

# Redwood Trust, Inc.

Investor Presentation
December 2018

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, and statements relating to single-family rental investment and earnings potential, including the target run rate/annualized volume potential, associated annual capital deployment, target return profile, and potential incremental EPS contribution. 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, 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 and initiatives; our ability to scale our platform and systems particularly with respect to our new initiatives; 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.

# Who is Redwood Trust?

***We are a specialty finance company that plays a key role in the housing finance market***

| | |
|---|---|
| **Durable Track Record through Cycles** | • Founded in 1994; market's second-longest tenured mortgage REIT |
| **Unique Platform Focused on Housing Credit** | • Investment Portfolio focused exclusively on housing credit coupled with a fee generating mortgage banking platform |
| **Organic Investment Creation** | • Source majority of our portfolio investments from our Sequoia platform & strategic partnerships |
| **Focus on Human Capital** | • Experienced and disciplined team with over 140 employees in Mill Valley, Denver, and Chicago |
| **Aligned with Shareholders** | • Internally-managed, with incentive compensation directly tied to shareholder returns |

# We Have a Unique Business Model

## Operating Platforms

**Ability to generate fee income and create unique investments for our portfolio:**

**Mortgage Banking Platform**

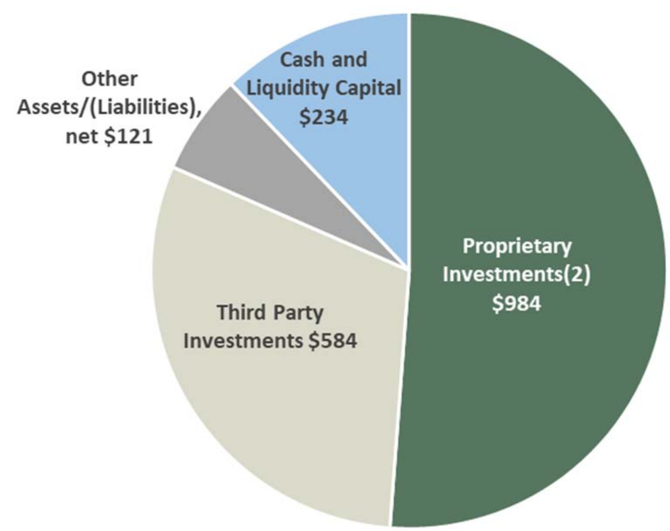
- Deep sourcing channels with 188 jumbo loan sellers
- Diverse distribution options utilizing securitization, whole loan sale, and portfolio retention
- Benchmark RMBS issuer completing 50+ Sequoia securitizations since 2010

**Partnership with 5 Arches**

- Provides access to “business purpose” mortgage loan investments (single-family rental and fix-and-flip)
- Participation in origination and asset management fees through minority stake
- Exclusive option to purchase remainder of the company(3)

## $1.9 Billion Bespoke Investment Portfolio

**90% of total capital(1) allocated to investments in housing credit:**

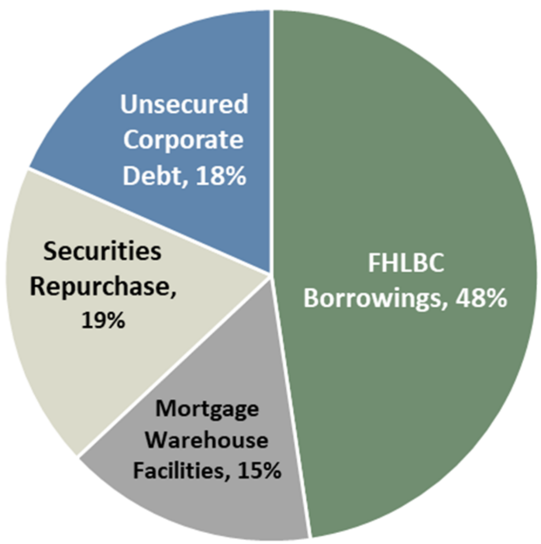





(1) As of Sept 30, 2018, total capital includes $1.4 billion of equity capital and $0.8 billion of debt on our consolidated balance sheet that is recourse to RWT
(2) Proprietary investments includes capital allocated to loans pledged with the FHLB, Sequoia securities, business purpose mortgage loans, and other investments
(3) Through April 30, 2019

