UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended: September 30, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from _______________ to _______________.
Commission File Number 1-13759

REDWOOD TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**68-0329422**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
One Belvedere Place, Suite 300 **Mill Valley, California**	**94941**
(Address of Principal Executive Offices)	(Zip Code)

(415) 389-7373
(Registrant's Telephone Number, Including Area Code)
Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes☐ No ☒

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common stock, par value $0.01 per share	RWT	New York Stock Exchange

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $0.01 par value per share	114,674,962 shares outstanding as of November 1, 2021

REDWOOD TRUST, INC.
2021 FORM 10-Q REPORT
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REDWOOD TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousands, except Share Data) (Unaudited)	September 30, 2021	December 31, 2020
ASSETS [1]		
Residential loans, held-for-sale, at fair value	$ 1,495,079	$ 176,641
Residential loans, held-for-investment, at fair value	4,721,389	4,072,410
Business purpose loans, held-for-sale, at fair value	466,346	245,394
Business purpose loans, held-for-investment, at fair value	4,227,209	3,890,959
Multifamily loans, held-for-investment, at fair value	482,791	492,221
Real estate securities, at fair value	353,286	344,125
Other investments	422,366	348,175
Cash and cash equivalents	556,989	461,260
Restricted cash	88,717	83,190
Intangible assets	45,246	56,865
Derivative assets	51,103	53,238
Other assets	162,193	130,588
Total Assets	$ 13,072,714	$ 10,355,066
LIABILITIES AND EQUITY [1]		
Liabilities		
Short-term debt, net	$ 1,750,941	$ 522,609
Derivative liabilities	10,972	16,072
Accrued expenses and other liabilities	251,576	179,340
Asset-backed securities issued (includes $7,756,101 and $6,900,362 at fair value), net	8,183,825	7,100,661
Long-term debt, net	1,499,577	1,425,485
Total liabilities	11,696,891	9,244,167
Commitments and Contingencies (see *Note 16)*		
Equity		
Common stock, par value $0.01 per share, 395,000,000 shares authorized; 114,661,762 and 112,090,006 issued and outstanding	1,147	1,121
Additional paid-in capital	2,312,272	2,264,874
Accumulated other comprehensive income (loss)	1,923	(4,221)
Cumulative earnings	1,272,845	997,277
Cumulative distributions to stockholders	(2,212,364)	(2,148,152)
Total equity	1,375,823	1,110,899
Total Liabilities and Equity	$ 13,072,714	$ 10,355,066

(1) Our consolidated balance sheets include assets of consolidated variable interest entities ("VIEs") that can only be used to settle obligations of these VIEs and liabilities of consolidated VIEs for which creditors do not have recourse to Redwood Trust, Inc. or its affiliates. At September 30, 2021 and December 31, 2020, assets of consolidated VIEs totaled $9,358,317 and $8,141,069, respectively. At September 30, 2021 and December 31, 2020, liabilities of consolidated VIEs totaled $ 8,391,761 and $7,348,713, respectively. See *Note 4* for further discussion.

The accompanying notes are an integral part of these consolidated financial statements.

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(In Thousands, except Share Data) (Unaudited)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Interest Income				
Residential loans	$ 53,993	$ 44,921	$ 146,081	$ 179,331
Business purpose loans	67,129	55,637	201,640	161,710
Multifamily loans	4,846	4,918	14,492	49,960
Real estate securities	14,242	10,135	33,184	38,471
Other interest income	5,512	6,371	17,325	20,537
Total interest income	145,722	121,982	412,722	450,009
Interest Expense				
Short-term debt	(11,826)	(5,145)	(30,794)	(45,119)
Asset-backed securities issued	(73,732)	(66,514)	(222,712)	(232,316)
Long-term debt	(18,196)	(28,752)	(60,865)	(72,313)
Total interest expense	(103,754)	(100,411)	(314,371)	(349,748)
Net Interest Income	41,968	21,571	98,351	100,261
Non-interest Income (Loss)				
Mortgage banking activities, net	63,163	59,395	200,189	24,511
Investment fair value changes, net	26,077	107,047	120,644	(611,557)
Other income, net	2,388	(114)	8,357	3,979
Realized gains, net	6,703	602	17,803	30,419
Total non-interest income (loss), net	98,331	166,930	346,993	(552,648)
General and administrative expenses	(47,692)	(27,630)	(131,837)	(84,832)
Loan acquisition costs	(4,621)	(2,158)	(11,928)	(7,716)
Other expenses	(4,023)	(7,788)	(12,104)	(104,286)
Net Income (Loss) before (Provision for) Benefit from Income Taxes	83,963	150,925	289,475	(649,221)
Benefit from (provision for) income taxes	4,323	(9,113)	(13,907)	13,079
Net Income (Loss)	$ 88,286	$ 141,812	$ 275,568	$ (636,142)
Basic earnings (loss) per common share	$ 0.75	$ 1.21	$ 2.36	$ (5.60)
Diluted earnings (loss) per common share	$ 0.65	$ 1.02	$ 2.03	$ (5.60)
Basic weighted average shares outstanding	112,995,847	113,403,102	112,754,691	113,952,308
Diluted weighted average shares outstanding	141,855,471	141,969,977	141,575,385	113,952,308

