

Redwood Trust, Inc.

Investor Presentation: Overview of 5 Arches Transaction
April 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, as well as investment and earnings potential from the single-family rental market opportunity. 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; 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



- Redwood is acquiring a 20% minority interest in 5 Arches, LLC (“5 Arches”), an Irvine, California-based lender focused on the origination and asset management of business-purpose residential mortgage loans
 - Consideration for the minority stake is \$10 million in cash
- The transaction provides Redwood with:
 - A 12-month exclusive flow relationship to purchase single-family rental loans from 5 Arches
 - A 12-month exclusive option to purchase the remainder of 5 Arches for \$40 million
- If the purchase option is exercised, additional consideration will be a mix of cash and Redwood stock
 - A portion of remaining consideration is deferred up to two years from the date of option exercise
 - All deferred consideration is subject to a performance-based, earn-out structure

Who is 5 Arches?



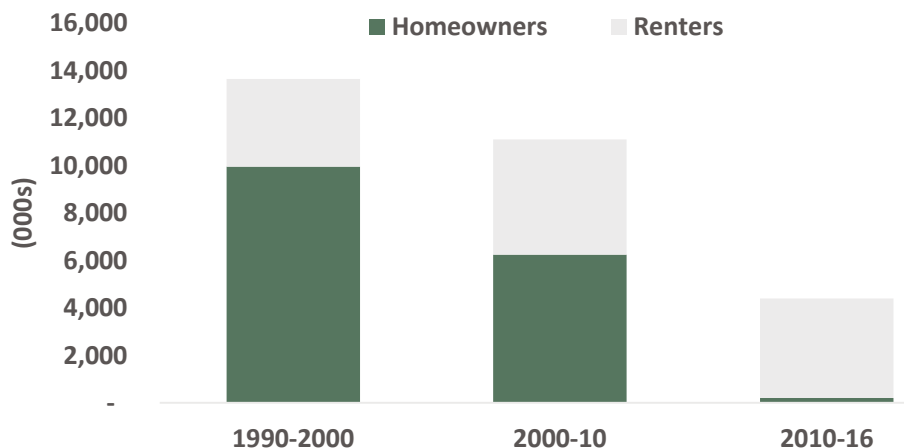
- Founded in 2012 by experienced real estate investors and asset managers
- Privately-held company with approximately 60 full-time employees
- Focused on the origination and asset management of business-purpose real-estate loans, including: single-family rental, multifamily bridge, and fix-and-flip residential real estate
- Total originations since inception of over \$1.3 billion, including approximately \$470 million in 2017
 - Originations in the first quarter 2018 totaled over \$175 million
- Pro forma for Redwood's initial minority stake, 72% owned by executive team, with remaining 8% owned by a third-party minority investor

Overview of the Single-Family Rental (SFR) Market



- The 5 Arches relationship provides us access to a scalable lending opportunity
- Factors such as declining affordability and housing supply 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

Transaction Rationale and Benefits



Consistent with Redwood's core strengths

- Leverages our core competencies in housing credit, product development, and structuring
- Demand for non-owner occupied housing presents a new way for us to offer customized financing solutions to a growing cohort of investors

Scalable market opportunity

- 11 million discrete owners of single-family houses for rent (approximately 17 million total units owned) ⁽¹⁾
- Persistent shortfall of housing supply, particularly in urban centers where people desire to live

Alignment of interests

- Redwood procures exclusivity on 5 Arches' single-family rental production, and option to purchase remainder of 5 Arches platform (portion of consideration linked to platform performance over time)
- Redwood represents an attractive capital partner with whom 5 Arches can continue to grow its origination and asset management businesses

Expected to generate positive BV & EPS growth

- Once ramped, we expect the flow arrangement to source investments that are accretive to our earnings and book value per share
- Potential earnings upside via investment in 5 Arches' operating platform

(1) Source: RentRange

Value Creation to Redwood



Single-Family Rental (SFR) Investment & Earnings Potential

2018 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 11%-14% for term securitization
Potential Incremental EPS Contribution ⁽¹⁾	\$0.08 to \$0.10 per share annually, per \$200 million in capital deployed

Additional Revenue Opportunities

- “Fix-and-flip” loans: short duration (typically <12 months) loans to investors improving single-family and small-ticket multi-family real estate
 - Potential for product synergy with SFR as investors seek to rent out homes post-rehab
- 12-month purchase option for remainder of 5 Arches allows Redwood to internalize origination and asset management economics

(1) Anticipated near-term 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.