

# Investor Presentation

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November 16, 2020

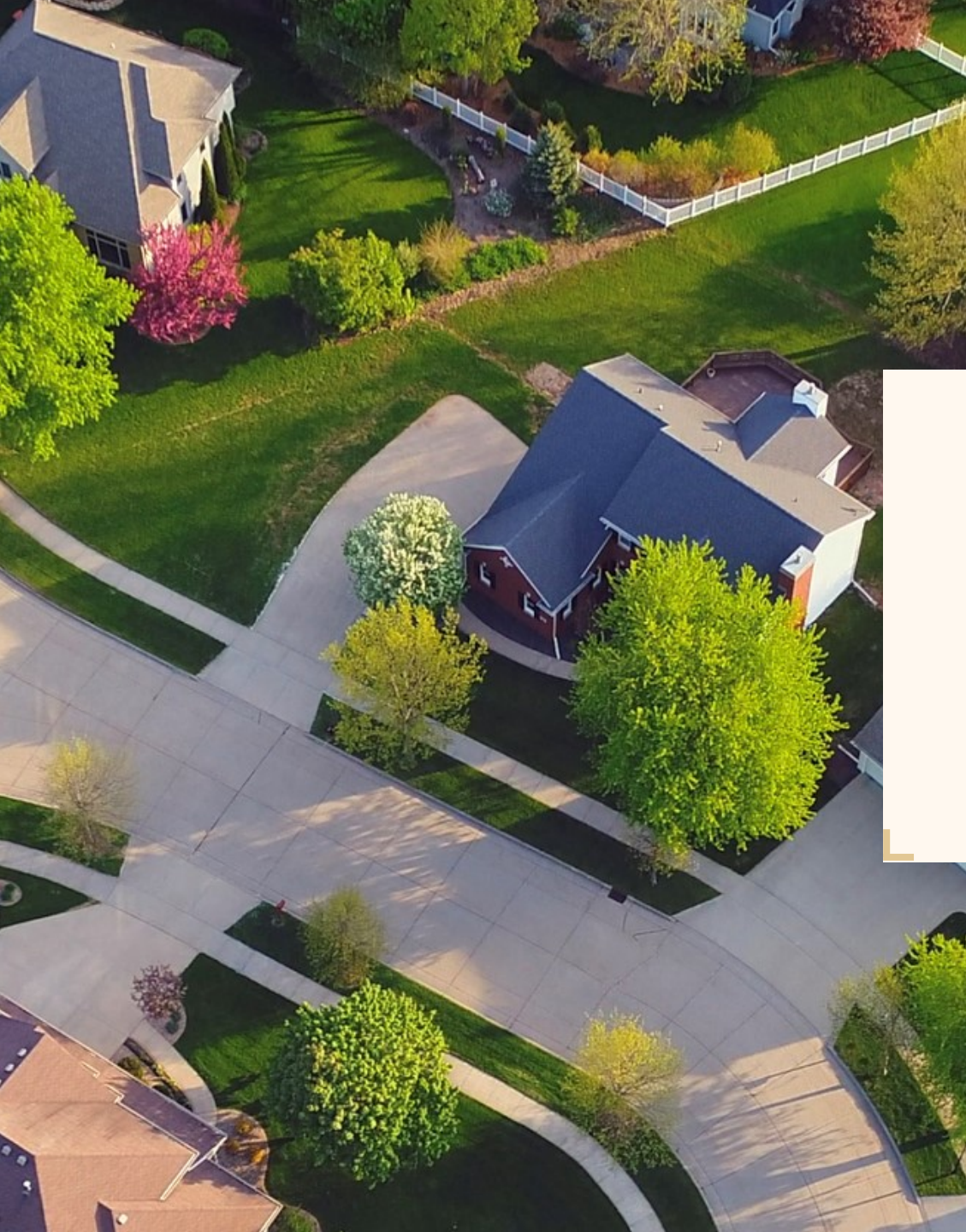


REDWOOD  
TRUST

# Forward Looking Statements

This presentation contains forward-looking statements, including statements regarding our belief that we can increase the market share of our residential lending platform by 4 to 5 times by the end of 2025 and estimated yields on our investment portfolio. 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 and Annual Reports on Form 10-K 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.

Additionally, 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.



# Our Mission

Redwood's mission is to help make quality housing, whether rented or owned, accessible to all Americans.

# Redwood Trust provides significant liquidity to the U.S. housing market

REDWOOD  
RESIDENTIAL

 **COREVEST**  
A REDWOOD TRUST COMPANY

REDWOOD  
INVESTMENTS

## Through our market leading brands we:



Aggregate mortgages made to homeowners and landlords who don't qualify for government programs



Structure loans into securities and other investments, connecting borrowers with institutional investors



Provide long-term capital to the housing market through proprietary and third-party investment activities



# Most segments of the U.S. housing market rely on some form of private capital

**\$3T+** potential non-agency financing opportunity<sup>(1)</sup>

**\$2.8T** year-to-date GSE MBS issuance<sup>(2)</sup>

**\$100B** of sub-performing loans on GSE balance-sheets<sup>(3)</sup>

- There is a substantial need for private capital to support housing finance activities where government loan programs fall short
- Over the past several years, the GSEs have:
  - Dramatically reduced the size of their investment portfolios
  - Streamlined focus areas to be more in line with their core mission
- These activities require investments from the private sector to facilitate risk transfers on new and existing portfolios

# We address a vast and growing market spanning the entire U.S. housing finance industry

REDWOOD  
RESIDENTIAL

## Non-Agency Consumer Lending

- Leading non-agency conduit providing liquidity to a broad set of originators
- Best-in-class customer service and user experience for originators and investors

 COREVEST<sup>®</sup>  
A REDWOOD TRUST COMPANY

## Business Purpose Lending

- Leading direct lender to housing investors
- Advanced customer acquisition technology
- Multi-product offerings that drive a virtuous cycle of customer retention

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## Credit-Focused Portfolio

- Provide permanent capital for GSE and other third-party activities through exclusive partnerships and open-market purchases
- Source of reliable liquidity to support our mortgage banking businesses
- Attractive risk-adjusted returns with lower leverage than peers

# As the market leader in the non-agency sector, we are poised to capitalize on secular shifts in housing

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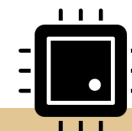
## Serving Growing Markets

- Housing demand continues to outpace supply in both owner-occupied and rental markets
- Single-family rental units are increasing as a percentage of new home builds
- Large deferred maintenance persists in national housing stock
- Strong demand for housing credit from institutional investors



## Macro Tailwinds

- Strong demand for single-family detached homes driven by evolving consumer preferences on where to live, bolstered by lower rates
- Quality rental homes in attractive neighborhoods offer compelling options to consumers
- Intrinsic value of a home is increasingly important in today's society