The accompanying notes are an integral part of these consolidated financial statements.

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In Thousands)	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
(Unaudited)	**2021**	**2020**	**2021**	**2020**
Net Income (Loss)	$ 88,286	$ 141,812	$ 275,568	$ (636,142)
Other comprehensive income (loss):				
Net unrealized (loss) gain on available-for-sale securities	(2,658)	8,236	19,552	(19,890)
Reclassification of unrealized (gain) loss on available-for-sale securities to net income	(6,200)	(445)	(16,495)	(11,525)
Net unrealized loss on interest rate agreements	—	—	—	(32,806)
Reclassification of unrealized loss on interest rate agreements to net income	1,041	1,040	3,087	2,148
Total other comprehensive (loss) income	(7,817)	8,831	6,144	(62,073)
Total Comprehensive Income (Loss)	$ 80,469	$ 150,643	$ 281,712	$ (698,215)

The accompanying notes are an integral part of these consolidated financial statements.

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Three Months Ended September 30, 2021

(In Thousands, except Share Data) (Unaudited)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
June 30, 2021	113,052,780	$ 1,131	$ 2,287,412	$ 9,740	$ 1,184,559	$ (2,187,700)	$ 1,295,142
Net income	—	—	—	—	88,286	—	88,286
Other comprehensive loss	—	—	—	(7,817)	—	—	(7,817)
Issuance of common stock	1,585,709	16	19,810	—	—	—	19,826
Employee stock purchase and incentive plans	23,273	—	153	—	—	—	153
Non-cash equity award compensation	—	—	4,897	—	—	—	4,897
Common dividends declared ($0.21 per share)	—	—	—	—	—	(24,664)	(24,664)
September 30, 2021	114,661,762	$ 1,147	$ 2,312,272	$ 1,923	$ 1,272,845	$ (2,212,364)	$ 1,375,823

For the Nine Months Ended September 30, 2021

(In Thousands, except Share Data) (Unaudited)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
December 31, 2020	112,090,006	$ 1,121	$ 2,264,874	$ (4,221)	$ 997,277	$ (2,148,152)	$ 1,110,899
Net income	—	—	—	—	275,568	—	275,568
Other comprehensive income	—	—	—	6,144	—	—	6,144
Issuance of common stock	2,391,777	24	33,176	—	—	—	33,200
Employee stock purchase and incentive plans	179,979	2	(536)	—	—	—	(534)
Non-cash equity award compensation	—	—	14,758	—	—	—	14,758
Common dividends declared ($0.55 per share)	—	—	—	—	—	(64,212)	(64,212)
September 30, 2021	114,661,762	$ 1,147	$ 2,312,272	$ 1,923	$ 1,272,845	$ (2,212,364)	$ 1,375,823

For the Three Months Ended September 30, 2020

(In Thousands, except Share Data) (Unaudited)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
June 30, 2020	114,940,197	$ 1,149	$ 2,279,625	$ (29,391)	$ 801,170	$ (2,115,977)	$ 936,576
Net income	—	—	—	—	141,812	—	141,812
Other comprehensive income	—	—	—	8,831	—	—	8,831
Employee stock purchase and incentive plans	11,460	—	9	—	—	—	9
Non-cash equity award compensation	—	—	3,906	—	—	—	3,906
Share repurchases	(3,047,335)	(30)	(21,629)	—	—	—	(21,659)
Common dividends declared ($0.14 per share)	—	—	—	—	—	(16,011)	(16,011)
September 30, 2020	111,904,322	$ 1,119	$ 2,261,911	$ (20,560)	$ 942,982	$ (2,131,988)	$ 1,053,464

