

Expanding Our Strategic Footprint

December 2017

REDWOOD TRUST

Cautionary 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. 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, 2016 and on Quarterly Reports on Form 10-Q for the quarters ended June 30, 2017 and September 30, 2017 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, 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.

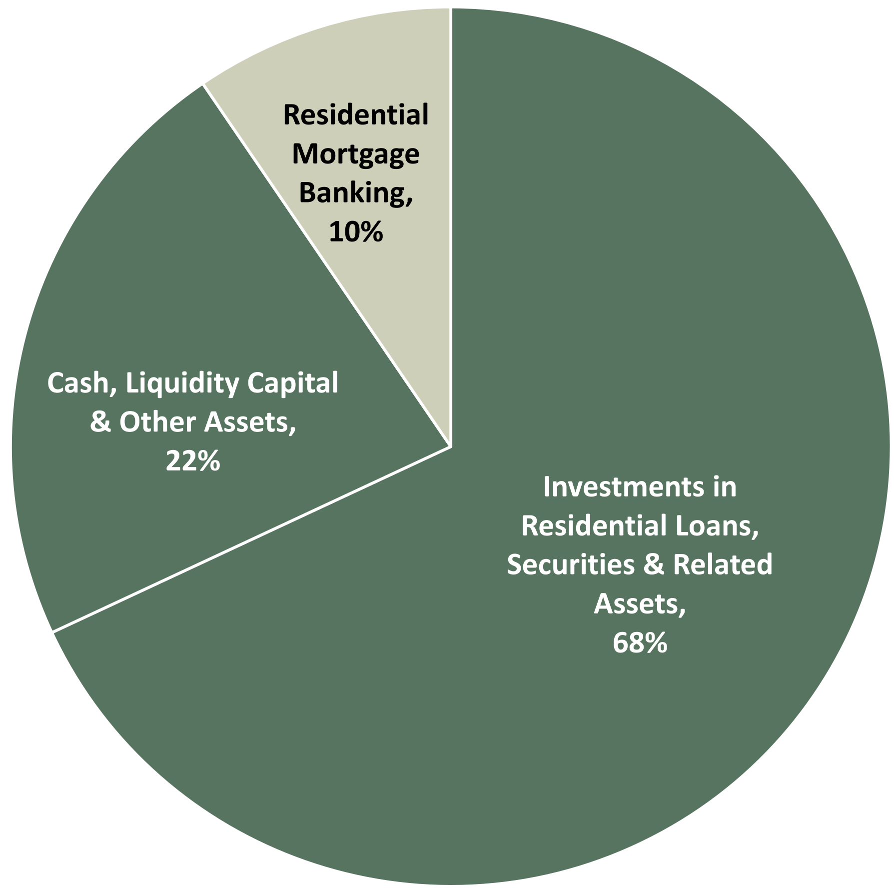
This presentation contains estimates and information concerning our industry, including market size and growth rates of the markets in which we participate, that are based on industry publications and reports. This information involves many assumptions and limitations, and you are cautioned not to give 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.

About Redwood Trust

- We are an industry-leading credit investor in the residential mortgage sector
  - Established in 1994, with operations in Mill Valley, Denver, and Chicago
  - Proven, experienced, and disciplined team with 120 employees
  - Internally managed, with incentive compensation directly tied to Redwood’s financial performance, aligning management’s interests with our equity investors
  - Structured as a REIT to provide the most tax-efficient structure to shareholders
  - Operating businesses housed within taxable REIT subsidiaries have the flexibility to retain capital to support growth

Our Businesses

- Of our $1.8 billion[1] in total capital, 90% is currently allocated to our investment portfolio, with the remaining 10% currently allocated to our residential mortgage banking activities
  - **Investment Portfolio**: Our investment portfolio is primarily comprised of investments in:
    - Prime jumbo residential loans,
    - RMBS retained from our Sequoia securitizations,
    - RMBS issued by third parties,
    - Agency CRT securities, and
    - Agency multifamily securities
  - **Residential Mortgage Banking**: Through our residential mortgage banking conduit, we acquire prime jumbo residential loans from a network of third-party originators for subsequent sale, securitization, or transfer to our investment portfolio



(1) As of September 30, 2017. Includes $1.2bn of equity capital and $0.6bn of debt on our consolidated balance sheet that is recourse to RWT.