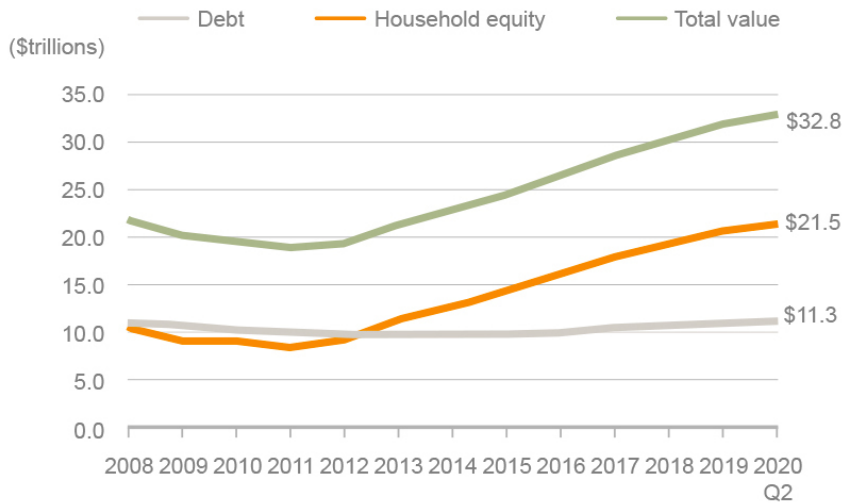


## Competitive Advantages

- First-to-market brand recognition
- Technology-enabled processes accelerate time to fund loans and turn our capital
- Market-leading securitization platforms
  - Structure and distribute liquid AAA securities
  - Align interests with investors through retention of subordinate bonds

# Household equity continues to increase, outpacing loan balance limits for government lending programs

**Value of the US Single Family Housing Market<sup>(1)</sup>**

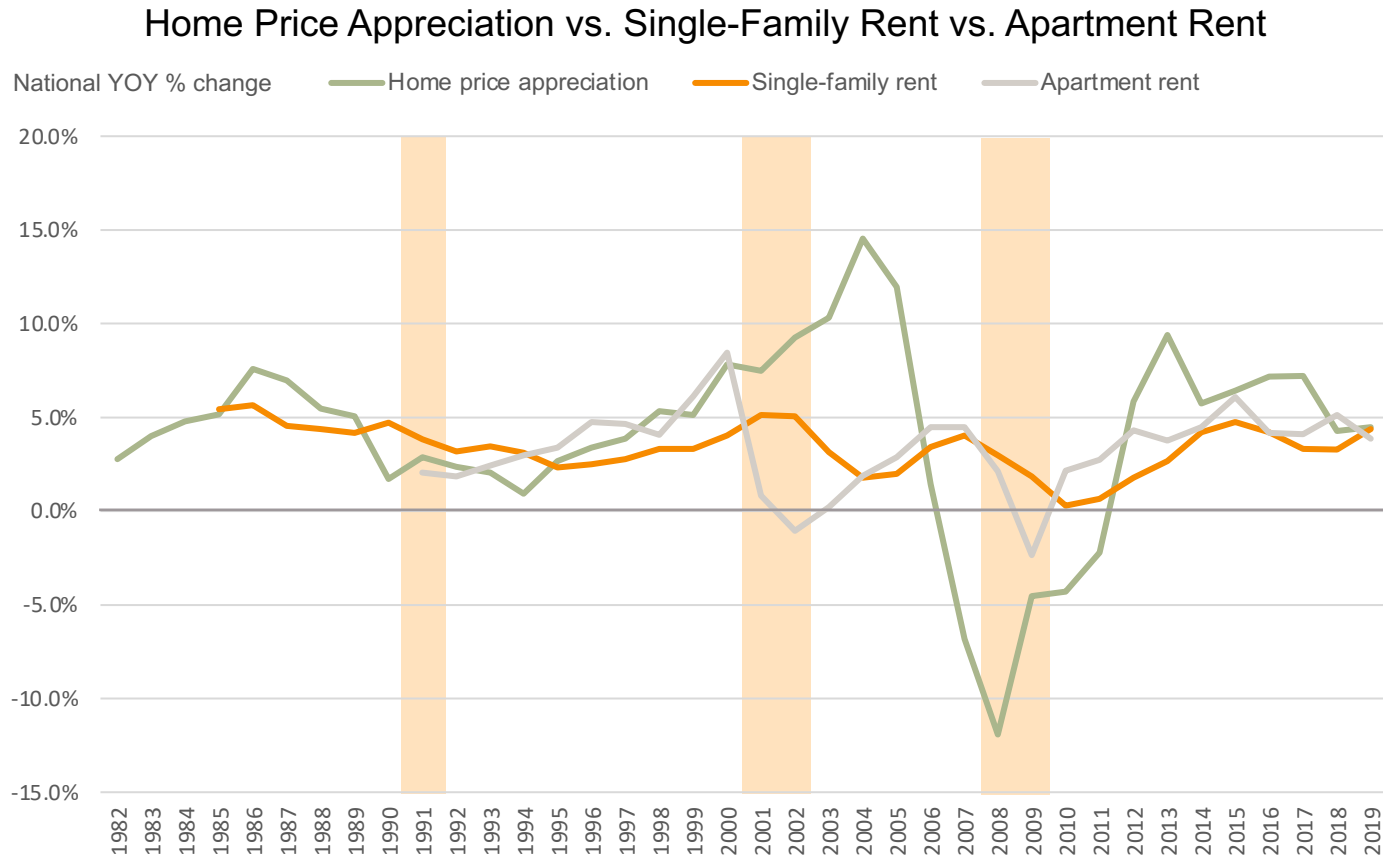


**Growing Markets will Likely Require Increased Access to Non-Agency Lending**

	Median Home Price <sup>(2)</sup> (\$ in thousands)	GSE 2020 Conforming Limit <sup>(3)</sup> (\$ in thousands)	Change in Limit since 2013 <sup>(3)</sup>	HPA Since 2013 <sup>(3)(4)</sup>
<b>Dallas</b>	\$ 326	\$ 510	22%	63%
<b>Denver</b>	\$ 489	\$ 575	38%	77%
<b>Miami</b>	\$ 410	\$ 510	22%	64%
<b>Seattle</b>	\$ 725	\$ 742	46%	76%

