

Redwood Trust, Inc.

Investor Presentation

May 28, 2020

REDWOOD TRUST

Forward-Looking Statements and Pro Forma Information

This presentation contains forward-looking statements. 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 the Company’s Annual Report on Form 10-K for the year ended December 31, 2019, the Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, and any subsequent Quarterly Reports on Form 10-Q under the caption “Risk Factors.” Many of these risks and uncertainties are, and will be, exacerbated by the COVID-19 pandemic and any worsening of the global business and economic environment as a result. 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 the Company files with the Securities and Exchange Commission, including reports on Form 8-K.

These materials also contain pro forma financial information, giving effect to certain asset sale transactions that closed, or are pending and scheduled to close, during the second quarter of 2020, as if they had been completed on March 31, 2020. We make no assurance that we will be able to complete any pending asset sale transactions during the expected time period on agreed-upon terms or at all, including asset sales we have entered into that have not yet settled. The pro forma financial information is not necessarily indicative of the expected financial position or results of Redwood’s operations for the first quarter of 2020, the second quarter of 2020, or any future period. Differences could result from numerous factors, including exposure to new or increased risks as a result of the impact of the COVID-19 pandemic, changes in market conditions or benchmark interest rates, changes in Redwood’s capital structure, changes in Redwood’s portfolio of investments, changes in Redwood’s operating expenses, and for other reasons, including those discussed in our Annual Report on Form 10-K for the year ended December 31, 2019, the Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, and any subsequent Quarterly Reports on Form 10-Q under the caption “Risk Factors.”

A Leading Innovator in Housing Credit Investing

We are a specialty finance company with a durable track record of providing financing solutions to the U.S. residential housing market

25+ year History Managing Through Cycles

- Second longest tenured mREIT
- Strong culture of risk management
- Internally managed, incentives aligned with shareholder returns

Unique Operating Platforms

- Market-leading brands in residential and business purpose lending (BPL)
- Organic asset creation for both RWT portfolios and third-party investors through sales and partnerships
- Fee generation from mortgage banking activities
- Two best-in-class securitization programs

Core Business Strategies Covering Full Housing Finance Market

- Residential Lending – Deep network of 180 sellers and broad distribution capabilities
- Business Purpose Lending – market leader in a growing and underserved area of housing finance
- Third Party Investments – RPL, CRT, multifamily and other housing credit investments

$6.32 Book Value per Share(1)
estimated 5% higher at April 30, 2020 (2)

$2.4b Recourse Debt(3)
64% non-marginable

Redwood is well positioned to benefit from the recent market dislocation through its market-leading operating platforms and current investment capacity

Detailed Endnotes are included at the end of this presentation

Business Update – Recent Strategic Actions

We have organically generated significant capital through strategic asset sales and reduced our outstanding debt through proactive liability management

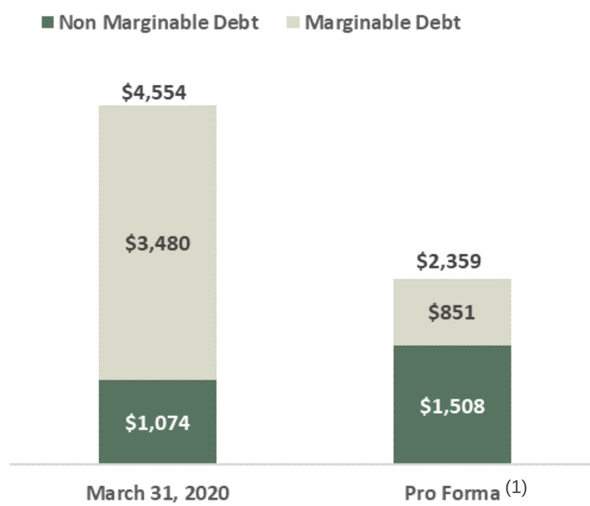
Generated Capital Internally	▪ Built cash position at attractive cost of funds without the use of dilutive external capital, meeting all margin calls due ▪ Majority of capital raised by selling portfolio of prime jumbo loans on favorable terms
Repositioned Portfolio	▪ Sold nearly all of the residential jumbo loans financed at the Federal Home Loan Bank of Chicago (FHLBC) borrowing facility and have repaid substantially all borrowings under this facility ▪ Executed strategic sales of certain securities in anticipation of prolonged market disruption; retained securities with highest yield potential including those backed by more seasoned loans
Enhanced Funding Structure	▪ De-levered through asset sales and reduction of overall debt ▪ Significantly reduced marginable debt through paydown of FHLBC facility and securities repo borrowings, and through use of new non-marginable facilities ▪ Recently completed two new non-marginable financing facilities for residential and business purpose loans, and near completion of additional transactions to further reduce marginable borrowings
Rationalized Cost Structure	▪ Implemented reduction in force in late April, reducing headcount by 35% and fixed compensation costs by ~25% ▪ Non-compensation related cost saving initiatives underway to align business with current market conditions