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2020

(In Thousands, except Share Data)	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Cumulative Earnings	Cumulative Distributions to Stockholders	Total
(Unaudited)	Shares	Amount					
December 31, 2019	114,353,036	$ 1,144	$ 2,269,617	$ 41,513	$ 1,579,124	$ (2,064,167)	$ 1,827,231
Net loss	—	—	—	—	(636,142)	—	(636,142)
Other comprehensive loss	—	—	—	(62,073)	—	—	(62,073)
Issuance of common stock	350,088	3	5,544	—	—	—	5,547
Employee stock purchase and incentive plans	248,533	2	(2,767)	—	—	—	(2,765)
Non-cash equity award compensation	—	—	11,146	—	—	—	11,146
Share repurchases	(3,047,335)	(30)	(21,629)	—	—	—	(21,659)
Common dividends declared ($0.585 per share)	—	—	—	—	—	(67,821)	(67,821)
September 30, 2020	111,904,322	$ 1,119	$ 2,261,911	$ (20,560)	$ 942,982	$ (2,131,988)	$ 1,053,464

The accompanying notes are an integral part of these consolidated financial statements.

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands) (Unaudited)	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Cash Flows From Operating Activities:		
Net income (loss)	$ 275,568	$ (636,142)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Amortization of premiums, discounts, and securities issuance costs, net	300	6,213
Depreciation and amortization of non-financial assets	12,674	13,166
Originations of held-for-sale loans	(960,419)	(654,820)
Purchases of held-for-sale loans	(9,902,028)	(2,893,246)
Proceeds from sales of held-for-sale loans	6,948,264	3,224,526
Principal payments on held-for-sale loans	49,619	53,677
Net settlements of derivatives	27,412	(187,130)
Non-cash equity award compensation expense	14,758	11,146
Goodwill impairment expense	—	88,675
Market valuation adjustments	(292,056)	606,764
Realized gains, net	(17,803)	(30,419)
Net change in:		
Accrued interest receivable and other assets	(9,680)	304,147
Accrued interest payable and accrued expenses and other liabilities	73,120	(82,489)
Net cash used in operating activities	(3,780,271)	(175,932)
Cash Flows From Investing Activities:		
Originations of loan investments	(557,327)	(327,494)
Purchases of loan investments	(35,713)	—
Proceeds from sales of loan investments	9,484	1,574,160
Principal payments on loan investments	1,950,151	1,652,418
Purchases of real estate securities	(29,342)	(106,422)
Sales of securities held in consolidated securitization trusts	8,197	142,990
Proceeds from sales of real estate securities	37,500	634,709
Principal payments on real estate securities	46,904	19,446
Purchases of servicer advance investments	—	(179,419)
Principal repayments from servicer advance investments	58,248	83,124
Purchases of home equity investment contracts	(109,174)	(986)
Other investing activities, net	(15,915)	22,019
Net cash provided by investing activities	1,363,013	3,514,545
Cash Flows From Financing Activities:		
Proceeds from borrowings on short-term debt	9,847,178	3,981,572
Repayments on short-term debt	(8,443,664)	(5,828,972)
Proceeds from issuance of asset-backed securities	2,822,785	1,343,845
Repayments on asset-backed securities issued	(1,549,766)	(1,037,546)
Proceeds from borrowings on long-term debt	948,674	1,251,850
Repayments on long-term debt	(1,055,475)	(2,640,007)
Net settlements of derivatives	—	(84,336)
Net proceeds from issuance of common stock	20,248	5,791
Net payments on repurchase of common stock	—	(21,659)
Taxes paid on equity award distributions	(957)	(3,009)
Dividends paid	(64,212)	(67,821)
Other financing activities, net	(6,297)	(4,876)
Net cash provided by (used in) financing activities	2,518,514	(3,105,168)
Net increase in cash, cash equivalents and restricted cash	101,256	233,445
Cash, cash equivalents and restricted cash at beginning of period(1)	544,450	290,833
Cash, cash equivalents and restricted cash at end of period(1)	$ 645,706	$ 524,278