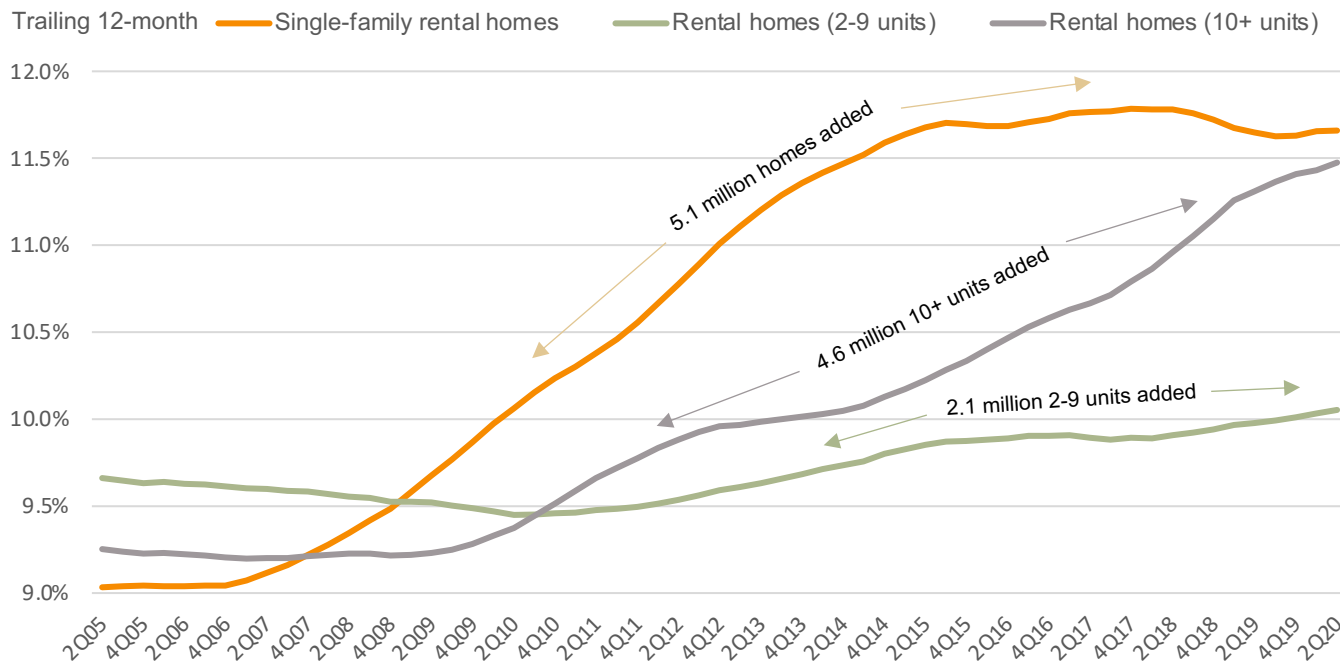


# Single-family rent growth remains strong and has historically stayed positive even in recessions<sup>(1)</sup>



# Changing consumer preference and affordability are driving demand for single-family homes held for rent

## Rental Homes as Percentage of All Housing Units



**Single-Family Rental Units Make Up 11.7% of Total Housing Stock<sup>(1)</sup>**

# We have delivered innovative solutions to the non-agency consumer sector for over 25 years

## REDWOOD RESIDENTIAL

Enhances housing availability as a leading intermediary between mortgage investors and originators

### Key source of liquidity for the market

- Unparalleled correspondent loan originator network (banks and non-banks)
- Aggregates loans and creates liquid securities for investors
- Alternative for borrowers from commercial banks, providing liquidity to independent mortgage banking (IMB) sector
- Enables commercial bank portfolios access to loans originated by IMBs

### Channel of interaction for buyers and sellers

- Aligns interests and facilitates execution with our counterparties
  - Securitization sponsorship
  - Reps and warrants
- Provides credit standards to meet the needs of borrowers, originators and investors
- Serves as a data aggregator for the benefit of our buyers and sellers

# We are the market leader in non-agency residential securitization, whole loan trading, and credit investing

## REDWOOD RESIDENTIAL

### More securitizations than any other sponsor

- **108** Sequoia transactions totaling \$54.6B in issuances
- **200+** Institutional Investors
- Market leading brand

### Strong Performance

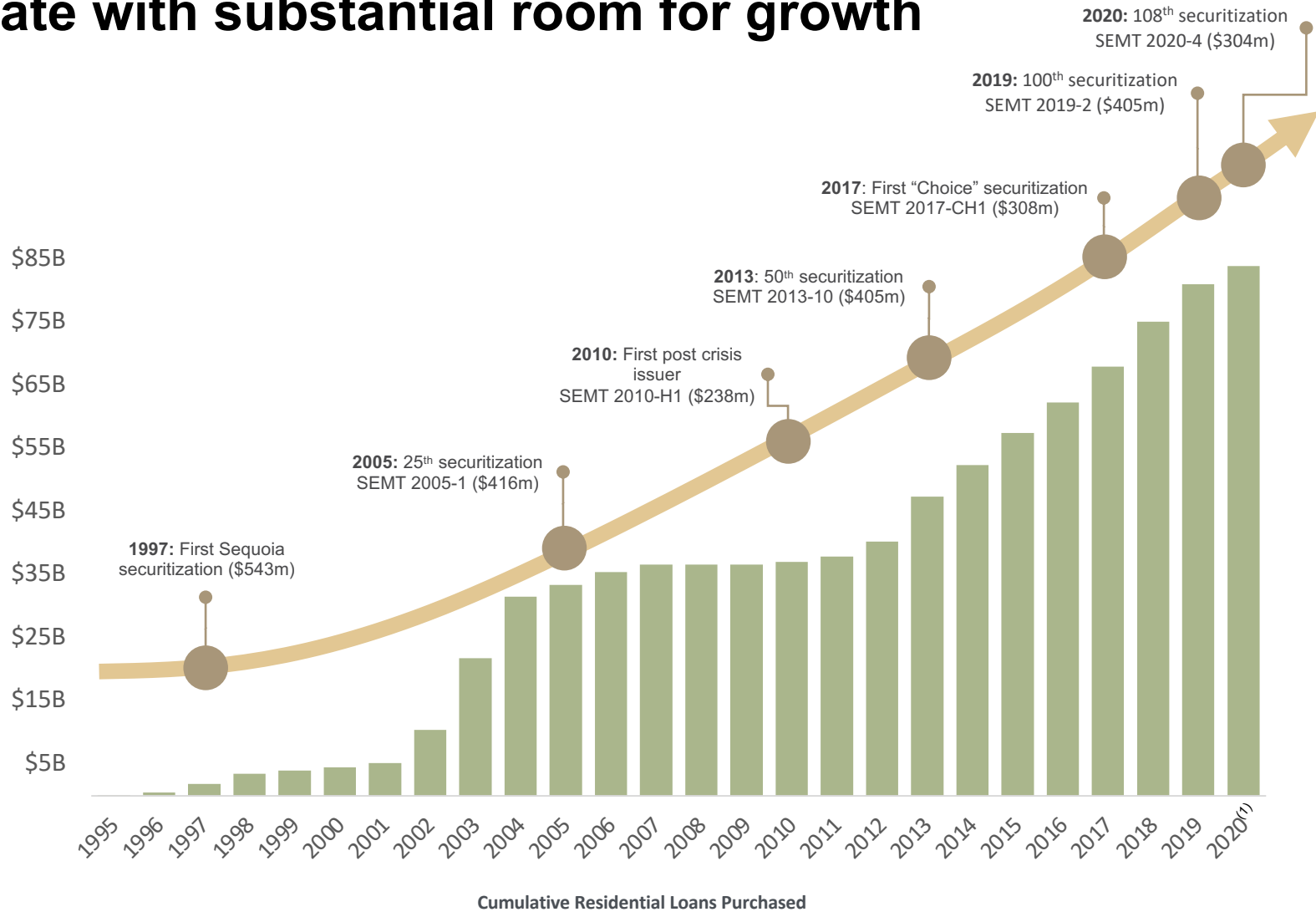
- **~3%**<sup>(1)</sup> delinquency rate versus market average of ~5<sup>(1)</sup>
- **<1%** of portfolio<sup>(2)</sup> in forbearance versus market average of 7%<sup>(3)</sup>

### Significant opportunity to gain share

- **\$400B**<sup>(4)</sup> annual market
- **\$84B**<sup>(5)</sup> loans funded since 1995



# We have completed over \$80B in purchases life-to-date with substantial room for growth



# We believe we can increase our market share 4 - 5x by the end of 2025<sup>(1)</sup>

## Customer Acquisition

- Tech-enabled with high-touch customer service
- Best-in-class user experience
- Pipeline monitoring
- Culture of trust and transparency

## Production / Customer Retention

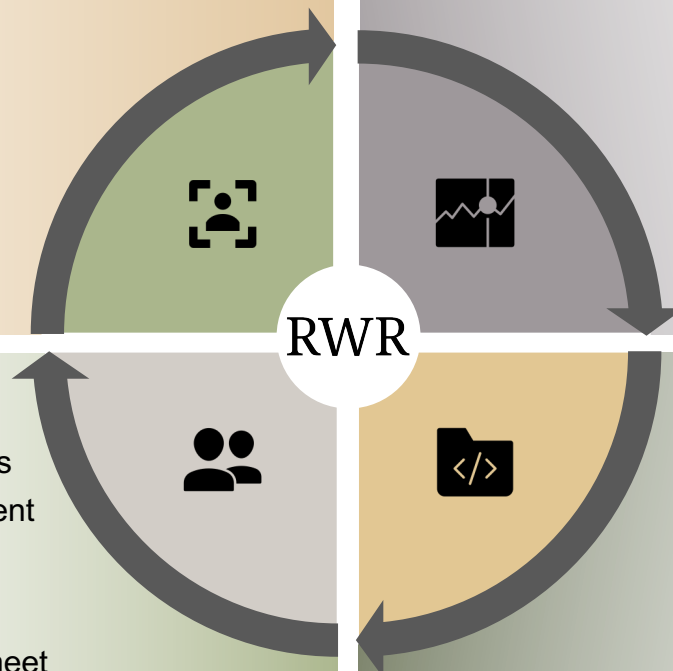
- Turn capital efficiently
- “Rapid Funding” program
- Industry leading close times driven by automated work streams