Our Competitive Strengths

- We understand housing credit and how to manage the associated risks
- We have diverse and deep industry relationships
- We have a low cost of capital relative to our non-depository peers
- We have a reputation of best-in-class customer service
- Our operating platform is scalable
- We have strong capital markets and structuring expertise

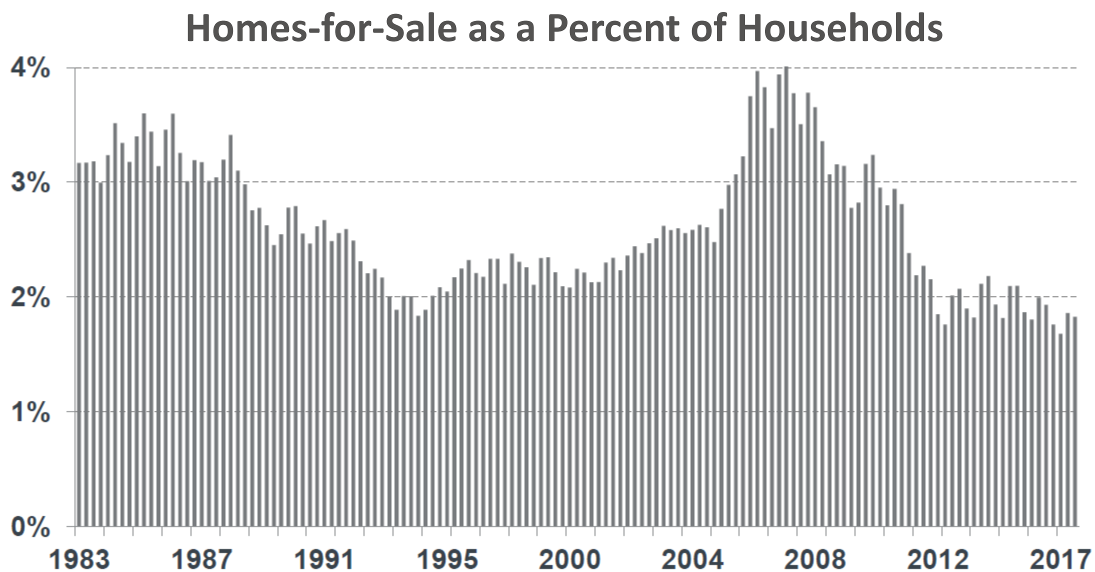
2018: Expanding Our Strategic Footprint

Dynamics in the housing finance market are evolving and have created opportunities for Redwood to leverage our competitive strengths and expand our strategic mission

- The prime, non-agency mortgage market remains a central focus of our platform as we continue to execute on growth strategies for our Select and Choice loan programs
- Growing demand for non-owner occupied housing presents a new way for us to leverage our platform, by offering financing solutions to underserved housing investors
- Through addressing the financing needs of “capital-light” mortgage originators, we can further enhance our seller relationships and help facilitate greater loan purchase volume and investment creation

By optimizing our strategic importance to the broader housing market, we can significantly expand on our current conception of credit investing

Housing is in Short Supply



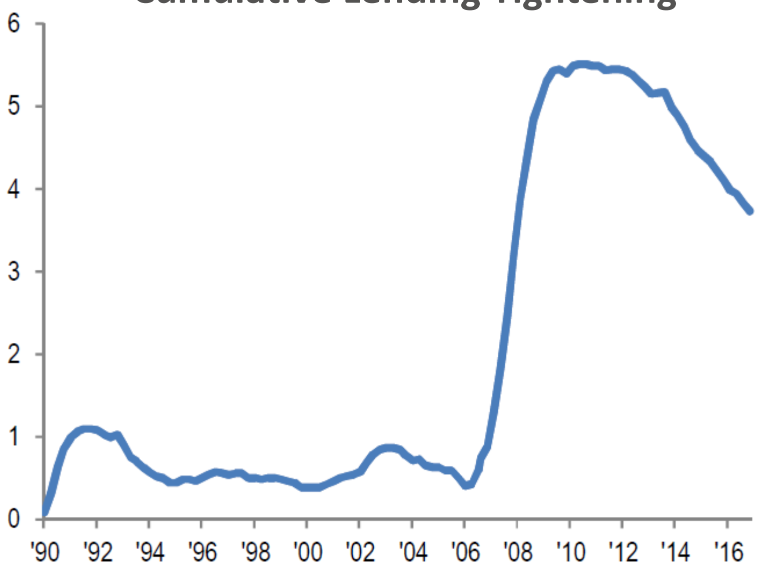
- Housing fundamentals remain strong, but housing supply is historically tight notwithstanding positive macroeconomic trends (including unemployment and overall consumer confidence). There are various reasons for this, including:
  - Construction costs, driven in particular by insufficient labor supply
  - Constrained supply of land, due to stringent zoning regulations and substantial local opposition to development in certain areas
  - Homeowners remaining in their homes for longer periods of time (in many cases leading to increased levels of deferred maintenance)

