

# Redwood Trust, Inc.

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*Redwood Announces Definitive Agreement to Acquire  
CoreVest American Finance Lender LLC*

*October 14, 2019*



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# Forward Looking Statements



This presentation may contain forward-looking statements within the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including statements relating to Redwood's business, growth, and prospects, and statements relating to 2019 business purpose loan investments and earnings potential, including target return profiles for business purpose loan investments. 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 Reports on Form 10-K and its Quarterly Reports on Form 10-Q under the captions "Risk Factors." Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected are described below and may be described from time to time in reports we file with the Securities and Exchange Commission, including reports on Forms 10-K, 10-Q, and 8-K. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Important factors, among others, that may affect our actual results include: the pace at which we redeploy our available capital into new investments; interest rate volatility, changes in credit spreads, and changes in liquidity in the market for real estate securities and loans; changes in the demand from investors for residential mortgages and investments, and our ability to distribute residential mortgages through our whole-loan distribution channel; our ability to finance our investments in securities and our acquisition of residential mortgages with short-term debt; changes in the values of assets we own; general economic trends, the performance of the housing, real estate, mortgage, credit, and broader financial markets, and their effects on the prices of earning assets and the credit status of borrowers; federal and state legislative and regulatory developments, and the actions of governmental authorities, including the new U.S. presidential administration, and in particular those affecting the mortgage industry or our business (including, but not limited to, the Federal Housing Finance Agency's rules relating to FHLB membership requirements and the implications for our captive insurance subsidiary's membership in the FHLB); strategic business and capital deployment decisions we make; developments related to the fixed income and mortgage finance markets and the Federal Reserve's statements regarding its future open market activity and monetary policy; our exposure to credit risk and the timing of credit losses within our portfolio; the concentration of the credit risks we are exposed to, including due to the structure of assets we hold and the geographical concentration of real estate underlying assets we own; our exposure to adjustable-rate mortgage loans; the efficacy and expense of our efforts to manage or hedge credit risk, interest rate risk, and other financial and operational risks; changes in credit ratings on assets we own and changes in the rating agencies' credit rating methodologies; changes in interest rates; changes in mortgage prepayment rates; changes in liquidity in the market for real estate securities and loans; our ability to finance the acquisition of real estate-related assets with short-term debt; the ability of counterparties to satisfy their obligations to us; our involvement in securitization transactions, the profitability of those transactions, and the risks we are exposed to in engaging in securitization transactions; exposure to claims and litigation, including litigation arising from our involvement in securitization transactions; ongoing litigation against various trustees of RMBS transactions; whether we have sufficient liquid assets to meet short-term needs; our ability to successfully compete and retain or attract key personnel; our ability to adapt our business model and strategies to changing circumstances; changes in our investment, financing, and hedging strategies and new risks we may be exposed to if we expand our business activities; our exposure to a disruption or breach of the security of our technology infrastructure and systems; exposure to environmental liabilities; our failure to comply with applicable laws and regulations; our failure to maintain appropriate internal controls over financial reporting and disclosure controls and procedures; the impact on our reputation that could result from our actions or omissions or from those of others; changes in accounting principles and tax rules; our ability to maintain our status as a REIT for tax purposes; limitations imposed on our business due to our REIT status and our status as exempt from registration under the Investment Company Act of 1940; decisions about raising, managing, and distributing capital; and other factors not presently identified.

This presentation contains estimates and information concerning our industry, including market size and growth rates of the markets in which we participate, that are based on industry publications and reports. This information involves many assumptions and limitations, and you are cautioned not to give undue weight to these estimates. We have not independently verified the accuracy or completeness of the data contained in these industry publications and reports. The industry in which we operate is subject to a high degree of uncertainty and risk due to a variety of factors, including those referred to above, that could cause results to differ materially from those expressed in these publications and reports.

# Transaction Summary

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- On October 14, 2019, Redwood entered into a definitive agreement to acquire CoreVest American Finance Lender LLC<sup>1</sup> (“CoreVest”), a leading nationwide originator and portfolio manager of business-purpose residential loans (BPLs)
- The transaction includes the purchase of the CoreVest operating platform and over \$900 million of related financial assets
- Consideration for the acquisition is approximately \$490 million, net of in-place financing on the financial assets
  - Redwood plans to fund the transaction with a mix of cash on hand and shares of Redwood stock. The Redwood shares are payable to the CoreVest executive management team and vest over a two-year period
- The transaction is expected to close within the next 2-3 business days

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(1) Including several of its affiliates.