## Distribution

- Diverse settlement options
- Loan level risk management
- Best execution through securitizations, whole-loan sales and alternative structures to meet investor needs

## Underwriting

- Transparent, common-sense guidelines
- Cloud-based portal drives third-party interactions and transparency with our partners



Processes driven by cloud-based proprietary technology and data architecture

# We lead the industry in providing capital to a growing market of sophisticated housing investors

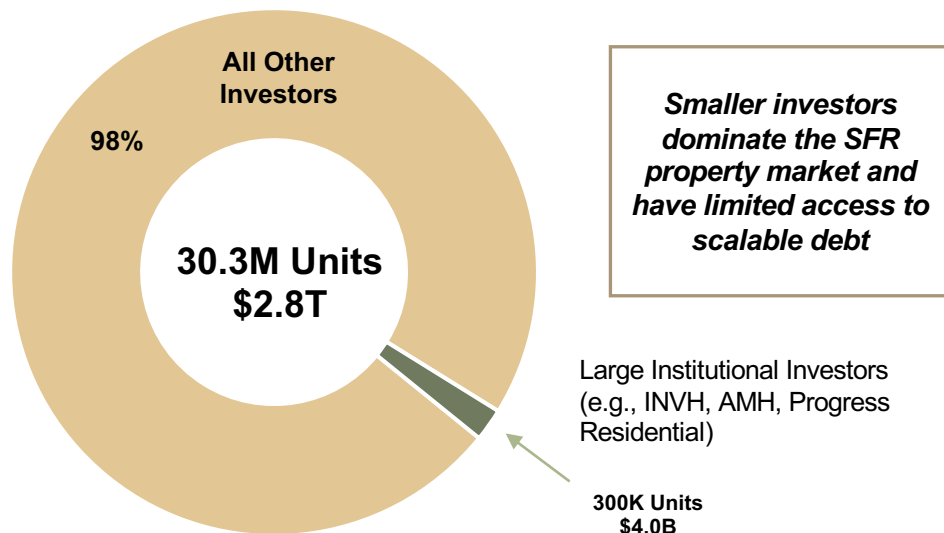


Highly scalable infrastructure with proprietary processes and technology

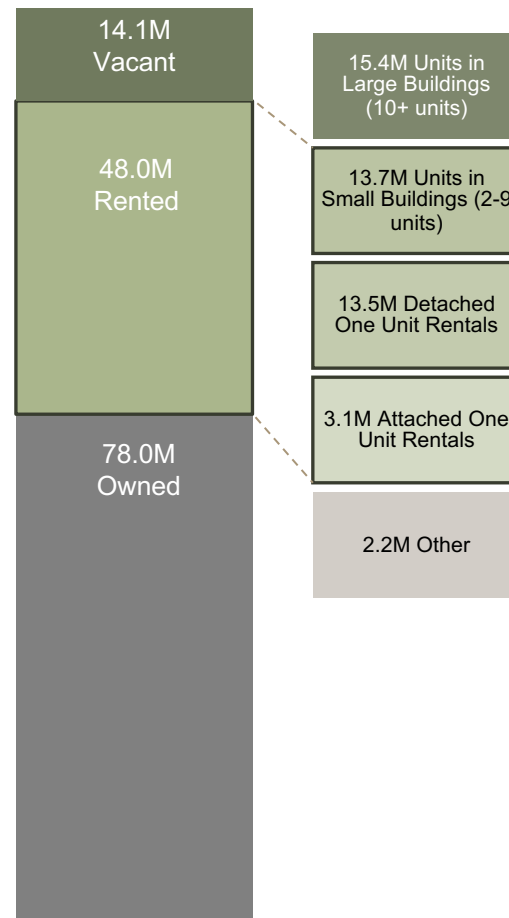
Target Market	Originations	Products	Loan Book <sup>(1)</sup>
<ul style="list-style-type: none"> <li>• Small and mid-sized real estate investors</li> <li>• Highly fragmented lending environment</li> <li>• 30.3M unit addressable market (16.6M are single-family rentals (SFRs))<sup>(2)</sup></li> <li>• \$90B+ estimated financing opportunity<sup>(2)(3)</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Robust digital media marketing platform</li> <li>• Direct originations team</li> <li>• Third party originations via correspondents, brokers and other relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Term loans for stabilized portfolio investors</li> <li>• Bridge loans for acquisitions, build-to-rent renovations and portfolio aggregation</li> </ul>	<ul style="list-style-type: none"> <li>• \$11.3B+ in loans closed</li> <li>• Over 4,000 borrowers</li> <li>• Over 61,000 properties financed across 47 states and Washington, D.C.</li> </ul>

# SFR lending is a \$90B addressable market opportunity with limited competitors

Investor Share of Current SFR Property Market<sup>(1)</sup>



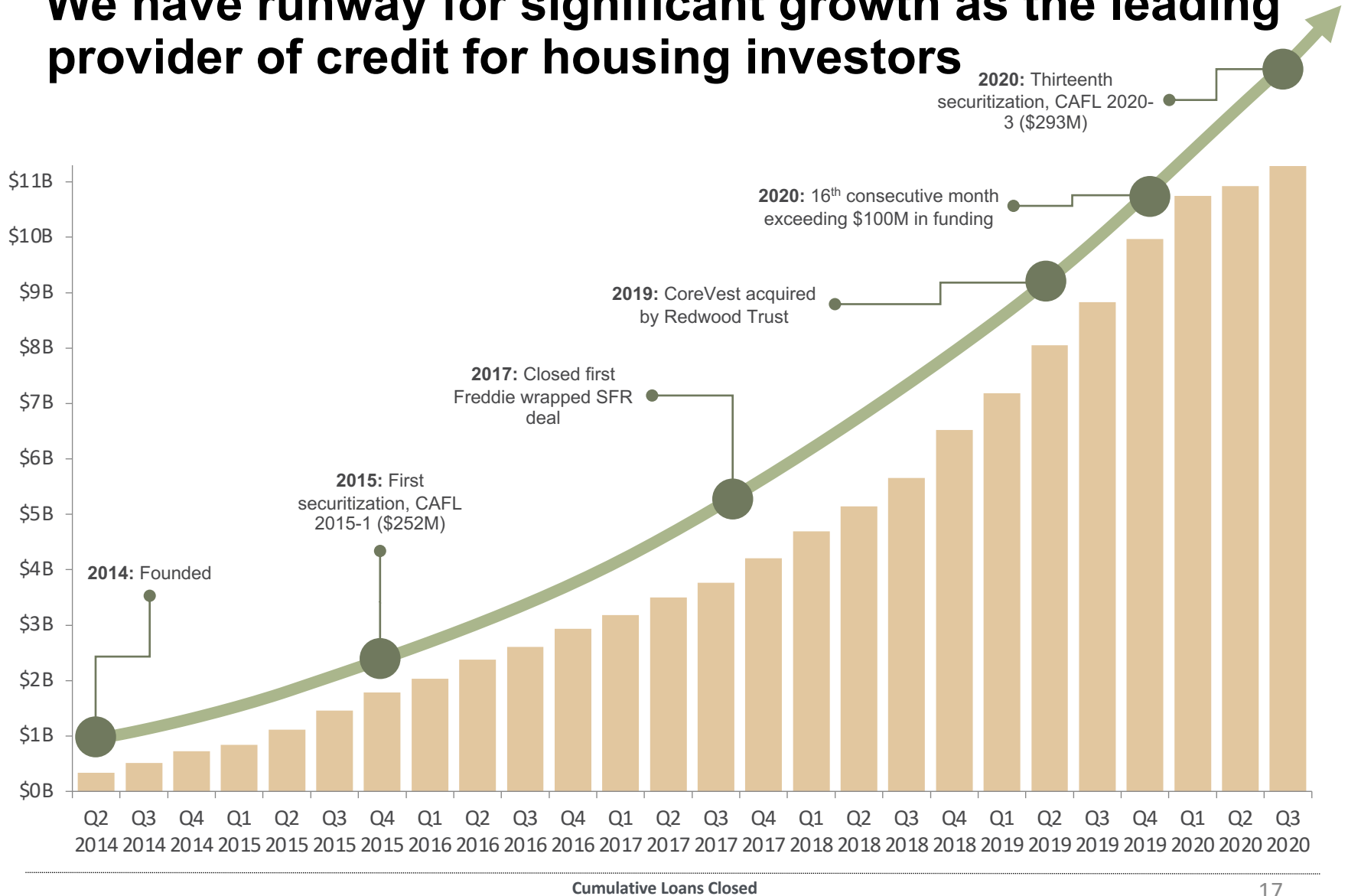
Total Housing Market (140.1M inventory)<sup>(2)(3)</sup>