# We have a Cost of Capital Advantage

## Recourse Financing: $4.2 Billion[1]




| Borrowing Type | Avg. Cost of Funds[1] | Avg. Remaining Tenor (Years)[1] |
|---|---|---|
| FHLBC Borrowings | 2.2% | 7 |
| Unsecured Corporate Debt | 6.1% | 7 |
| Securities Repurchase | 3.3% | <1 |
| Mortgage Warehouse Facilities | 3.9% | <1 |
| **Weighted Average Cost of Funds** | **3.4%** | |

## Financing Highlights[1]

**Diversified, longer-tenor funding sources**:

- Long-term financing from the Federal Home Loan Bank of Chicago for our portfolio of whole loans
- Unsecured convertible and exchangeable notes
- Trust preferred securities due 2037
- Repurchase agreements with eight separate counterparties to fund our securities portfolio
- Warehouse debt to support our mortgage banking activities

**Lower leverage relative to our mortgage REIT peers:**

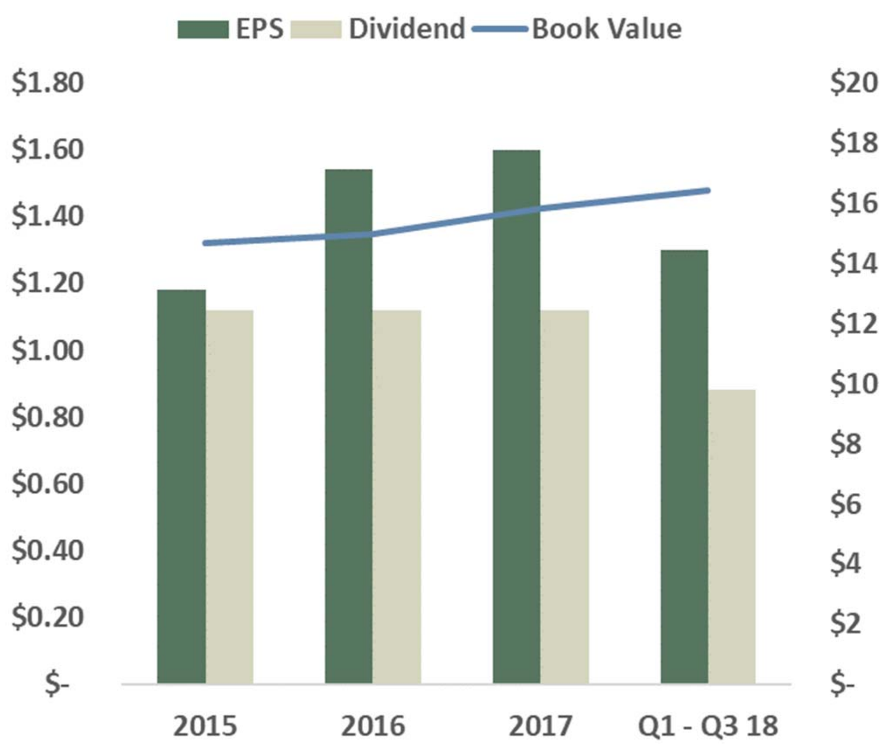
- Recourse debt to equity of 3.1x vs. peer average of 5.1x [2]



(1) For the quarter ended Sept 30, 2018. Recourse financing excludes $3.4 billion of consolidated debt (ABS issued) that is non-recourse to Redwood
(2) Based on most recent filings through September 30, 2018, and includes ARR, MITT, MFA, DX, CIM, TWO, NYMT, WMC, MTGE, IVR, AJX, CHMI, EFC, OAKS, CYS, NLY, ORC, ANH, EARN, AGNC, AI, CMO