# Transaction Rationale and Benefits



## Significantly Expands Our Presence in Business Purpose Lending

- Positions Redwood as a top-tier lender to investors in residential housing
- Extends our best-in-class mortgage banking operations, enhancing a durable strategic advantage
- Further advances our opportunity to offer customized financing solutions to a growing and underserved market of housing investors
- Together with 5 Arches, creates an opportunity to leverage core competencies unique to each platform

## Advances Several of Redwood's Key Corporate Strategic Initiatives

- Broadens and diversifies our revenue streams
- Significantly expands our capacity to create proprietary credit investments
- Expected to profitably scale our infrastructure and operations

## Provides Immediate Access to Accretive Investments

- Over \$580 million of BPL portfolio investments (exclusive of SFR loans in inventory), with an anticipated return on equity between 12-15%<sup>1</sup>
- Increases Redwood's footprint in the growing market of business-purpose residential real estate loans
- Differentiated access to assets not easily obtained in the marketplace

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

# Who is CoreVest?



*A leading nationwide originator and portfolio manager of business-purpose residential loans*

## Proven Track Record with a Scalable Business Model

- Founded in 2014 and led by a high caliber executive team averaging over 25 years of experience
- Operating platform funded over \$4 billion<sup>1</sup> of BPLs since inception and over \$1.1 billion of BPLs in 2019 year-to-date<sup>1</sup>

## Extensive Nationwide Footprint

- Top-tier originator focused on single-family and multifamily housing investors
- Large network of investors and operators
- Established securitizer with nine SFR securitizations issued since platform inception<sup>1</sup>

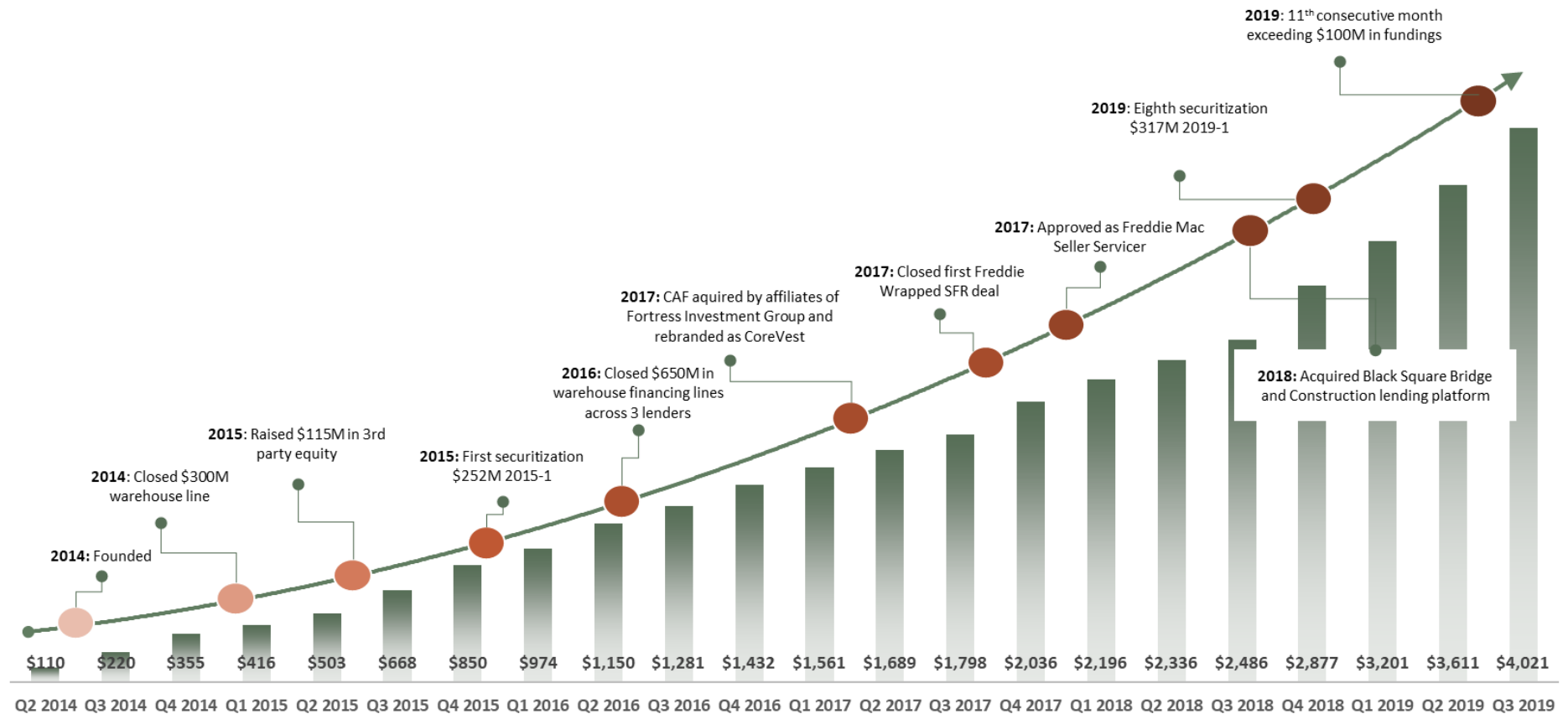
## Profitable Operating Model and Strong Levered Returns