Detailed Endnotes are included at the end of this presentation

Enhanced Funding Structure

Through completed and pending transactions, funding structure is predominantly shifting to a mix of corporate unsecured and non-marginable secured borrowings

Debt Balances at May 22, 2020 Pro Forma[1] ($ in millions)	Scheduled Maturity Q2 2020	Q3 2020	Q4 2020	Beyond 2020	Total
Securities repurchase debt[2]	$ 209	$ 123	$ 20	$ -	$ 353
Warehouse/secured revolving debt	-	-	-	497	497
Non-marginable warehouse debt	-	-	-	456	456
Non-marginable secured term debt	-	-	-	286	286
Non-marginable corporate unsecured debt	-	-	-	766	766
FHLB debt	-	-	-	1	1
Total debt	**$ 209**	**$ 123**	**$ 20**	**$ 2,006**	**$ 2,359**



- Since the onset of the pandemic, we have significantly reduced our overall debt, as well as our marginable debt and associated contingent liquidity risk
- We continue to make progress on establishing additional non-marginable facilities and expect our marginable warehouse debt to be minimized going forward
- We reduced our marginable securities repurchase debt to what we believe is a prudent and manageable level (approximately $326 million, net of cash margin posted), with borrowings reflecting asset prices from the recent market lows, reducing the potential magnitude of additional margin calls

Opportunities Going Forward

Current funding profile positions us well to pursue opportunities from recent market dislocation

Business Purpose Mortgage Banking	▪ Sizable market opportunity, including in cross-collateralized SFR loans and select bridge lending strategies for top-quality sponsors ▪ Go-forward originations to benefit from enhancements to already strong loan structures (e.g., lower LTVs, interest reserve accounts) ▪ Best-in-class SFR securitization platform – completed a securitization backed by $234 million of single-family rental loans on May 19, 2020
Residential Mortgage Banking	▪ Demand for residential credit has sustained for fundamental buyers like banks and insurance companies ▪ Substantial opportunities in potential refinance wave once lending spreads stabilize ▪ Market-leading Sequoia securitization platform a competitive advantage as markets normalize
Investments	▪ Investment portfolios have significant embedded discount from unrealized losses recorded in the first quarter, with potential for meaningful recovery ▪ Market dislocation presents opportunities to procure third-party investments at attractive prices ▪ Opportunistic capital structure management

Detailed Endnotes are included at the end of this presentation

Investment Portfolio Overview

Combined Investment Portfolio at March 31, 2020 ($ in millions)	Fair Value of Assets	Recourse Debt
Sequoia Securities	$ 275	$ (259)
SFR Securities	167	(103)
Third-party Securities	491	(382)
Total Securities	933	(744)
Business Purpose Bridge Loans	817	(626)
Other Investments	185	(30)
Total Investment Portfolio	**$ 1,935**	**$ (1,400)**

- *Sequoia Securities* – comprised of subordinate and interest only securities issued by Sequoia securitizations (collateralized by prime jumbo residential loans)
- *SFR Securities* – comprised of subordinate and interest only securities issued by CoreVest sponsored securitizations (collateralized by single-family rental loans)
- *Third-Party Securities* – comprised of subordinate securities issued by third parties and collateralized by various types of residential and multifamily loans
- *Business Purpose Bridge Loans* – comprised of short-term loans originated within our BPL segment to sponsors that are stabilizing/rehabilitating residential and small infill multifamily properties
- *Other Investments* – comprised of various housing related assets, including Sequoia mortgage servicing rights, home appreciation options, and other credit-related housing investments

Detailed Endnotes are included at the end of this presentation

Investment Portfolio – Securities

Current embedded discount in securities portfolio provides opportunity for attractive go-forward returns