# Redwood's Historical Performance: *Balanced Business Model Drives Attractive, Sustainable Risk-Adjusted Returns*

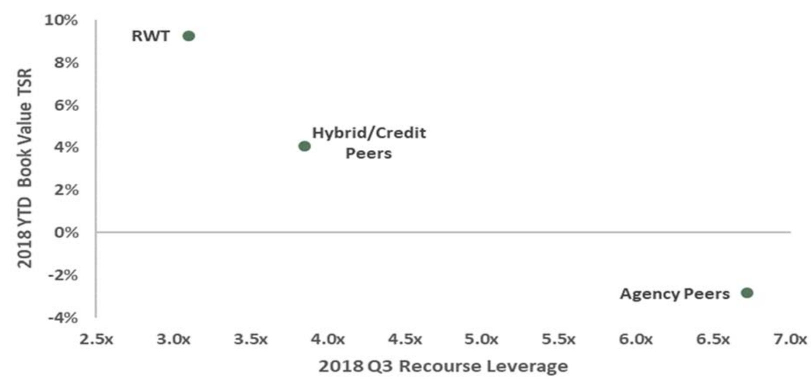
## Historical GAAP EPS, Dividends and Book Value




| 8.2% | 11.8% | 11.9% | 12.8% |
|---|---|---|---|

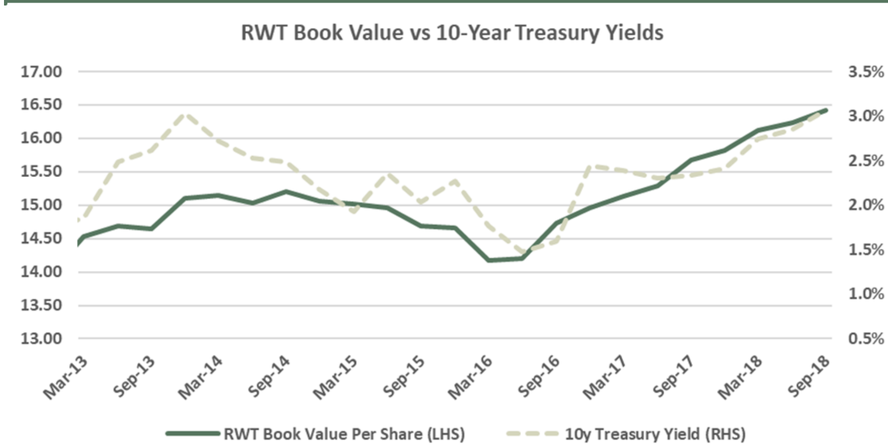
Annual Return on Average Equity[1]

## 2018 Book Value TSR vs GAAP Leverage – Peer Comparison[2]




Source: S&P Global

## Redwood's Book Value vs 10-Year Treasuries




Source: S&P Global



(1) Calculated as annualized GAAP net income for the year divided by average total equity.
(2) Calculated as change in book value during the first nine months of 2018 plus dividends paid in 2018 over beginning book value in 2018. Hybrid peers: ARR, MFA, DX, CIM, TWO, NYMT, IVR, EFC; Agency peers: CYS, NLY, ANH, AGNC, AI, CMO

# Recent Accomplishments

- ✓ Generated a 13% annualized ROE, and a 9.0% economic return(1) on book value through the first nine months of 2018, as compared with an average economic return of 2.9% for other residential mortgage REITs(2)
- ✓ Increased our quarterly dividend by 7% to $0.30 per share in Q2 2018
- ✓ Deployed $575 million of capital year to date through Q3, and are on track for record capital deployment in 2018
- ✓ Completed our 53rd post-crisis securitization in October 2018
- ✓ On-track to increase loan purchase volume by 20% in 2018, while industry-wide origination volume is expected to decline 5%
- ✓ Through our partnership with 5 Arches, we began acquiring single-family rental loans and made an initial investment of $50 million in a portfolio of fix-and-flip loans in the third quarter of 2018
- ✓ Expanded our multifamily investments to include first loss investments, deploying $55 million towards this asset class in the third quarter of 2018