- Efficiently run platform generating both fee income and portfolio investments
- Portfolio of assets expected to generate strong levered returns accretive to our business

# CoreVest's Evolution and Operating Milestones



CoreVest has evolved from a start-up conduit lending concept into a stand-alone specialty finance platform



Cumulative Loans Funded (\$ in millions)

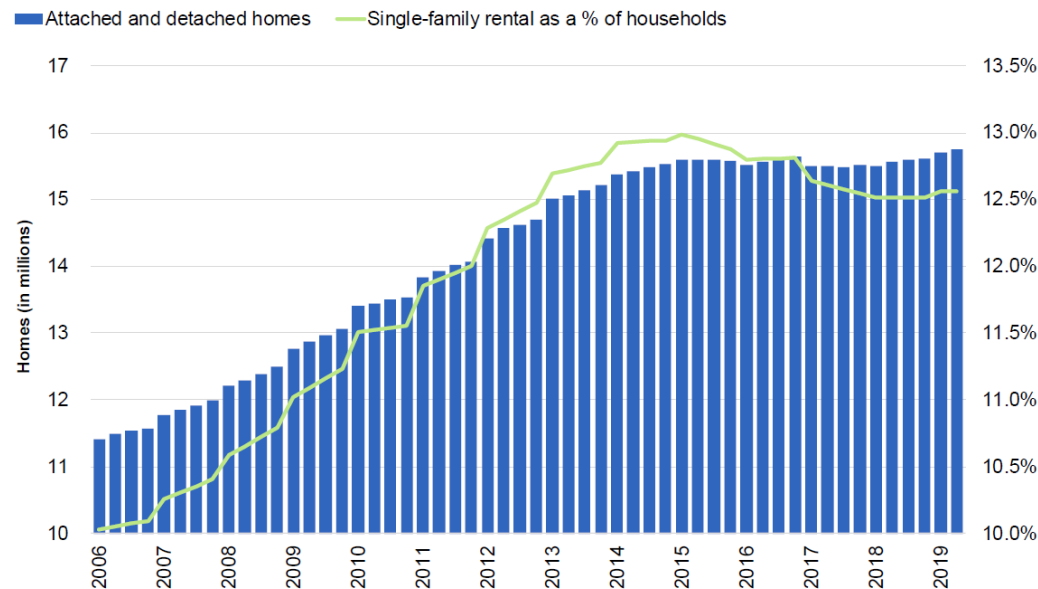
# The Macro Environment Continues to Support Redwood's Business Purpose Lending Initiative



- Recent uptick in homeownership coincides with steady demand for rental stock
- Aging housing inventory drives demand for remodeled homes, with most prospective owner-occupants still seeking a finished house