30.3M	Investor Properties <sup>(2)</sup>
3.4%	Capture Rate <sup>(4)</sup>
1.0M	Homes Available for Financing
\$130K	Average Rental Property Value <sup>(1)</sup>
\$134B	BPO Value of Financeable Properties
67%	LTV <sup>(1)</sup>
<b>\$90B</b>	<b>Potential Financing Opportunity<sup>(1)</sup></b>



# We have runway for significant growth as the leading provider of credit for housing investors



# We lead the business purpose lending market with technology-enabled proprietary processes

## Sourcing

- Highly curated organic lead generation
- In house analytics and teams drive all lead generation
- Predictive data analytics

## Production

- Automated interactions with Capital Markets and Underwriting ensure consistency and efficiency
- Model pricing and loan sizing based on experience in evaluating 100s of thousands of assets

## Portfolio Management

- Systems merge data from originations, loans and servicing
- Dashboard driven real time views provide constant feedback loop

## Underwriting

- Industry leading close times due to automated workflow drivers
- Highly efficient and scalable
- Portal drives third party interactions and client transparency

End-to-end life cycle processes driven by cloud-based proprietary technology and data architecture

# Our technology is a competitive advantage that solidifies our market leadership position

- Highly scalable loan lifecycle system underpins shortest time to close in the industry with highest number of automated controls
- Systems drive key performance indicators including **over 50% repeat borrower rate** and **historical losses under 22bps<sup>(1)</sup>**
- Low client acquisition costs
- Significant barriers to entry due to first mover advantage coupled with a culture of consistent iteration

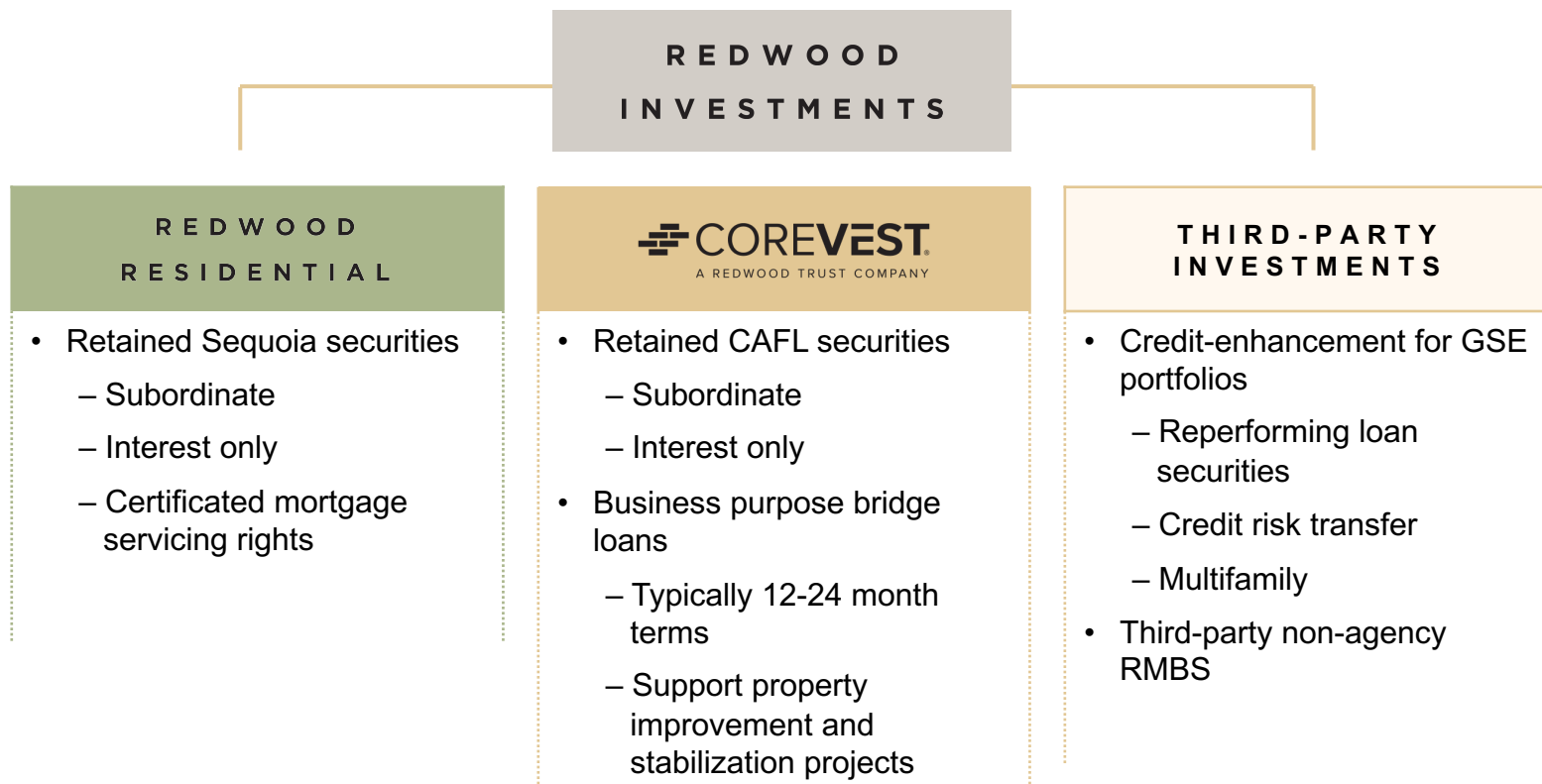
## Built on Experience

- Leverages data from **75,000+ units funded** since inception
- **13 rated securitizations**
- Stable management team since inception
- Market leader in new product development including **build-to-rent since 2014**
- Direct loan sale desk for opportunistic trades

## Continual Improvement

- Only **fully integrated** business purpose lender in the space
- Loan performance experience feeds directly to underwriting and credit
- **Agile technology development** means enhancements rolled out every two weeks