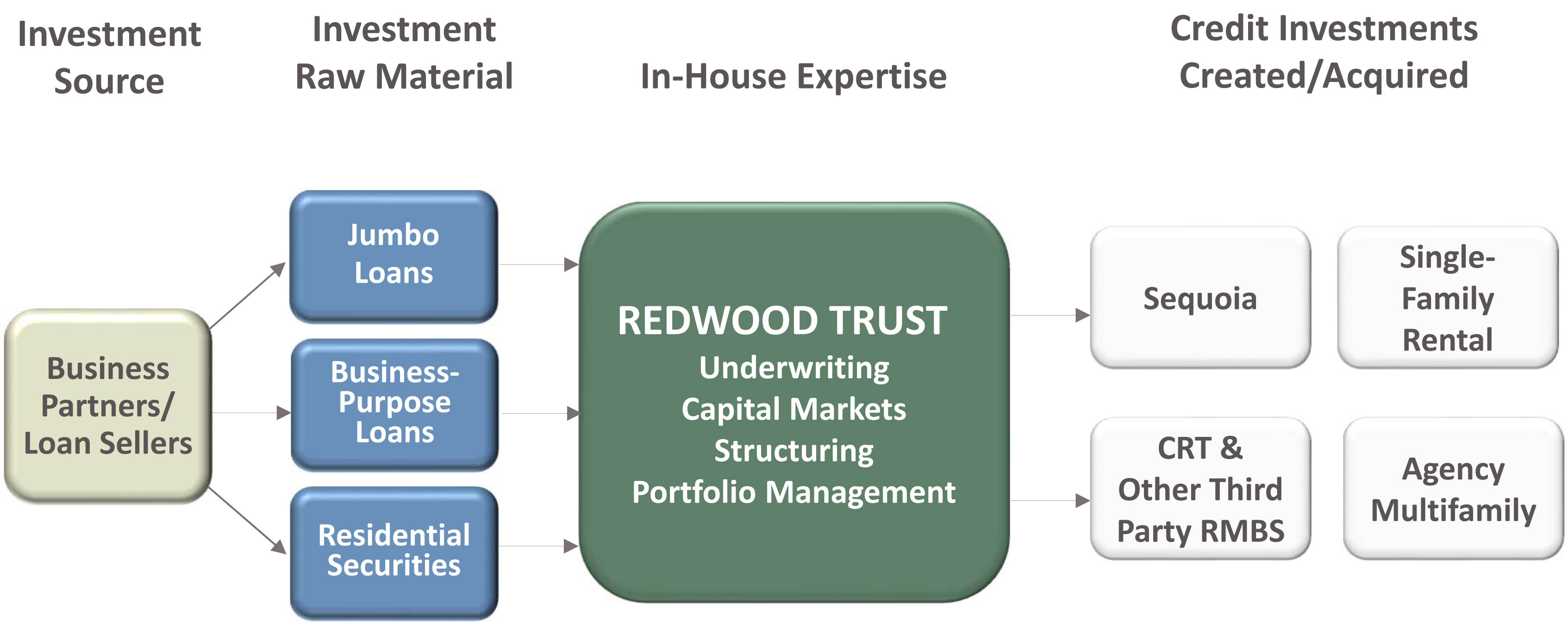
(1) Calculated as change in book value per share from 12/31/17 to 9/30/18 plus dividends paid in 2018 through 9/30/18 over 12/31/17 book value per share.
(2) Residential mortgage REITs include: PMT, NYMT, NRZ, CIM, MITT, TWO, MFA, CMO, AGNC, ARR, IVR, ANH, NLY

## Moving Forward:
## *"What We Believe"*

- **The underpinnings of the U.S. housing market in which we invest remain strong**
- **There is a significant value premium in the marketplace on fee income and asset creation**
  - Having a nimble operating platform to source and structure our own investments is a critical competitive advantage
- **Dynamics in the housing finance market are evolving:**
  - Higher rates and recent tax reform are beginning to influence consumers' view on homeownership, as well as the overall level of housing supply
  - Secular changes reflect a shift in bias towards renting versus owning a home
  - Non-banks have played an increasingly large role in mortgage origination and servicing over the past several years; many have gaps in their funding needs

***These dynamics create opportunities for Redwood to leverage our competitive strengths and expand on our strategic mission***

# Moving Forward:
## *The Infrastructure to Execute*




**Initiative:**
Expand our ability to source raw material through program development and deeper partnerships

**Infrastructure:**
Diversified platform to source and structure raw materials and manage the resulting long-term investments

**Outcome:**
Differentiated access to housing credit

## Moving Forward:
## *Our Vision for the Future*

To optimize our role in the housing industry as one of **the market's most innovative mortgage investors**