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In Thousands) (Unaudited)	Nine Months Ended September 30, 2021	2020
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 298,507	$ 364,875
Taxes	28,092	218
Supplemental Noncash Information:		
Real estate securities retained from loan securitizations	$ 9,375	$ 46,560
Retention of mortgage servicing rights from loan securitizations and sales	7,065	—
Deconsolidation of multifamily loans held in securitization trusts	—	(3,849,779)
Deconsolidation of multifamily ABS	—	(3,706,789)
Transfers from loans held-for-sale to loans held-for-investment	3,005,041	770,754
Transfers from loans held-for-investment to loans held-for-sale	44,922	—
Transfers from residential loans to real estate owned	21,655	12,547
Transfers from long-term debt to short-term debt	93,150	—
Right-of-use asset obtained in exchange for operating lease liability	1,135	5,362
Reduction in operating lease liability due to lease modification	—	1,466
Issuance of common stock for 5 Arches acquisition	13,375	3,375

(1) Cash, cash equivalents, and restricted cash at September 30, 2021 includes cash and cash equivalents of $ 557 million and restricted cash of $ 89 million, and at December 31, 2020 includes cash and cash equivalents of $461 million and restricted cash of $ 83 million.

The accompanying notes are an integral part of these consolidated financial statements.

Note 1. Organization

Redwood Trust, Inc., together with its subsidiaries, is a specialty finance company focused on several distinct areas of housing credit. Our operating platforms occupy a unique position in the housing finance value chain, providing liquidity to growing segments of the U.S. housing market not served by government programs. We deliver customized housing credit investments to a diverse mix of investors, through our best-in-class securitization platforms; whole-loan distribution activities; and our publicly-traded shares. Our consolidated investment portfolio has evolved to incorporate a diverse mix of residential, business purpose and multifamily investments. Our goal is to provide attractive returns to shareholders through a stable and growing stream of earnings and dividends, capital appreciation, and a commitment to technological innovation that facilitates risk-minded scale. We operate our business in three segments: Residential Lending, Business Purpose Lending, and Third-Party Investments.

Our primary sources of income are net interest income from our investments and non-interest income from our mortgage banking activities. Net interest income primarily consists of the interest income we earn on investments less the interest expense we incur on borrowed funds and other liabilities. Income from mortgage banking activities is generated through the origination and acquisition of loans, and their subsequent sale, securitization, or transfer to our investment portfolios.

Redwood Trust, Inc. has elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), beginning with its taxable year ended December 31, 1994. We generally refer, collectively, to Redwood Trust, Inc. and those of its subsidiaries that are generally not subject to subsidiary-level corporate income tax as “the REIT” or “our REIT.” We generally refer to subsidiaries of Redwood Trust, Inc. that are subject to subsidiary-level corporate income tax as “our taxable REIT subsidiaries” or “TRS.”

Redwood was incorporated in the State of Maryland on April 11, 1994, and commenced operations on August 19, 1994. References herein to “Redwood,” the “company,” “we,” “us,” and “our” include Redwood Trust, Inc. and its consolidated subsidiaries, unless the context otherwise requires.

Note 2. Basis of Presentation

The consolidated financial statements presented herein are at September 30, 2021 and December 31, 2020, and for the three and nine months ended September 30, 2021 and 2020. These interim unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in our annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") — as prescribed by the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) — have been condensed or omitted in these interim financial statements according to these SEC rules and regulations. Management believes that the disclosures included in these interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the company's Annual Report on Form 10-K for the year ended December 31, 2020. In the opinion of management, all normal and recurring adjustments to present fairly the financial condition of the Company at September 30, 2021 and results of operations for all periods presented have been made. The results of operations for the three and nine months ended September 30, 2021 should not be construed as indicative of the results to be expected for the full year.

Note 2. Basis of Presentation - (continued)

Principles of Consolidation

In accordance with GAAP, we determine whether we must consolidate transferred financial assets and variable interest entities ("VIEs") for financial reporting purposes. We currently consolidate the assets and liabilities of certain Sequoia securitization entities issued prior to 2012 ("Legacy Sequoia"), certain entities formed during and after 2012 in connection with the securitization of Redwood Select prime loans and Redwood Choice expanded-prime loans ("Sequoia"), entities formed in connection with the securitization of CoreVest single-family rental and bridge loans ("CAFL"), and beginning in the third quarter of 2021, an entity ("Point HEI") formed in connection with the securitization of home equity investment contracts ("HEIs"). We also consolidate the assets and liabilities of certain Freddie Mac K-Series and Freddie Mac Seasoned Loans Structured Transaction ("SLST") securitizations in which we have invested. Each securitization entity is independent of Redwood and of each other and the assets and liabilities are not owned by and are not legal obligations of Redwood Trust, Inc. Our exposure to these entities is primarily through the financial interests we have purchased or retained, although for certain entities we are exposed to financial risks associated with our role as a sponsor or co-sponsor, servicing administrator, collateral administrator, or depositor of these entities or as a result of our having sold assets directly or indirectly to these entities.