Source: CoreLogic, National Association of Realtors, U.S. Census Bureau

The Nature of Housing Demand is Also Evolving

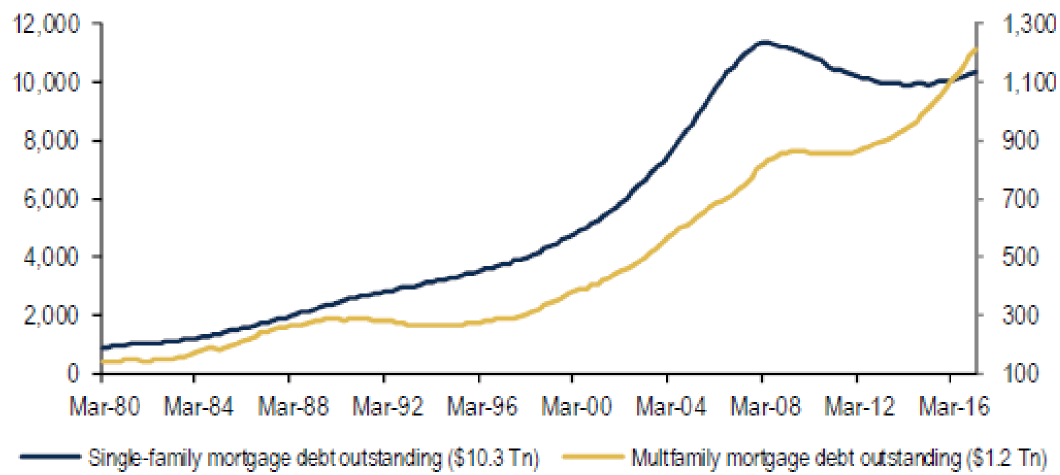
- Demand for traditional owner-occupied mortgages is facing headwinds
  - Driven by secular demographic trends, historically tight (albeit loosening) mortgage origination credit standards, and downward pressures on affordability
  - Going forward, tax reform may diminish the relevance of the mortgage interest deduction
- Meanwhile, demand for both single and multifamily rentals remains strong