- Utilize our **flexible operating platform** to grow our mortgage banking business beyond our current programs
- Leverage our **unique access to investment opportunities** to expand our footprint into new areas that address secular shifts in the housing market
- **Significantly increase the size of our investment portfolio** by nimbly deploying resources into areas where housing capital needs are growing
- Generate **outsized returns for our shareholders** that cannot be replicated through traditional asset-backed markets**, leading to dividend and book value growth over time**

# Mortgage Banking Platform:
# *Loan Acquisition and Distribution*

## Mortgage Banking Accomplishments

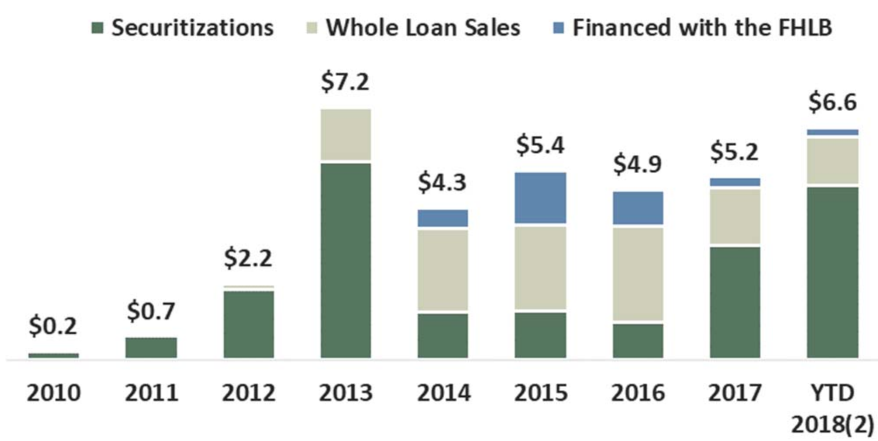
- **Benchmark RMBS issuer:** Since the crisis, we have completed 53 Sequoia securitizations backed by over $20bn of loans
- **Organic investment creation:** More than 30% of our capital is invested in assets sourced through our mortgage banking platform
- **Improved RMBS liquidity:** The average number of discrete investors in our most recent Sequoia deals is double that of prior transactions
- **Diversified funding sources:** Since 2010, we have sold over $16bn of loans to portfolio buyers including our FHLB-member subsidiary, including $1.6 billion to date in 2018[(1)]
- **Deep sourcing channels:** We have 188 jumbo mortgage sellers, plus an additional 304 sellers through the MPF Direct program with the FHLB

## Cumulative Sequoia Securitizations 2010-YTD 2018 ($bn)


| 1 | 2 | 6 | 12 | 4 | 4 | 3 | 9 | 12[(1)] |
|---|---|---|---|---|---|---|---|---|