## Count and Concentration of Single-Family Rentals

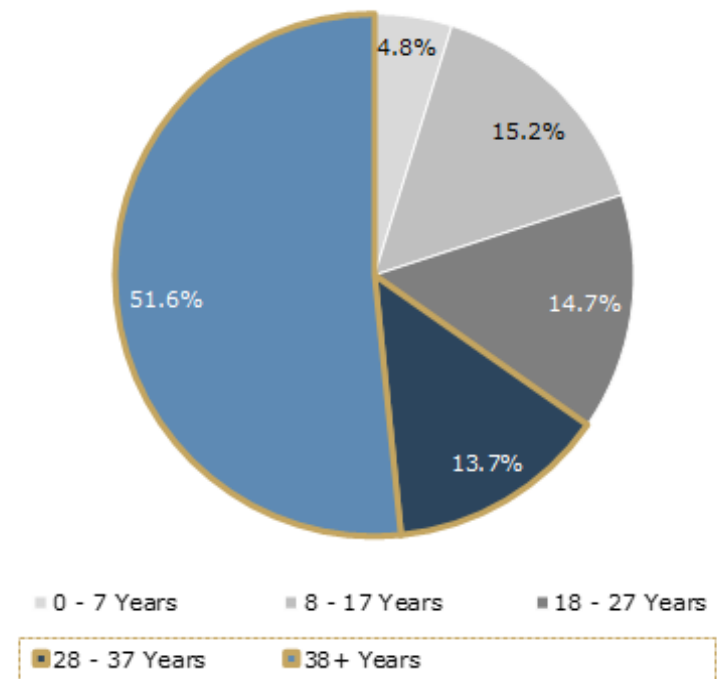
### Single-Family Rental Homes



JBREC estimates use 2010 Census figures and trending data from ACS/HVS.  
Sources: U.S. Census Bureau ACS; John Burns Real Estate Consulting, LLC (Data: 2Q19, updated quarterly†)

Pub: Sep-19

## Mix of Owner-Occupied Units by Age



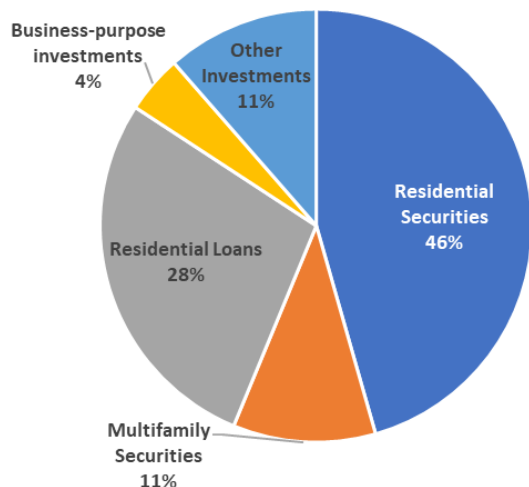
Source: US Census Bureau – 2017 American Housing Survey

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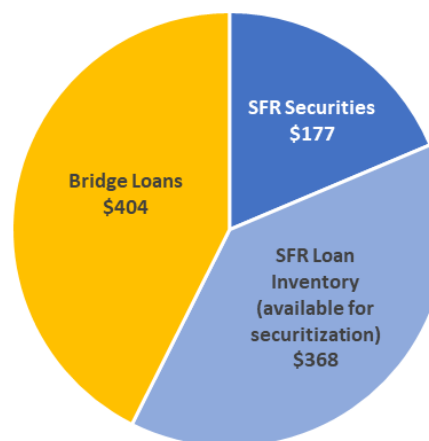
# Impact to Investment Portfolio



Redwood Portfolio Capital Allocations by Type <sup>(1)</sup>



CoreVest Financial Assets by Type <sup>(2)</sup>



- Upon closing of the acquisition, we estimate business-purpose real estate investments will total over 15%<sup>3</sup> of our investment portfolio
- We expect these assets to be immediately accretive to our portfolio returns

(1) Represents estimated capital allocations by investment type within Redwood's investment portfolio at September 30, 2019

(2) Represents estimated gross financial assets of CoreVest by asset type at September 30, 2019

(3) Assumes SFR loan inventory will continue to be securitized and included in our mortgage banking segment