Cumulative Lending Tightening



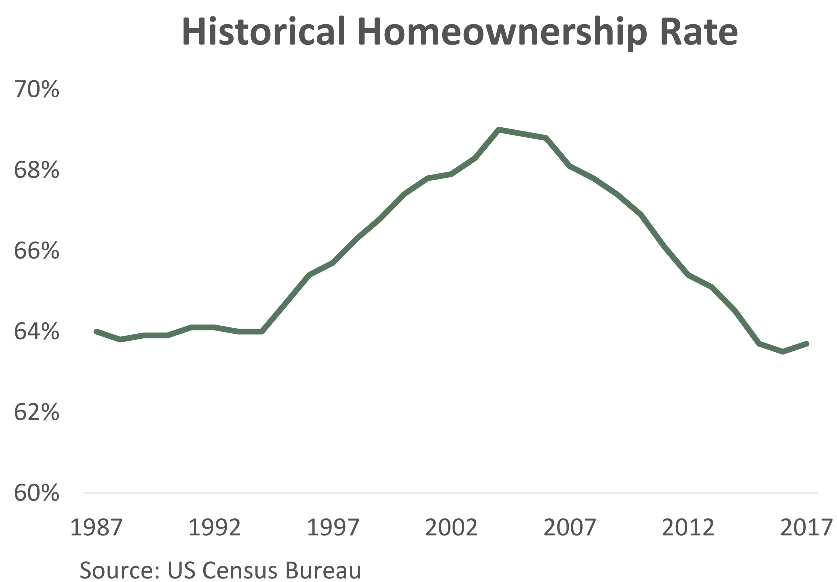
Source: JP Morgan, Federal Reserve

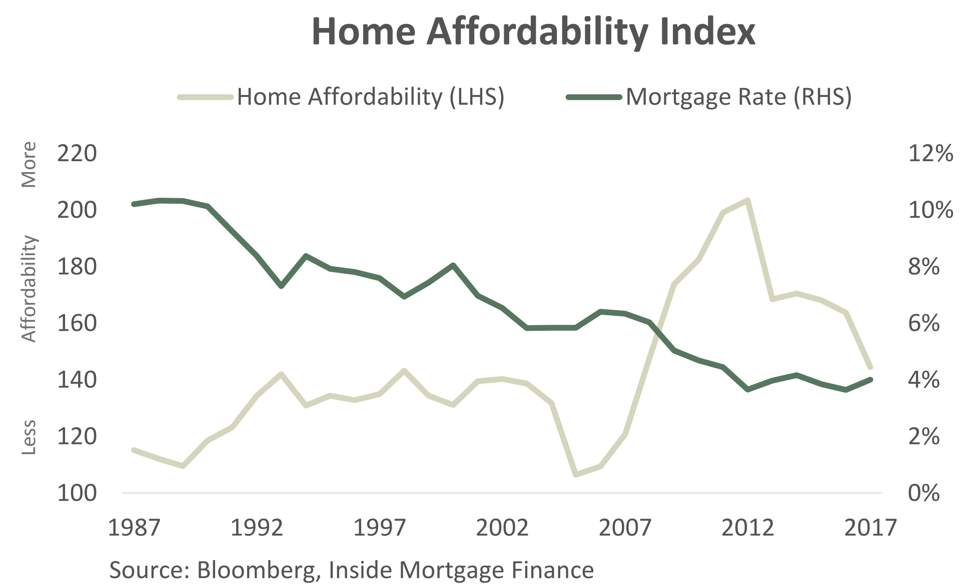
Growth in Outstanding Multifamily versus Single-Family Debt



Source: BofA Merrill Lynch Global Research, Federal Reserve, Bureau of Economic Analysis