\# of securitizations

## Annual Loan Distribution Activity 2010-YTD 2018 ($bn)





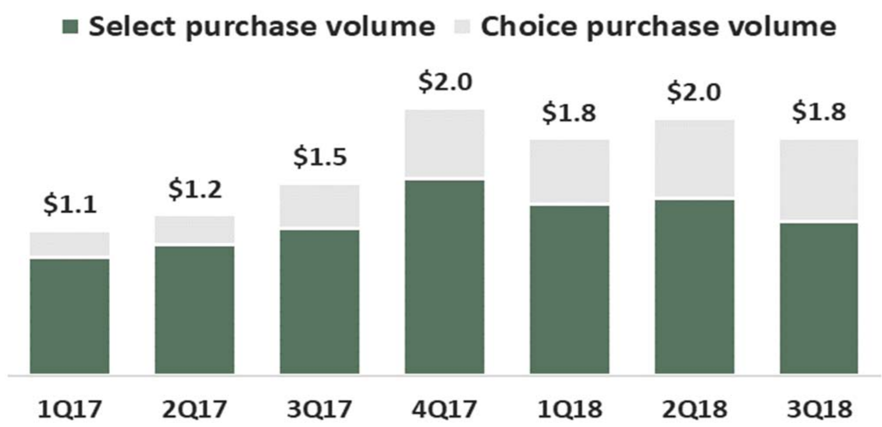

(1) Through October 31, 2018
(2) Through September 30, 2018

# Mortgage Banking Platform:
# *The Success of the Choice Program*

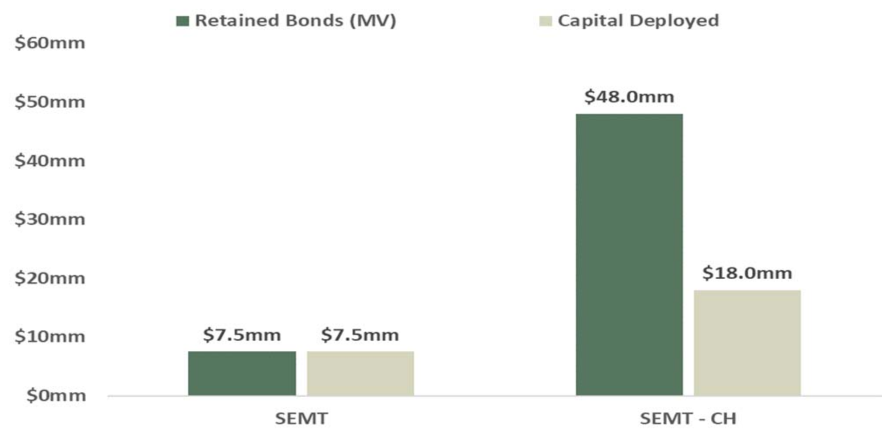
## Overview of Redwood Choice

- We believe industry originations for Choice-type loans has the potential to reach $40bn-$60bn per year – most of these loans are not being made today
- We purchased $1.8bn of Choice loans through Q3 2018, versus $1.3bn in all of 2017
- In Q3 '18, Choice purchases comprised 35% of mortgage banking purchase volume versus 24% in the same quarter the previous year
- Currently, 85% of our 188 sellers are participating in the Choice program and 95% of these sellers actively lock Choice loans
- Securitizing Choice loans allows us to create larger credit investments for our portfolio
- Choice also provides a template for how to proceed in other areas of the housing market: to position ourselves away from banks and leverage our competitive strengths in speed and reliability

## Quarterly Loan Acquisitions ($bn)(1)




## Capital Deployment: Select vs Choice
### $500 million Deal Size




(1) All non-QM and high-LTV Select loans are considered expanded prime and included in the Choice statistics.

# Mortgage Banking Platform:
## *Select and Choice Loan Programs*

**Overview of Redwood's Loan Programs**

- Redwood Choice, our expanded-prime program, was launched in April 2016 to complement our traditional prime jumbo Select program
- Choice expands credit parameters beyond our Select purchase guidelines, allowing no more than one of the characteristics below:
  - DTIs: up to 49.9%, vs. 43% for Select
  - LTVs: up to 90%, vs. 80% for Select
  - FICO: down to 661, vs. 700 for Select
- Choice represents a significant area of growth and profitability
  - Represented 36% of our lock volume through the first 3 quarters of 2018, compared to 26% during the same timeframe in 2017
  - Rates are currently approximately 60-90 bps higher than on Select loans

**Lock Volume Statistics YTD Through Q3 2018 (1)**

| | Select Program | Choice Program |
|---|---|---|
| **Avg. FICO** | 770 | 743 |
| **Avg. LTV** | 70 | 75 |
| **Avg. DTI** | 34 | 36 |
| **Avg. UPB** | 692,000 | 758,000 |
| **% Non-Qualified Mortgages** | 0.0% | 31.0% |
| **% Investment Property** | 0.0% | 17.0% |
| **% FICO <700** | 0.0% | 20.0% |

(1) All non-QM and high-LTV Select loans are considered expanded prime and included in the Choice statistics.

