

Compensation Committee Charter



(Revised May 20, 2014)

I. Purpose

The purpose of the Compensation Committee (the “Committee”) of Redwood Trust, Inc. (the “Company”) is to: discharge the responsibilities of the Board of Directors of Redwood Trust (the “Board”) relating to compensation of Redwood Trust’s executives.

II. Duties and Responsibilities

In addition to the other duties and responsibilities listed in this charter, the duties and responsibilities of the Committee include:

- Reviewing and approving corporate goals and objectives relevant to the compensation of Redwood Trust’s Named Executive Officers (NEOs) and Executive Officers (EOs), evaluating their performance in light of those goals and objectives, and having authority (as delegated by the Board) to determine the compensation of the NEOs and EOs based on this evaluation.
- Supervising the Company’s administration of its incentive compensation plans, equity-based plans, and benefit plans. This includes, among other things, interpreting, modifying, and amending such plans and related agreements, and approving coverage and awards thereunder individually for the NEOs and EOs and for all other participants in aggregate.
- Producing a Compensation Committee Report on executive compensation as required by the Securities and Exchange Commission (the “SEC”) to be included in Redwood Trust’s annual proxy statement or annual report on Form 10-K filed with the SEC.

- Together with the Governance and Nominating Committee, overseeing investor relations with stockholders on executive compensation matters, including stockholder proposals, advisory votes, and communications/engagement with proxy advisory firms and other stockholder representatives regarding executive compensation.
- Together with the Audit Committee, conducting an annual assessment of potential risks to the Company related to compensation policies and programs (including any incentive and commission plans at all levels) and preparing disclosure relating to such assessment as required by the SEC to be included in the Company's annual proxy statement or annual report on Form 10-K filed with the SEC.

In determining the long-term component of NEOs' and EOs' compensation, the Committee should consider the Company's performance and relative shareholder return, as well as the value of similar incentive awards to comparable positions at comparable companies. The Committee is not precluded from approving awards (with or without ratification of the Board) as may be required to comply with applicable tax laws (i.e., Rule 162(m)). The Committee may also consider such factors as it deems appropriate under the circumstances, such as maintaining competitiveness, employment retention, and achieving other business and operating objectives, both long- and short-term.

III. Composition and Qualifications

The Committee shall be composed of not less than three Board members, with the exact number to be determined by the Board. Unless a chair is elected by the full Board, the members of the Committee may designate a chair by majority vote.

Each member of the Committee shall be (i) "independent" as defined by the rules of the New York Stock Exchange (NYSE), as they may be amended from time to time; (ii) a "non-employee director" as defined in Rule 16b-3 promulgated under Section 16 of the Securities Exchange Act of 1934, as amended (Exchange Act); (iii) an "outside director" as defined under Section 162(m) of the Internal Revenue Code of 1986, as amended, and rules promulgated thereunder; and (iv) met such other criteria as may be applicable from time to time under applicable law, regulation, or NYSE rules.

IV. Annual Performance Evaluation

The Committee shall evaluate its own performance annually and report such evaluation to the Board. The Committee shall also review and approve goals and objectives for the NEOs and EOs, evaluate the performance of these officers each year in light of these goals and objectives, and set the compensation of these officers based on such evaluations.

V. Committee Member Appointment and Removal

Committee member appointment and removal shall follow Redwood's Corporate Governance Standards.

VI. Committee Structure and Operations

The Committee adopts a compensation philosophy to provide guidance and foundation to the compensation process. The Committee then selects outside compensation experts to conduct periodic market surveys and make recommendations consistent with the adopted philosophy.

The role of the Committee involves a set of regular approval processes (which in the case of paragraphs A, B, and D below, shall occur on an annual basis):

A. Salary Ranges and Annual Adjustments

1. Establish salary ranges for the NEOs and EOs based on market data and/or on recommendations from third-party compensation consultants.
2. Establish salary levels for the (i) Chief Executive Officer ("CEO") and (ii) President.
3. Review and approve the recommendations of the CEO and President for salary adjustments for other EOs.
4. Review additional information as requested by the Committee.

B. Long-Term Incentives, Bonus Plans, Criteria and Awards

1. Review and approve annual and long-term incentive plans and the corresponding award/grant structure for all NEOs and EOs.
2. Determine annual performance criteria for awarding annual incentives under the incentive plan and approve long-term incentive grants for the NEOs, EOs and any other officers subject to Section 16 of the Securities Exchange Act of 1934.
3. Approve aggregate long-term incentive grants and awards, and aggregate annual incentive awards for all employees below the NEOs and EOs.

C. Employment Contracts

1. Review and approve contract terms for the NEOs and EOs, including any severance benefits.

D. Other

1. Review regulatory and market trends.
2. Review Committee charter.
3. Conduct an annual assessment of compensation-related risk to the Company.
4. In collaboration with the Governance & Nominating Committee, review and recommend to the Board for approval the compensation for outside Directors.
5. Determine and annually review compliance with Company stock ownership guidelines for EOs and outside Directors.

The Committee shall take such other action with respect to compensation matters as may be delegated from time to time by the Board.

The Committee may form and delegate authority to subcommittees when appropriate.

VII. Reporting to the Board

The Committee shall make regular reports to the Board. The Committee shall make additional reports to the Board as the Board requests.

VIII. Compensation Advisors

The Committee has the authority, in its sole discretion, to retain or obtain the advice of compensation consultants, independent legal counsel and other advisors (collectively “compensation advisors”), and is directly responsible for appointing, compensating and providing oversight of the work of compensation advisors it retains or obtains advice from. The Company is required to provide appropriate funding (as determined by the Committee) for payment of reasonable compensation to compensation advisors.

Except as noted below, the Committee may select a compensation advisor only after taking into consideration all factors relevant to that advisor’s independence from management, as required by the Exchange Act or the rules and regulations of the SEC or the NYSE, including the following:

- (A) The provision of other services to the Company by the person or entity that employs the compensation advisor;
- (B) The amount of fees received from the Company by the person or entity that employs the compensation advisor, as a percentage of the total revenue of the person or entity that employs the compensation advisor;
- (C) The policies and procedures of the person or entity that employs the compensation advisor that are designed to prevent conflicts of interest;
- (D) Any business or personal relationship of the compensation advisor with a member of the Committee;
- (E) Any stock of the Company owned by the compensation advisor; and

- (F) Any business or personal relationship of the compensation advisor or the person or entity employing the compensation advisor with an EO of the Company.

The Committee is not required to conduct the independence assessment outlined above with respect to any compensation advisor whose role is limited to the following activities for which no disclosure would be required under Item 407(e)(3)(iii) of the SEC's Regulation S-K: consulting on any broad-based plan that does not discriminate in scope, terms, or operation, in favor of EOs or Directors of the Company, and that is available generally to all salaried employees; or providing information that either is not customized for a particular company or that is customized based on parameters that are not developed by the compensation advisor. Nothing in this Charter requires a compensation advisor to be independent; however, the Committee must consider the enumerated independence factors before selecting or receiving advice from a compensation advisor. Furthermore, the Committee is not required to act in accordance with the advice of compensation advisors.

IX. Disclosure of Charter

This charter will be made available on Redwood Trust's website at www.redwoodtrust.com.