on<br>sales and calls,<br>net                     | -        | -       | -       | -                           | -                       |
| Income from Sequoia                                              | 4        | -       | -       | (4)                         | -                       |
| Loss from Acacia                                                 | (23)     | -       | -       | 23                          | -                       |
| Provision for<br>income taxes                                    | (2)      | -       | -       | -                           | (2)                     |
| Net (Loss) Income                                                | \$ (172) | \$ 4    | \$ (23) | \$ 19                       | \$ (172)                |

| Consolidated Balance<br>Sheet                  | 31-Mar   | 1-Jan<br>(1) | 31-Dec   | 30-Sep   | 30-Jun   | 31-Mar   |
|------------------------------------------------|----------|--------------|----------|----------|----------|----------|
| (\$ in millions,<br>except share data)         | 2008     | 2008         | 2007     | 2007     | 2007     | 2007     |
| Real estate loans                              | \$ 6,775 | \$ 7,204     | \$ 7,204 | \$ 7,656 | \$ 8,377 | \$ 8,706 |
| Real estate<br>securities - AFS                | 242      | 317          | 2,110    | 2,926    | 3,726    | 3,601    |
| Real estate<br>securities - FVO                | 949      | 1,793        | -        | -        | -        | -        |
| Other real estate<br>investments               | 3        | 12           | 12       | 25       | 34       | 50       |
| Non-real estate<br>investments                 | 79       | 79           | 79       | 80       | 80       | -        |
| Cash and cash<br>equivalents                   | 257      | 290          | 290      | 310      | 83       | 92       |
| Other assets                                   | 241      | 223          | 244      | 286      | 381      | 498      |
| Total consolidated<br>assets                   | \$ 8,546 | \$ 9,918     | \$ 9,939 | \$11,283 | \$12,681 | \$12,947 |
| Redwood debt                                   | \$ 2     | \$ 8         | \$ 8     | \$ 39    | \$ 849   | \$ 1,880 |
| Asset-backed<br>securities issued -<br>Sequoia | 6,544    | 6,946        | 6,946    | 7,382    | 7,243    | 7,209    |

|                                              |          |          |            |          |          |          |
|----------------------------------------------|----------|----------|------------|----------|----------|----------|
| Asset-backed securities issued -             |          |          |            |          |          |          |
| Acacia FVO (2)                               | 1,046    | 1,893    | 3,383      | 3,421    | 3,432    | 2,738    |
| Other liabilities                            | 219      | 170      | 170        | 142      | 131      | 96       |
| Subordinated notes                           | 150      | 150      | 150        | 150      | 150      | 100      |
| Stockholders' equity (deficit)               | 585      | 751      | (718)      | 149      | 876      | 924      |
|                                              | -----    | -----    | -----      | -----    | -----    | -----    |
| Total liabilities and stockholders' equity   | \$ 8,546 | \$ 9,918 | \$ 9,939   | \$11,283 | \$12,681 | \$12,947 |
| Shares outstanding at period end (thousands) | 32,710   | 32,385   | 32,385     | 27,986   | 27,816   | 27,129   |
| GAAP book value per share                    | \$ 17.89 | \$ 23.18 | \$ (22.18) | \$ 5.32  | \$ 31.50 | \$ 34.06 |

(1) We adopted the fair value option under FAS 159 (FVO) for assets and liabilities of Acacia and certain other assets effective January 1, 2008

(2) Prior to 2008, ABS issued by Acacia were accounted for at cost.

Consolidating  
Balance Sheet

March 31, 2008

(\$ in  
millions)

|                                        | Redwood | Sequoia  | Acacia | Intercompany<br>Adjustments | Redwood<br>Consolidated |
|----------------------------------------|---------|----------|--------|-----------------------------|-------------------------|
|                                        | -----   | -----    | -----  | -----                       | -----                   |
| Real estate loans                      | \$ 5    | \$ 6,751 | \$ 19  | \$ -                        | \$ 6,775                |
| Real estate and other securities - FVO | 23      | -        | 926    | -                           | 949                     |
| Real estate and other securities - AFS | 242     | -        | 88     | (88)                        | 242                     |
| Other real estate investments          | 3       | -        | -      | -                           | 3                       |
| Non-real estate investments            | -       | -        | 79     | -                           | 79                      |
| Cash and cash equivalents              | 257     | -        | -      | -                           | 257                     |
|                                        | -----   | -----    | -----  | -----                       | -----                   |
| Total earning assets                   | 530     | 6,751    | 1,112  | (88)                        | 8,305                   |
| Investment in Sequoia                  | 146     | -        | -      | (146)                       | -                       |
| Investment in Acacia                   | 68      | -        | -      | (68)                        | -                       |
| Restricted cash                        | 11      | -        | 138    | -                           | 149                     |
| Other assets                           | 24      | 49       | 19     | -                           | 92                      |
|                                        | -----   | -----    | -----  | -----                       | -----                   |

|                                             |    |       |    |       |    |       |    |       |    |       |
|---------------------------------------------|----|-------|----|-------|----|-------|----|-------|----|-------|
| Total Assets                                | \$ | 779   | \$ | 6,800 | \$ | 1,269 | \$ | (302) | \$ | 8,546 |
|                                             |    | ===== |    | ===== |    | ===== |    | ===== |    | ===== |
| Redwood debt                                | \$ | 2     | \$ | -     | \$ | -     | \$ | -     | \$ | 2     |
| Asset-backed securities issued - Sequoia    |    | -     |    | 6,632 |    | -     |    | (88)  |    | 6,544 |
| Asset-backed securities issued - Acacia FVO |    | -     |    | -     |    | 1,046 |    | -     |    | 1,046 |
| Other liabilities                           |    | 42    |    | 22    |    | 155   |    | -     |    | 219   |
| Subordinated notes                          |    | 150   |    | -     |    | -     |    | -     |    | 150   |
|                                             |    | ----- |    | ----- |    | ----- |    | ----- |    | ----- |
| Total liabilities                           |    | 194   |    | 6,654 |    | 1,201 |    | (88)  |    | 7,961 |
| Total stockholders' equity                  |    | 585   |    | 146   |    | 68    |    | (214) |    | 585   |
|                                             |    | ----- |    | ----- |    | ----- |    | ----- |    | ----- |
| Total Liabilities and Stockholders' Equity  | \$ | 779   | \$ | 6,800 | \$ | 1,269 | \$ | (302) | \$ | 8,546 |
|                                             |    | ===== |    | ===== |    | ===== |    | ===== |    | ===== |

Source: Redwood Trust, Inc.