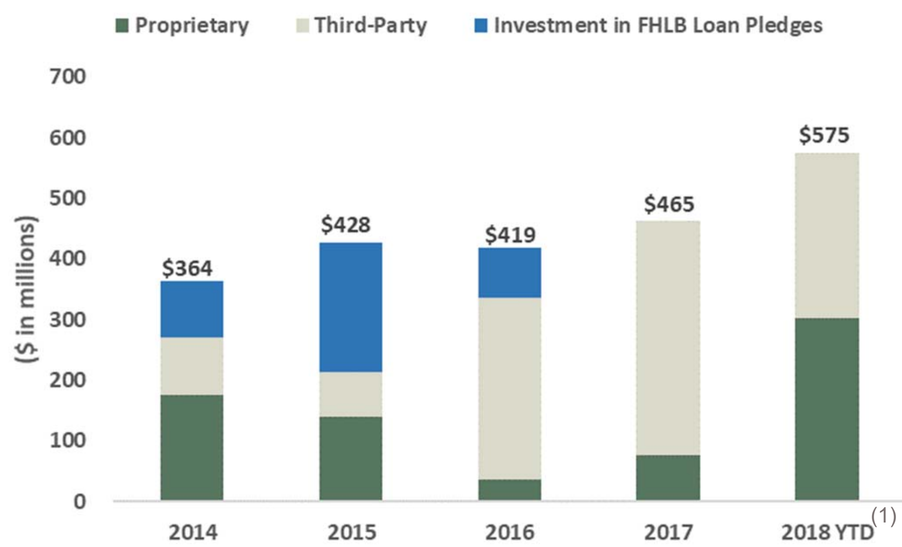
# Investment Portfolio:
## *Overview*

| Investment Portfolio at September 30, 2018 | Fair Value ($mn) | Collateralized Debt ($mn) | Allocated Capital ($mn) | % of RWT's Total Capital |
|---|---|---|---|---|
| Residential loans/FHLB stock | $2,430 | ($2,000) | $430 | 20% |
| Third party residential securities | $758 | ($256) | $502 | 24% |
| Sequoia residential securities | $489 | ($180) | $309 | 14% |
| Multifamily securities | $484 | ($344) | $139 | 7% |
| Business purpose loans | $96 | ($49) | $46 | 2% |
| Other assets/(other liabilities) | $301 | ($38) | $262 | 12% |
| Cash and liquidity capital | | | $234 | NA |
| **Total Investments** | **$4,557** | **($2,868)** | **$1,922** | **90%** |

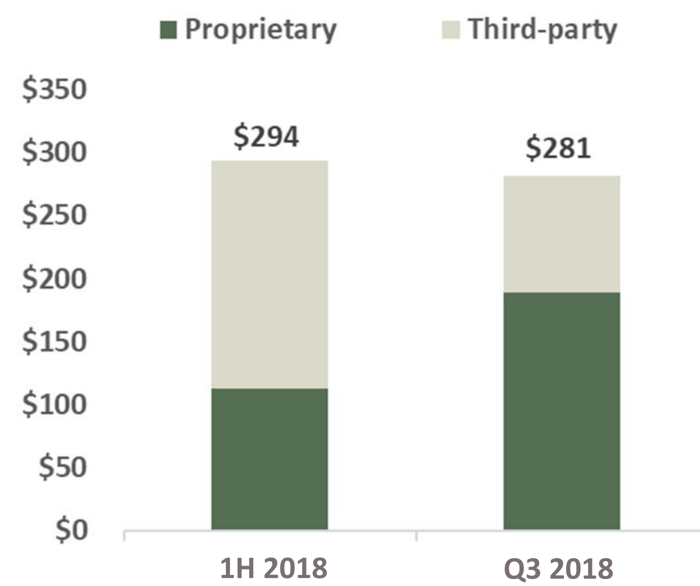
- FHLB-member subsidiary provides us access to collateralized loan financing at very competitive rates
- Residential securities consist of assets purchased in the secondary market or retained from our Sequoia transactions
- Securities portfolio is conservatively financed with short-term recourse debt and equity
- We are focused on taking housing credit risk, and seek to hedge our exposure to changes in interest rates

## Investment Portfolio:
## *Capital Deployment*

**Annual Deployment**




**2018 Activity to Date**




- We have deployed $575 million of capital to date in 2018, on pace for our largest year of capital deployment
- Additionally, we have an attractive pipeline of new opportunities that we are analyzing for potential investment over the coming months