Homeownership and Affordability

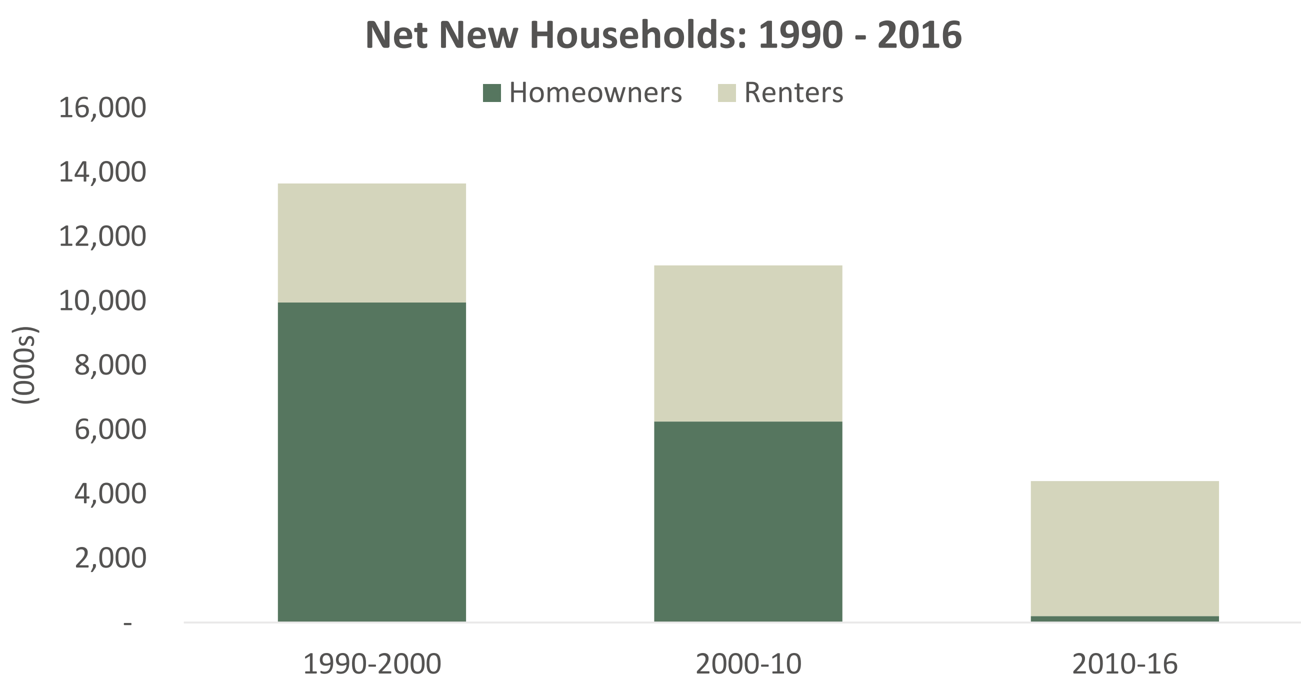




- **The homeownership rate remains at the lowest level in 30+ years:** despite a recent uptick, the likelihood of a return to pre-crisis demand for owner-occupied housing is remote
- **Home affordability has declined over the past several years:** despite historically low mortgage rates, affordability is not significantly above where it was prior to the last housing bubble

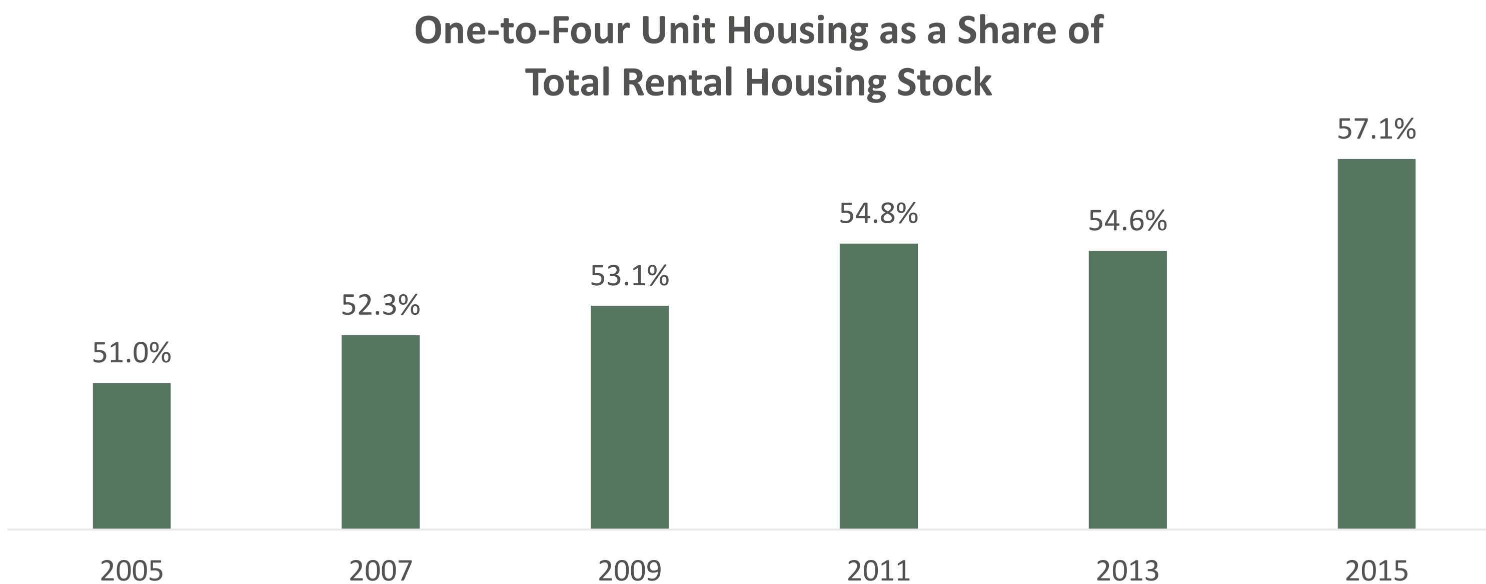
The Rental/Ownership Dynamic

- There has been a fundamental shift in bias towards renting versus owning a home, due primarily to declining affordability and supply, an emphasis on preserving personal mobility, and greater social acceptance for renting
- Since 2010, essentially all net new households are renting



Source: Urban Institute

A Large Base of Underlying Investors



- Approximately 57% of U.S. rental stock (or about 25 million units) is one-to-four unit housing, up from 51% in 2005; conversions of single-family homes from owner-occupied to rental accounted for the majority of this increase
- This non-owner occupied housing stock is owned by a broad array of investors ranging from “mom-and-pops” to large institutional owner/operators
- The largest institutional investors collectively control approximately 1% of one-to-four unit rental stock

Source: Urban Institute, 2015 American Housing Survey.