For financial reporting purposes, the underlying loans owned at the consolidated Sequoia and Freddie Mac SLST entities are shown under Residential loans held-for-investment at fair value, the underlying loans at the consolidated Freddie Mac K-Series entity are shown under Multifamily loans held-for-investment at fair value, the underlying single-family rental and bridge loans at the consolidated CAFL entities are shown under Business purpose loans held-for-investment at fair value, and the underlying HEIs at the consolidated Point HEI entity are shown under Other investments at fair value on our consolidated balance sheets. The asset-backed securities ("ABS") issued to third parties by these entities are shown under ABS issued. In our consolidated statements of income (loss), we recorded interest income on the loans owned at these entities and interest expense on the ABS issued by these entities as well as fair value changes, other income and expenses associated with these entities' activities. See *Note 14* for further discussion on ABS issued.

We also consolidate two partnerships ("Servicing Investment" entities) through which we have invested in servicing-related assets. We maintain an80% ownership interest in each entity and have determined that we are the primary beneficiary of these partnerships.

See *Note 4* for further discussion on principles of consolidation.

Use of Estimates

The preparation of financial statements requires us to make a number of significant estimates. These include estimates of fair value of certain assets and liabilities, amounts and timing of credit losses, prepayment rates, and other estimates that affect the reported amounts of certain assets and liabilities as of the date of the consolidated financial statements and the reported amounts of certain revenues and expenses during the reported periods. It is likely that changes in these estimates (e.g., valuation changes due to supply and demand, credit performance, prepayments, interest rates, or other reasons) will occur in the near term. Our estimates are inherently subjective in nature and actual results could differ from our estimates and the differences could be material.

Acquisitions

Refer to our Annual Report on Form 10-K for the year ended December 31, 2020 for additional information regarding the acquisitions of 5 Arches, LLC ("5 Arches") and CoreVest American Finance Lender, LLC and certain affiliated entities ("CoreVest"), including purchase price allocations.

Note 2. Basis of Presentation - (continued)

In connection with the acquisitions of 5 Arches and CoreVest in 2019, we identified and recorded finite-lived intangible assets totaling $25 million and $57 million, respectively. The table below presents the amortization period and carrying value of our intangible assets, net of accumulated amortization at September 30, 2021.

Table 2.1 – Intangible Assets – Activity

(Dollars in Thousands)	Intangible Assets at Acquisition	Accumulated Amortization at September 30, 2021	Carrying Value at September 30, 2021	Weighted Average Amortization Period (in years)
Borrower network	$ 45,300	$ (12,672)	$ 32,628	7
Broker network	18,100	(9,352)	8,748	5
Non-compete agreements	9,500	(6,806)	2,694	3
Tradenames	4,000	(2,861)	1,139	3
Developed technology	1,800	(1,763)	37	2
Loan administration fees on existing loan assets	2,600	(2,600)	—	1
Total	$ 81,300	$ (36,054)	$ 45,246	6

All of our intangible assets are amortized on a straight-line basis. For both of the nine months ended September 30, 2021 and 2020, we recorded intangible asset amortization expense of $12 million. Estimated future amortization expense is summarized in the table below.

Table 2.2 – Intangible Asset Amortization Expense by Year

(In Thousands)	September 30, 2021
2021 (3 months)	$ 3,685
2022	12,800
2023	10,091
2024	7,073
2025 and thereafter	11,597
Total Future Intangible Asset Amortization	$ 45,246

On a quarterly basis, we evaluate our finite-lived intangible assets for impairment indicators and additionally evaluate the useful lives of our intangible assets to determine if revisions to the remaining periods of amortization are warranted. We reviewed our finite-lived intangible assets and determined that the estimated lives were appropriate and that there were no indicators of impairment at September 30, 2021.