Securities Investments at March 31, 2020 ($ in millions)								
		Interest Only Securities		Subordinate Securities		Total Securities	Investment Thickness[1]		Q1 2020 Unrealized Losses
Sequoia securities	$	34	$	241	$	275	8%	$	(162)
SFR securities		45		122		167	11%		(68)
Third-Party Securities									
Reperforming Loan Securities		41		328		369	21%		(175)
Multifamily Securities		4		46		49	10%		(19)
Agency CRT Securities		0		20		20	1%		(58)
Other Third-Party Securities		0		53		53	6%		(29)
Total	**$**	**124**	**$**	**809**	**$**	**933**	**13%**	**$**	**(511)**

- Financial market dislocations caused by the pandemic have been particularly acute for non-agency loans and securities, as government stimulus efforts have largely ignored this segment of the mortgage market, resulting in assets backed by some of the housing market's highest-quality borrowers being valued at steep discounts to their intrinsic value
- The first quarter 2020 decline in our book value was largely driven by unrealized losses on securities we continued to hold at March 31, 2020, resulting in a large embedded discount in our current investment portfolio and presenting meaningful upside to the extent asset prices begin to recover
- The weighted average carrying price of our subordinate securities at March 31, 2020 was just under 50% of face value

Detailed Endnotes are included at the end of this presentation

Investment Portfolio Credit Characteristics

Residential Investments Credit Characteristics
March 31, 2020
($ in millions, except where noted)

	Sequoia Select Securities	Sequoia Choice Securities	Re-Performing Loan Securities
Market value	$ 105	$ 136	$ 369
Average FICO (at origination)	771	744	613
HPI updated LTV [1]	47%	66%	69%
Average loan size (in thousands)	$ 690	$ 704	$ 187
Gross weighted average coupon	4.0%	5.0%	4.5%
Current 3-month prepayment rate	19%	36%	6%
90+ days delinquency (as a % of UPB)	0.1%	0.4%	5.8%
Investment thickness [2]	4%	11%	21%

Business Purpose and Multifamily Investments Credit Characteristics
March 31, 2020
($ in millions, except where noted)

	Multifamily B-Pieces	SFR Securities	BPL Bridge Loans
Market value	$ 49	$ 167	$ 817
Average current DSCR [3]	1.5x	1.36x	N/A
LTV (at origination) [4]	72%	68%	68%
Average loan size (in thousands)	$ 20,116	$ 2,650	$ 399
Gross weighted average coupon	4.2%	5.6%	7.9%
90+ days delinquency (as a % of UPB)	0.0%	1.5%	4.3%
Investment thickness [2]	10%	11%	N/A

- Sequoia securities (both Select and Choice) have strong underlying homeowner credit profiles and excellent historical performance
  - Significant estimated underlying equity in homes
- Reperforming loan securities (mostly from Freddie Mac-issued securitizations) are primarily backed by seasoned re-performing residential mortgage loans (RPLs)
  - From issuance to date have seen material increase in percentage of current borrowers, driven in part by benefits from higher touch servicing
- SFR securities are backed by loans that benefit from strong debt service coverage, low loan-to-value ratios, and multi-property cross-collateralization
- Bridge loans backed by one or more underlying properties, including cross-collateralized lines of credit. Average remaining term of approximately 10 months

Detailed Endnotes are included at the end of this presentation

Mortgage Banking Businesses Positioned for Recovery

Platforms are well positioned to capitalize on potential financing demand spurred by low rates for homeowners and strong fundamentals for rental housing

- Market-leading brands for jumbo residential loan aggregation and business purpose loan origination generate fee income and create portfolio investments organically
- Only mortgage REIT with best-in-class securitization platforms for both jumbo residential and single-family rental loans. Benefit from deep, long-standing relationships with secondary market investors

Residential Lending

- Recent sales have freed up operating and financial capacity to redeploy into new opportunities
- Continued demand for high quality residential housing credit sourced from a reputable aggregator with strong underwriting
- Deep network of over 180 sellers (banks and independent mortgage companies)

Business Purpose Lending

- Strategic advantage as clear market leader in business purpose lending (only lender with significant track record in multi-property single-family rental)
- Underlying housing thesis potentially strengthened as lending standards tightening for prospective owner occupants and emerging consumer preference for detached single-family homes
- Focus on single-family rental and bridge loans backed by cross-collateralized portfolios with a focus on portfolio stabilization