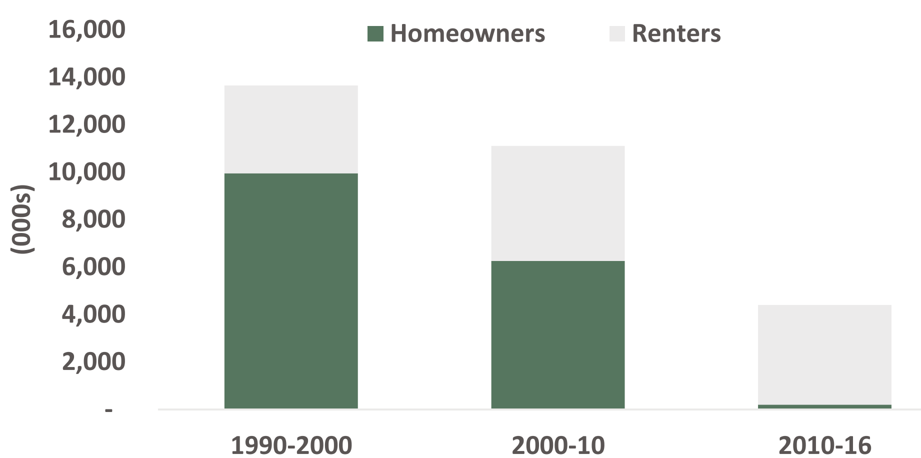


(1)Through September 30, 2018

## Single-Family Rental Finance:
## *The Rental / Ownership Dynamic*

- Factors such as declining affordability and housing supply, and rising rates are driving a fundamental shift in bias towards renting
- Investment properties are owned by a broad array of investors whose financing needs are not being met in an orderly fashion
- We estimate a substantial portion of the market is owned without financing

**Net New Household (1990-2016)**




**SFR Market Share by # of Properties Owned**

| Portfolio Size | # of Owners | Market Share | Aggregate Property Value |
|---|---|---|---|
| 1 | 8,603,303 | 49% | $1,827,086,409,887 |
| 2-10 | 2,410,598 | 42% | $1,554,371,202,484 |
| 11-500 | 80,877 | 8% | $280,949,066,239 |
| 500+ | 50 | 1% | $39,636,390,345 |
| | **11,094,828** | **100.0%** | **$3,702,043,068,955** |



Source: Urban Institute, RentRange

# Single-Family Rental Finance:
## *Our Partnership with 5 Arches*

### Who is 5 Arches?

- A California-based lender focused on the origination and asset management of business-purpose residential mortgage loans
- Founded in 2012 by experienced real estate investors and asset managers
- Privately-held company with approximately 90 full-time employees as of September 30, 2018
- Focused on the origination of single-family rental, multifamily bridge, and fix-and-flip real estate loans
  - Total originations since inception of over $1.7 billion, including approximately $470 million in 2017, and over $590 million through the 3rd quarter of 2018

### Transaction Summary

- Redwood acquired a 20% minority interest in 5 Arches for $10 million
- The transaction provides Redwood with:
  - A 12-month exclusive flow relationship to purchase SFR loans from 5 Arches
  - A 12-month exclusive option to purchase the remainder of 5 Arches for $40 million (mix of cash and Redwood stock)
  - Access to investments in fix-and-flip loan production

# Single-Family Rental Finance:
## *5 Arches - Value Creation to Redwood*

### Single-Family Rental (SFR) Investment & Earnings Potential

| | |
|---|---|
| Target Run Rate - Annualized Volume Potential(1) | \$600 million - \$800 million |
| Associated Annual Capital Deployment(1) | \$100 million - \$200 million |
| Target Return Profile(2) | 8%-10% for aggregation financing<br>11%-14% for term securitization |

### Progress to Date

- Purchased our first single family rental loans in the third quarter of 2018. Expect to see meaningful growth in SFR loan purchase volume into early 2019
- In August, we invested approximately \$50 million of capital in a pool of short-term fix-and-flip loans managed by 5 Arches (investment is replenished over time via new originations)



(1) Anticipated run rate once flow purchase arrangement is fully ramped.
(2) 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.

## Supporting Our Non-Bank Sellers:
## *The Capital Needs & Operating Flow of Non-Depositories*

- Over 60% of our loan purchases are from non-bank mortgage lenders
- Non-depository mortgage bankers originated approximately $800bn of loans in 2017
- Many of these 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
- By offering new ways for these sellers to optimize their capital bases, we can deepen these partnerships and enhance our ability to source more loans

**The Typical Workflow of a Mortgage Lender**