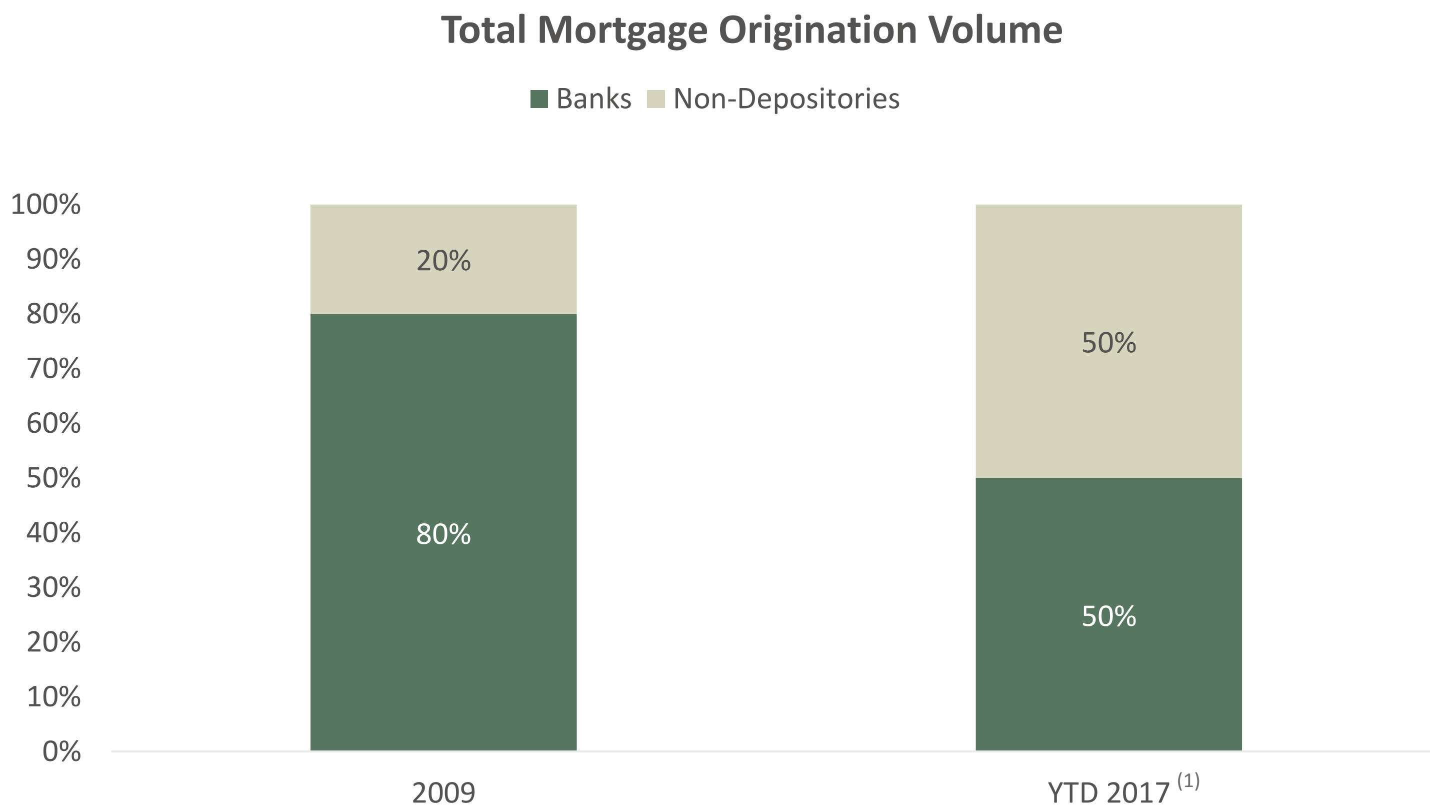
Taking Advantage of the Shifts in Housing

We plan to expand the areas of the housing market in which we take credit risk through a diversified business-purpose lending strategy