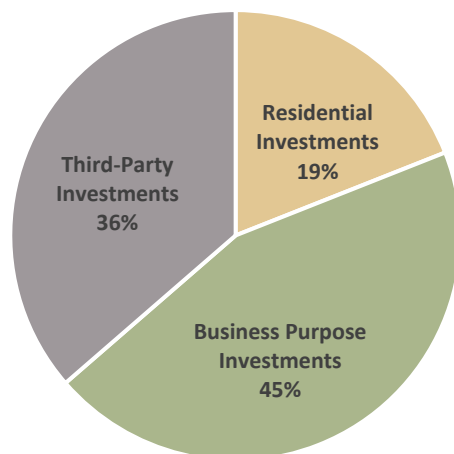
# Our investment portfolio supports our operating platforms and third-party mortgage lending activity



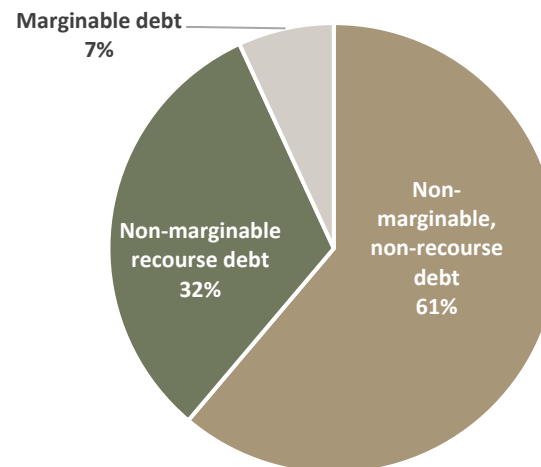


# Our combined portfolios generate strong risk-adjusted returns with lower leverage than our competitors

**\$2.1 Billion Housing Credit Investments<sup>(1)</sup>**



**\$1.1 Billion Secured Financing<sup>(1)(2)</sup>**



- Comprised of high-quality credit investments, diversified across the housing sector
- Financed with approximately 1x secured debt to equity
  - Over 90% of secured debt is non-marginable
- In aggregate, estimated to yield low to mid double-digit return on capital to our September 30, 2020 basis<sup>(3)</sup>

# We believe best-in-class corporate responsibility is good for our shareholders, partners and employees



## Corporate Governance

- Committed to best practices that provide a strong foundation for fulfilling our mission and providing value for our shareholders
- Institute proper governance through:
  - ✓ Independent board chair
  - ✓ Declassified board
  - ✓ Required stock ownership
  - ✓ Strong code of ethics

## Human Capital



- A values-based culture enables us to meet our strategic goals to grow and evolve as an organization
- Targeted programs attract, develop, and retain talent through:
  - ✓ Diversity and inclusion initiatives
  - ✓ Women's leadership group
  - ✓ Mentoring and employee development programs
  - ✓ Community giving and volunteerism

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## Environment

- Committed to reducing our environmental impact:
  - ✓ Support eco-friendly construction
  - ✓ Eco friendly practices in our offices; with ~220 employees in four principal locations, our business operations have a relatively low environmental impact

## Risk Management



- Deliver attractive risk-adjusted returns through:
  - ✓ Common-sense approach to credit investing
  - ✓ Centralized decision-making processes
  - ✓ Strong credit underwriting
- Business continuity planning protects our employees and data:
  - ✓ Seamless transition to work-from-home environment

# **Appendix – Financial Tables**

## Key Financial Results and Metrics

	Three Months Ended			
	9/30/2020		6/30/2020	
Earnings per Share <sup>(1)</sup>	\$	1.02	\$	1.00
Return on Equity		57 %		82 %
Book Value per Share	\$	9.41	\$	8.15
Dividend per Share	\$	0.14	\$	0.125
Economic Return on Book Value <sup>(2)</sup>		17 %		31 %
Unrestricted Cash (in millions)	\$	451	\$	529
Recourse Leverage Ratio <sup>(3)</sup>		1.4x		2.1x

## Mortgage Banking Key Operating Metrics

(\$ in millions)

	Three Months Ended 9/30/2020	
	Residential Mortgage Banking	Business Purpose Mortgage Banking
Mortgage banking income <sup>(1)</sup>	\$ 11	\$ 49
G&A and Loan acquisition costs excluding amortization <sup>(2)</sup>	\$ (4)	\$ (10)
<u>Production Volumes</u>		
Residential loan purchase commitments (fallout adjusted)	\$ 1,197	
SFR loan originations		\$ 196
Bridge loan originations		\$ 66

## Investment Portfolio Key Financial Results

(\$ in millions)

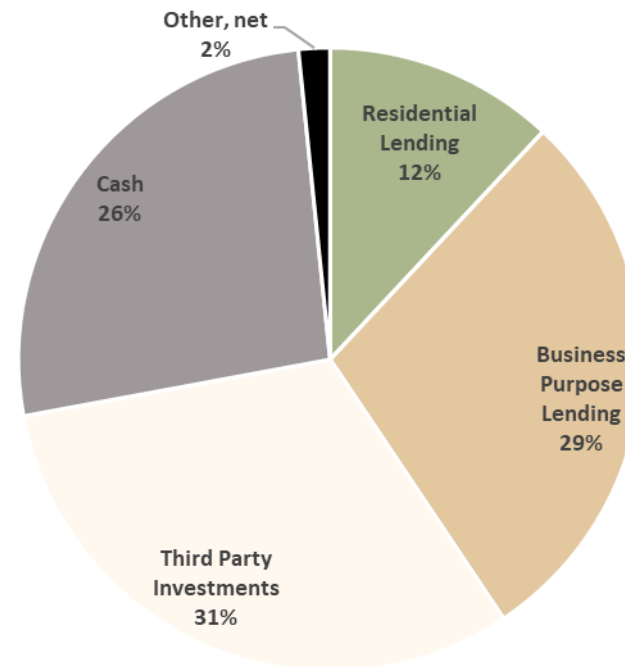
	Three Months Ended September 30, 2020			
	Residential Lending	Business Purpose Lending	Third-Party Investments	Total
Net interest income <sup>(1)</sup>	\$ 6	\$ 10	\$ 13	\$ 30
<i>Economic net interest income (non-GAAP) <sup>(1)</sup></i>	4	8	18	30
Investment fair value changes	2	17	88	107
Other income (loss), net	(2)	1	—	(1)
<u>At September 30, 2020</u>				
Carrying values of investments	409	955	778	2,142
Secured debt balances	255	627	238	1,091

### Capital Allocation Detail

By Investment Type  
September 30, 2020  
(\$ in millions)

	Fair Value of Assets <sup>(1)</sup>	Recourse Debt	Total Capital
<b>Residential Lending</b>			
Sequoia securities	\$ 356	\$ (225)	\$ 131
MSRs/Other	50	—	50
Mortgage banking residential loan inventory	105	(82)	23
<b>Total Residential Lending</b>	<b>511</b>	<b>(307)</b>	<b>204</b>
<b>Business Purpose Lending</b>			
SFR securities	229	(103)	126
Bridge loans <sup>(2)</sup>	267	(65)	202
Mortgage banking SFR loan inventory	286	(182)	104
Platform premium	61	—	61
<b>Total Business Purpose Lending</b>	<b>843</b>	<b>(350)</b>	<b>493</b>
<b>Third-Party Investments</b>			
RPL investments	269	—	269
CRT & third-party securities	89	—	89
Multifamily securities	82	(31)	51
Other investments	131	—	131
<b>Total Third-Party Investments</b>	<b>571</b>	<b>(31)</b>	<b>540</b>
Cash and cash equivalents	451		451
Other assets/liabilities, net	27		27
Corporate debt	—	(661)	(661)
<b>Totals</b>	<b>\$ 2,403</b>	<b>\$ (1,349)</b>	<b>\$ 1,054</b>