Detailed Endnotes are included at the end of this presentation

Appendix

2020 First Quarter Financial Recap

Key Financial Results and Metrics		
	Three Months Ended	
	3/31/2020	12/31/2019
Earnings (Loss) per Share	$ (8.28)	$ 0.38
Book Value per Share	$ 6.32	$ 15.98
Dividend per Share	$ 0.32	$ 0.30
Unrestricted Cash (in millions)	$ 375	$ 188

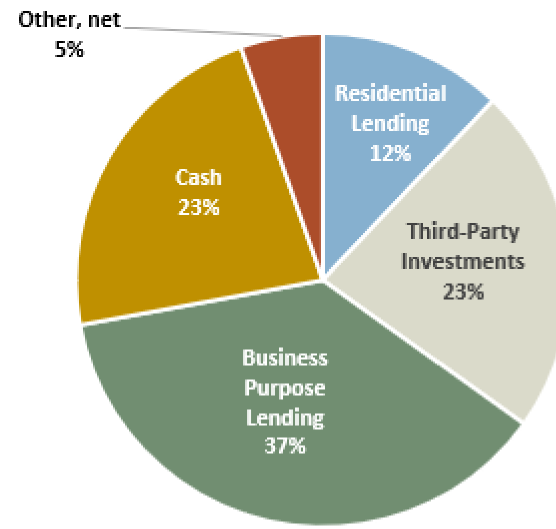
Q1 2020 Overview:

- Losses primarily driven by impact from COVID-19 pandemic on investments
- $(5.36) loss per share related to fair market value declines on assets retained for investment
- Book value decline includes $(0.78) per share goodwill impairment
- Repositioned portfolio; generating significant cash position and reducing recourse debt
- Paid first quarter dividend of $0.32 per share on May 8, 2020; currently evaluating future dividends

Capital Allocation

Capital Allocation Detail By Investment Type ($ in millions)	December 31, 2019		March 31, 2020		March 31, 2020 Pro Forma[1]	
	Fair Value of Assets [2]	Total Recourse Debt	Fair Value of Assets [2]	Total Recourse Debt	Fair Value of Assets [2]	Total Recourse Debt
Residential Lending						
Residential loans	$ 2,105	$ (1,776)	$ 1,437	$ (1,190)	$ —	$ —
Sequoia securities	483	(320)	275	(259)	254	(230)
MSRs/Other	63	—	44	(30)	44	(20)
Residential mortgage banking	544	(186)	894	(841)	226	(212)
Total Residential Lending	**3,195**	**(2,282)**	**2,650**	**(2,321)**	**524**	**(463)**
Business Purpose Lending						
SFR securities	191	(80)	167	(103)	167	(103)
Bridge investments	764	(567)	817	(626)	817	(626)
SFR loans	570	(432)	415	(308)	415	(308)
Platform premium	161	—	69	—	69	—
Total Business Purpose Lending	**1,686**	**(1,079)**	**1,468**	**(1,037)**	**1,468**	**(1,037)**
Multifamily Investments						
Multifamily mezzanine	423	(334)	—	(26)	—	—
Multifamily B-pieces	234	(171)	49	(50)	49	(42)
Other investments	61	—	37	—	37	—
Total Multifamily Investments	**718**	**(505)**	**86**	**(76)**	**86**	**(42)**
Third-Party Residential Investments						
RPL investments	611	(354)	369	(300)	364	(282)
CRT & third-party securities	306	(142)	73	(32)	50	(1)
Other investments	102	—	104	—	104	—
Total Third-Party Residential Investments	**1,019**	**(496)**	**546**	**(332)**	**518**	**(283)**
Cash and cash equivalents [3]	188	—	378	—	596	—
Other Assets and liabilities, net	169	—	151	—	143	—
Corporate debt	—	(786)	—	(786)	—	(786)
Total Corporate / Other	**357**	**(786)**	**529**	**(786)**	**739**	**(786)**
Totals	**$ 6,975**	**$ (5,148)**	**$ 5,279**	**$ (4,554)**	**$ 3,335**	**$ (2,610)**
GAAP Equity		**$ 1,827**		**$ 725**		**$ 725**

Capital Pro Forma Allocation[1]
($ in millions)



- Chart above presents the allocation of our corporate capital (which includes $725 million of equity and $786 million of long-term, unsecured corporate debt) at March 31, 2020 Pro Forma[1]

Mortgage Servicing Advance Obligations[1]

Principal and interest (P&I) servicing advance obligations equate to approximately $6 million per month for each additional 10% of delinquencies in underlying portfolios (e.g. 2% to 12%)

Mortgage Servicing P&I Advance Obligations
March 31, 2020
($ in millions)

	Fair Value	Notional Principal Balance	Estimated Average Monthly P&I Advance Requirement (per 10 percentage points of DQ)	Maximum Period of P&I Advance Obligation
MSRs - Non-Stop Advance	$ 15	$ 2,496	$ 1	N/A
MSRs - Stop Advance	8	1,355	1	120 days
Certificated MSRs - Stop Advance	26	7,190	4	120 days
	$ 49	**$ 11,041**	**$ 6**	

The table above does not include funding obligations related to non-P&I servicing advances - e.g., T&I servicing advances - which can vary based on seasonality and other factors.