- Substantial housing stock is now owned by a broad array of investors whose financing needs are not being met in an orderly fashion
  - Of the 44 million rental units currently in the U.S., approximately 57% are one-to-four unit rentals – this has become one of the fastest-growing segments of the housing market
  - We are well equipped to address the evolving financing needs of these investors, based on our fundamental housing credit expertise and established track record of product innovation
  - We currently acquire investor loans through our existing loan purchase programs and may expand our guidelines to accommodate additional loans to this cohort of investors

Market Share of Non-Depositories

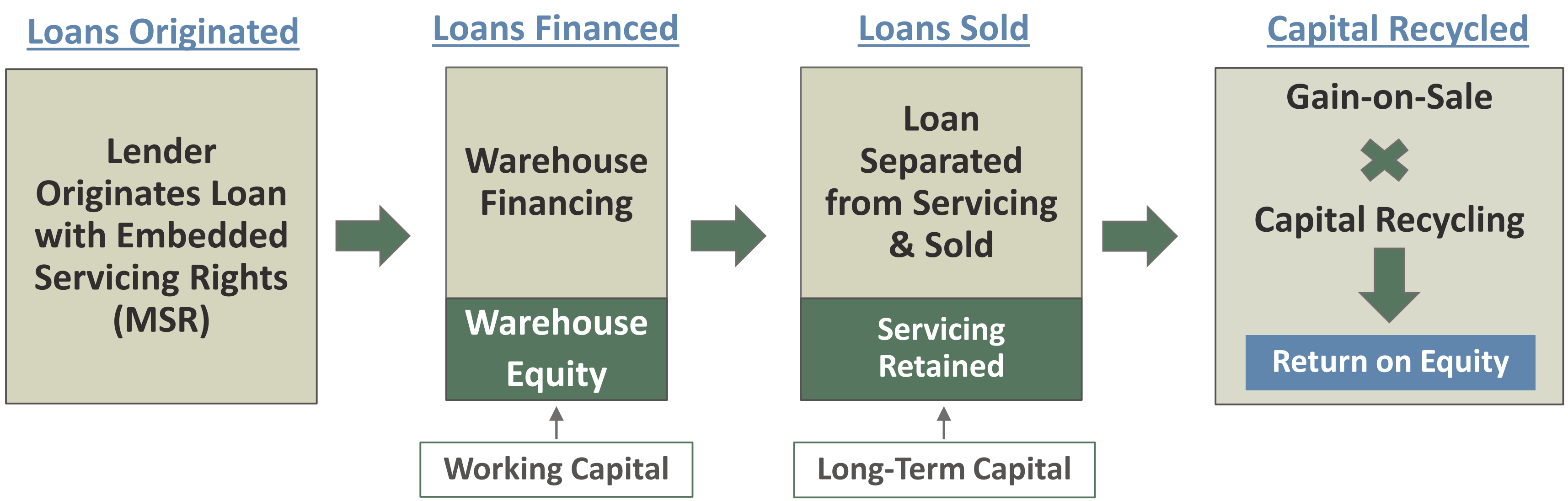
- Non-depositories have played an increasing role in mortgage origination and servicing over the past several years



(1) Through June 30, 2017; Source: Company estimates, Inside Mortgage Finance

Capital Needs & Operating Flow of a Mortgage Lender

The Typical Workflow of a Mortgage Lender



Supporting the Growth in Non-Depositories

- We will support the growth of our mortgage banking business through new types of capital deployment that leverage our competitive strengths
  - Many non-depository lenders have gaps in their financing needs that have a material effect on outright returns, the capital required to run their businesses, and their ability to grow
  - We will offer new ways for these sellers to optimize their capital bases
  - We will expand our capital markets capabilities to provide liquidity for less-liquid prime mortgage products that are costly for originators to hold on their balance sheets

By deepening our seller relationships, we will enhance our ability to source more loans

A Vision for the Future

- Our strategic vision is to be considered the **highest quality specialty finance** lender in the housing industry and among **the market's most innovative mortgage investors**
  - We will **leverage our flexible operating platform** to support the growth of our mortgage banking business beyond our current programs
  - We will continue to develop **unique access to investment opportunities** through an expanded footprint that addresses secular shifts in the housing market
  - We will **increase the size of our investment portfolio** by nimbly deploying resources into areas where housing capital needs are growing

Our objective is to generate outsized returns for our shareholders that cannot be replicated through traditional asset-backed markets