### Capital Allocation <sup>(1)</sup>



Detailed Endnotes are included at the end of this presentation

A further discussion of Redwood's business, financial results and taxable income is included in the third quarter 2020 Redwood Review, which is available within the "Financials-Redwood Review" section on the Company's investor relations website at [ir.redwoodtrust.com](http://ir.redwoodtrust.com)

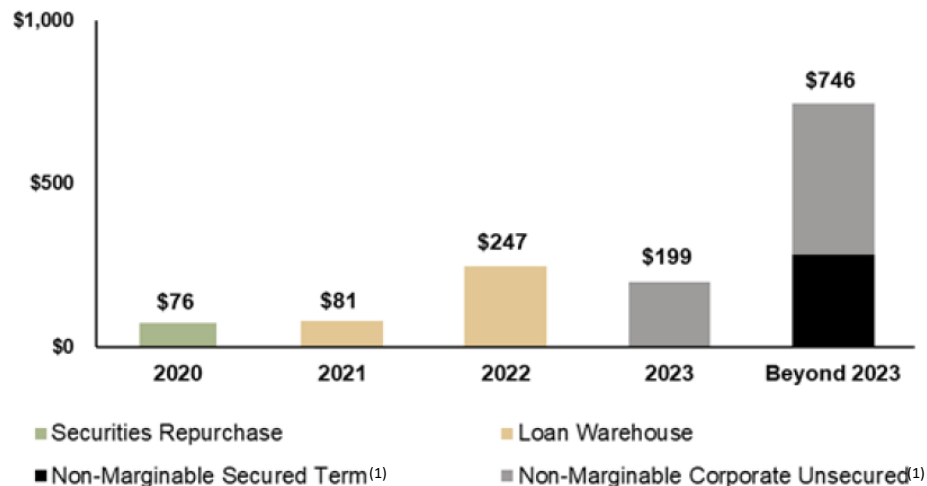
## Recourse Debt Balances at September 30, 2020

(\$ in millions)

	Fair Value of Secured Assets	Secured Debt			Unsecured Debt	Total Debt	Average Borrowing Cost <sup>(2)</sup>
		Non- Marginable Debt <sup>(1)</sup>	Marginable Debt <sup>(1)</sup>				
Corporate debt	N/A	\$ 1	\$ —	\$ 660	\$ 661	5.3 %	
Securities portfolio	459	284	75	—	359	2.9 %	
SFR loans	244	182	—	—	182	4.3 %	
Bridge loans	76	65	—	—	65	3.2 %	
Residential loans	92	74	8	—	82	2.9 %	
<b>Total</b>	<b>\$ 871</b>	<b>\$ 606</b>	<b>\$ 83</b>	<b>\$ 660</b>	<b>\$ 1,349</b>	<b>4.3 %</b>	

## Recourse Debt Scheduled Maturities

(\$ in millions)





Combined Investment Portfolio at September 30, 2020								
(\$ in millions)								
	Fair Value of Assets		Recourse Debt		Non Recourse Debt <sup>(1)</sup>	Net Capital Invested		
Sequoia securities	\$	356	\$	(225)	\$	0	\$	132
SFR securities		229		(103)		0		126
Third-party securities		648		(31)		(208)		409
Total securities		1,233		(359)		(208)		667
Business purpose bridge loans		726		(65)		(459)		202
Other investments		183		0		0		183
<b>Total investment portfolio</b>	<b>\$</b>	<b>2,142</b>	<b>\$</b>	<b>(423)</b>	<b>\$</b>	<b>(667)</b>	<b>\$</b>	<b>1,051</b>

Securities Investments Values and Recoveries										
At September 30, 2020										
(\$ in millions)										
	Interest-Only Securities		Subordinate Securities		Total Securities	Q1 2020 Unrealized Loss	Q3 2020 Remaining Unrealized Loss			
Sequoia securities	\$	22	\$	331	\$	354	\$	(162)	\$	(40)
SFR securities		48		181		229		(68)		(40)
Third-party securities										
RPL		32		445		477		(175)		(60)
Other		11		163		174		(106)		(29)
<b>Total</b>	<b>\$</b>	<b>113</b>	<b>\$</b>	<b>1,120</b>	<b>\$</b>	<b>1,233</b>	<b>\$</b>	<b>(511)</b>	<b>\$</b>	<b>(168)</b>

### Residential Investments Credit Characteristics <sup>(1)</sup>

September 30, 2020

(\$ in millions, except where noted)

	Sequoia Select Securities <sup>(2)</sup>	Sequoia Choice Securities <sup>(2)</sup>	Re-Performing Loan Securities
Market value	\$ 128	\$ 204	\$ 477
Average FICO (at origination)	770	742	609
HPI updated LTV <sup>(3)</sup>	43 %	63 %	68 %
Average loan size (in thousands)	\$ 648	\$ 710	\$ 167
Gross weighted average coupon	4.0 %	4.9 %	4.5 %
Current 3-month prepayment rate	42 %	36 %	7 %
90+ days delinquency (as a % of UPB)	1.7 %	5.9 %	15.7 %
Investment thickness <sup>(4)</sup>	5 %	14 %	23 %

### Business Purpose and Multifamily Investments Credit Characteristics

September 30, 2020

(\$ in millions, except where noted)

	SFR Securities	BPL Bridge Loans	Multifamily B-Pieces
Market value	\$ 229	\$ 701	\$ 82
Average current DSCR <sup>(1)</sup>	1.4x	N/A	1.5x
LTV (at origination) <sup>(2)</sup>	68 %	70 %	72 %
Average loan size (in thousands)	\$ 2,945	\$ 205	\$ 25,382
Gross weighted average coupon	5.5 %	8.0 %	3.4 %
90+ days delinquency (as a % of UPB)	2.5 %	5.6 %	0.0 %
Investment thickness <sup>(3)</sup>	12 %	N/A	10 %

# **Appendix – Endnotes**

# End Notes

## **Slide 5 (Most segments of the U.S. housing market rely on some form of private capital)**

1. Redwood estimate of total non-agency consumer plus investor financing needs
2. Year-to-date issuance is through October 30, 2020. Source: SIFMA
3. As of September 30, 2020. Source: Fannie Mae and Freddie Mac

## **Slide 8 (Household equity continues to increase, outpacing loan balance limits for government lending programs)**

1. Source: Urban Institute Housing Finance at a Glance September Chartbook, Fed Reserve flow funds and Urban Institute
2. JPMorgan Home price Index report November 2020
3. Federal Housing Finance Agency
4. Index Value 2013-2019

## **Slide 9 (Single-family rent growth remains strong and has historically stayed positive even in recessions)**

1. Shaded areas indicate times of recession. Information sourced from John Burns Real Estate Consulting report “Single Family Rental Analysis and Forecast”, September 11, 2020. Resale home price appreciation is the Burns Home Value Index™ weighted average roll-up of 132 markets. Single-family rent is the Burns Single-Family Rent Index™ weighted average roll-up of 63 markets. Apartment rent is Reis Services, LLC 46-market weighted roll-up. Report sources: REIS effective rent; John Burns Real Estate Consulting, LLC; JBREC projections (Data: Jul-20, Pub: Sep-20)

## **Slide 10 (Consumer preference and affordability are driving demand for single-family homes held for rent)**

1. Information sourced from John Burns Real Estate Consulting report “Single Family Rental Analysis and Forecast”, September 11, 2020. John Burns Real Estate Consulting estimated using 2010 Census and trending data from ACS / HVS, published September 2020.