- At April 30, 2020, mortgage loans in a delinquent status (whether or not subject to forbearance) accounted for approximately 3.2% of the aggregate principal (or notional) balance of Sequoia securitized loans for which we had servicing advance funding obligations.
- Approximately 77% of our funding obligations related to P&I servicing advances are associated with Sequoia securitization transactions that include a stop-advance feature after 120 days of delinquency or forbearance
- Servicing advances are recoverable senior in securitization waterfall and are generally readily financeable

Detailed Endnotes are included at the end of this presentation

Corporate Responsibility

Redwood is committed to best-in-class corporate governance. In our 25+ year operating history, we have built a reputation for the highest standards of integrity and responsibility

Corporate Governance	Business Sustainability Through Human Capital

▪ Director Independence and Board Leadership
  ▪ 78% of directors are independent
  ▪ Separation of Chair and CEO
▪ Board Composition and Diversity; 33% of directors are women
▪ Declassified Board
▪ Internally managed; incentives aligned to shareholder returns
	▪ Culture and values aligned to corporate strategy
	▪ Diversity and inclusion programs designed to foster success
	▪ Data driven programs designed to enhance employee competency and engagement

Endnotes

- **Slide 2 (A Leading Innovator in Housing Credit Investing)**
  1. Book value per share as of March 31, 2020
  2. We estimate that book value per share at April 30, 2020 had increased by approximately 5% from March 31, 2020. Our preliminary estimate of GAAP book value per common share as of April 30, 2020 reflects management's preliminary estimate with respect to such information, based on information currently available to management, and may vary from the Company's actual GAAP book value per common share as of such date. Further, this preliminary estimate is not a comprehensive statement or estimate of Redwood's financial results or financial condition as of April 30, 2020. This preliminary estimate should not be viewed as a substitute for full interim financial statements prepared in accordance with GAAP and is not necessarily indicative of the results to be achieved in any future period. Accordingly, you should not place undue reliance on this preliminary estimate.
  3. Recourse debt as of May 22, 2020, Pro Forma. See Slide 4 in this presentation for additional information on our May 22, 2020 Pro Forma recourse debt balances

- **Slide 4 (Enhanced Funding Structure)**
  1. Debt balances at May 22, 2020 pro forma, represent our estimated outstanding recourse debt balances at May 22, 2020, adjusted for debt repayments associated with pending asset sale transactions that were entered into prior to May 22, 2020, that we expect to settle on or before June 4, 2020.
  2. Amount of securities repurchase debt presented in table is gross of cash margin posted to counterparties (recorded as an Other asset on our balance sheet)

- **Slide 7 (Investment Portfolio – Securities)**
  1. Investment thickness represents the size of a subordinate security (on a percentage basis) relative to the total unpaid principal balance of its respective securitization. Amounts in table are presented on a weighted average basis by security type

- **Slide 8 (Investment Portfolio Characteristics)**
  1. HPI updated LTV is calculated based on the current loan balance and an updated property value amount that is formulaically adjusted from value at origination, based on the FHFA home price index (HPI)
  2. Investment thickness represents the size of a subordinate security (on a percentage basis) relative to the total unpaid principal balance of its respective securitization. Amounts in table are presented on a weighted average basis by investment type
  3. Average current debt service coverage ratio (or DSCR) is the ratio by which net operating income of a property exceeds its fixed debt costs
  4. Average loan to value (or LTV) (at origination) is calculated based on the original loan amount and the property value at the time the loan was originated. Amounts in table represent weighted averages by investment type

- **Slide 12 (Capital Allocation)**
  1. See our Q1 2020 Redwood Review for information on March 31, 2020 pro forma balances

- **Slide 13 (Mortgage Servicing Advance Obligations)**
  1. See our Q1 2020 Redwood Review for additional information about our mortgage servicing obligations