## **Slide 12 (We are the market leader in non-agency residential securitization, whole loan trading, and credit investing)**

1. Fixed-rate only. Excludes deals with only high-LTV, seasoned or investor loans. Source: Wells Fargo Exhibit 5: 2018 – 2020 Prime 2.0 Performance Summary (July 2020 Remit). As of September 30, 2020. Additional report sources: Bloomberg
2. Redwood Trust Sequoia jumbo loan portfolio as of September 30, 2020
3. Includes data from entire mortgage lending market such as prime, GSE, VA and FHA loans. Source: MBA weekly forbearance report week ending October 2, 2020
4. Based on 2019 overall market originations of jumbo loans. Source IMF 2020 Mortgage Market Statistical Annual (with U.S. shipping)
5. Includes 2020 purchase volumes year-to-date as of September 30, 2020

## **Slide 13 (We have completed over \$80B in purchases life-to-date with substantial room for growth)**

1. 2020 purchase volumes are year-to-date as of September 30, 2020

## **Slide 14 (We believe we can increase our market share 4-5x by the end of 2025)**

1. The multiplier of the expected increase of market share is based on Redwood’s estimates of current market share to be approximately 2% of annualized overall market originations of jumbo loans as reported by IMF.

## End Notes (continued)

### Slide 15 (We lead the industry providing capital to a growing market of sophisticated housing investors)

1. Information as of September 30, 2020. Includes 5 Arch originated loans.
2. John Burns Real Estate Consulting report “Single Family Rental Analysis and Forecast”, September 11, 2020. John Burns Real Estate Consulting estimates using 2010 Census and trending data from ACS / HVS (Data: 4Q19, Pub: Sep 2020).
3. CoreVest estimates based on recent experience and assumes a capture rate of 3.4% from the Keefe, Bruyette & Woods Research (Oct 2014).

### Slide 16 (SFR lending is a \$90B market opportunity with limited competitors)

1. CoreVest estimated based on publicly available information and recent experience
2. John Burns Real Estate Consulting estimated using 2010 Census and trending data from ACS / HVS, published September 2020.
3. JBREC estimated using 2010 Census figures and trending data from ACS / HVS
4. Keefe, Bruyette & Woods Research (Oct 2014)

### Slide 19 (Our technology is a competitive advantage that solidifies our market leadership position)

1. Includes CoreVest originations only

### Slide 21 (Our combined portfolios generate strong risk-adjusted returns with lower leverage than our competitors)

1. All data presented as of September 30, 2020
2. Non-marginable debt and marginable debt refers to whether such debt is subject to market value-based margin calls on underlying collateral.
3. We estimate that our investments held at September 30, 2020 can generate economic returns (using effective yields based on the carrying value (generally market value) of our investments at September 30, 2020 and estimated future cash flows) on a levered basis (using our financing currently in-place at September 30, 2020) in the low to mid double-digits. Expectations regarding estimated yields are based on our current 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.

### Slide 24 (Financial Tables – Key Financial Results and Metrics)

1. During the second quarter of 2020, \$25 million of gains from the repurchase of convertible debt were excluded from our diluted earnings per share, in accordance with GAAP.
2. Economic return on book value is based on the periodic change in GAAP book value per common share plus dividends declared per common share during the period.
3. Recourse leverage ratio is defined as recourse debt at Redwood divided by tangible stockholders' equity. Tangible stockholders' equity excludes \$61 million and \$65 million of intangible assets at September 30, 2020 and June 30, 2020, respectively

# End Notes (continued)

## Slide 25 (Financial Tables – Mortgage Banking Key Operating Metrics)

1. "Mortgage banking income" within this table represents the sum of net interest income earned on loan inventory and income from mortgage banking activities within each of our mortgage banking operations.
2. "G&A and loan acquisition costs excluding amortization" within this table represents general and administrative expenses and loan acquisition costs within each of our mortgage banking operations, excluding \$1 million of purchase related stock-based consideration amortization expense within our business purpose mortgage banking operations.

## Slide 25 (Financial Tables – Investment Portfolio Key Financial Results)

1. Net interest income excludes income from MSR and risk sharing investments for which income is recognized through "other income" and does not include any allocation of corporate unsecured debt. Non-GAAP Economic net interest income reflects our economic yield (an effective yield generally based on expected cash flows relative to our adjusted historical basis) on our investments less their financing costs. Below is a reconciliation of this Non-GAAP measurement. See our third quarter Redwood Review for additional information on Non-GAAP measures.

Reconciliation of Non-GAAP Measurements				
(\$ in millions)				
	Three Months Ended September 30, 2020			
	GAAP	Adjustments	Non-GAAP	
Net interest income / Economic net interest income				
Residential Lending	\$ 6	\$ (1)	\$ 4	
Business Purpose Lending	10	(3)	8	
Third-Party Investments	13	5	18	

## Slide 26 (Financial Tables - Capital Allocation Details Table)

1. Other assets and liabilities are presented on a net basis within this column
2. The "Fair Value of Assets" for Bridge loans within this table represents our economic interest in certain of these assets that are financed with non-recourse debt. As of September 30, 2020, we had \$701 million of bridge loans and \$25 million of related assets, including \$609 million of loans financed with \$459 million of non-recourse debt, and the remaining \$117 million financed with a combination of recourse debt and equity

## Slide 26 (Financial Tables - Capital Allocation Pie Chart)

1. Our \$1.7 billion of capital allocated within this chart, represents the sum of our \$1.05 billion of common equity and \$0.66 billion of unsecured corporate debt

## Slide 27 (Financial Tables – Recourse Debt Balance at September 30, 2020)

1. Non-marginable debt and marginable debt refers to whether such debt is subject to market value-based margin calls on underlying collateral.
2. Average borrowing cost represents the weighted average cost on non-recourse debt outstanding at September 30, 2020 and does not include deferred issuance costs or debt discounts.

## Slide 27 (Financial Tables – Recourse Debt Scheduled Maturities)

1. Non-marginable debt refers to whether such debt is subject to market value-based margin calls on underlying collateral.

## End Notes (continued)

### Slide 28 (Financial Tables – Combined Investment Portfolio at September 30, 2020)

1. Non-recourse debt presented in this table excludes consolidated securitization debt (ABS issued and servicer advance financing).

### Slide 29 (Financial Tables – Residential Investments Credit Characteristics)

1. Underlying loan performance information provided in this table is generally reported on a one-month lag. As such, the data reported in this table is from September reports, which reflect a loan performance date of August 31.
2. Sequoia Select and Sequoia Choice securities presented in this table include subordinate securities and do not include interest only or certificated servicing securities.
3. 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).
4. "Investment thickness" represents the average size of the securities we own as investments in securitizations, relative to the average overall size of the securitizations. For example, if our investment thickness (of first-loss securities) with respect to a particular securitization is 14%, we have exposure to the first 14% of credit losses resulting from loans underlying that securitization.

### Slide 29 (Financial Tables – Business Purpose and Multifamily Investments Credit Characteristics)

1. Average current debt service coverage ratio (or DSCR) is the ratio by which net operating income of a property exceeds its fixed debt costs.
2. 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.
3. "Investment thickness" represents the average size of the securities we own as investments in securitizations, relative to the average overall size of the securitizations. For example, if our investment thickness (of first-loss securities) with respect to a particular securitization is 14%, we have exposure to the first 14% of credit losses resulting from loans underlying that securitization.

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