A liability resulting from the contingent consideration arrangement with 5 Arches was initially recorded in 2019 at its acquisition-date fair value as part of total consideration for the acquisition of 5 Arches. During the first quarter of 2021, we distributed 806,068 shares of Redwood common stock and paid $1 million in cash in full settlement of the remaining deferred consideration associated with this acquisition.

Note 3. Summary of Significant Accounting Policies

Significant Accounting Policies

Included in *Note 3* to the Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended December 31, 2020 is a summary of our significant accounting policies. Provided below is a summary of additional accounting policies that are significant to the company's consolidated financial position and results of operations for the three and nine months ended September 30, 2021.

Note 3. Summary of Significant Accounting Policies - (continued)

Other Investments

Strategic Investments

We have made and may make additional strategic investments in companies through our RWT Horizons venture investment strategy or at a corporate level. These investments can take the form of equity or debt and often have conversion features. Depending on the terms of the investments, we may account for these investments under the fair value option or as non-marketable equity securities under the equity method of accounting or the measurement alternative (to the extent they do not have a “readily determinable fair value,” or are not traded in a verifiable public market or are restricted for sale in the public market by a restricted stock legend or otherwise).

Investments accounted for under the fair value option are carried at fair value with periodic changes in value recorded through Investment fair value changes on our consolidated statements of income (loss). For non-marketable securities, we utilize the equity method of accounting when we are able to exert significant influence over but do not control the activities of the investee. Under the equity method of accounting, we generally elect to record our share of earnings or losses from equity method investments on a one-quarter lag and we assess our investments for impairment whenever events or changes in circumstances indicate that the carrying amount of our investment might not be recoverable. Income from equity method investments is recorded in Other income, net on our consolidated statements of income (loss). Under the measurement alternative, the carrying value of our investment is measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Adjustments are determined primarily based on a market approach as of the transaction date and are recorded as a component of Other income, net on our consolidated statements of income (loss).

Recent Accounting Pronouncements

Newly Adopted Accounting Standards Updates ("ASUs")

In August 2021, the FASB issued ASU 2021-06, "Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946): Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants (SEC Update)." This new guidance aligns certain SEC paragraphs in the codification with new SEC rules issued in May 2020 related to changes to the disclosure requirements for acquired and disposed businesses. We adopted this guidance upon issuance in the third quarter of 2021, which did not have a material impact on our consolidated financial statements.

In October 2020, the FASB issued ASU 2020-10, "Codification Improvements." This new guidance updates various codification topics by clarifying or improving disclosure requirements. This new guidance is effective for fiscal years ending after December 15, 2020. We adopted this guidance, as required, in the first quarter of 2021, which did not have a material impact on our consolidated financial statements.

In October 2020, the FASB issued ASU 2020-09, "Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762." This new guidance aligns certain SEC paragraphs in the codification with new SEC rules issued in March 2020 related to changes to the disclosure requirements for registered debt securities. This new guidance became effective January 4, 2021. We adopted this guidance, as required, in the first quarter of 2021, which did not have a material impact on our consolidated financial statements.

In October 2020, the FASB issued ASU 2020-08, "Codification Improvements to Subtopic 310-20, Receivables - Nonrefundable Fees and Other Costs." This new guidance clarifies that an entity should reevaluate whether a callable debt security is within the scope of paragraph 310-20-35-33 for each reporting period. This new guidance is effective for fiscal years ending after December 15, 2020. We adopted this guidance, as required, in the first quarter of 2021, which did not have a material impact on our consolidated financial statements.

Note 3. Summary of Significant Accounting Policies - (continued)

In January 2020, the FASB issued ASU 2020-01, "Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)." This new guidance clarifies the interaction of the accounting for equity securities, equity method investments, and certain forward contracts and purchased options. This new guidance is effective for fiscal years beginning after December 15, 2020. We adopted this guidance, as required, in the first quarter of 2021, which did not have a material impact on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." This new guidance simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and by clarifying and amending existing guidance. This new guidance is effective for fiscal years beginning after December 15, 2020. We adopted this guidance, as required, in the first quarter of 2021, which did not have a material impact on our consolidated financial statements.

Other Recent Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, "Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)." This new guidance simplifies the accounting for convertible debt by reducing the number of accounting models to separately present certain conversion features in equity. This new guidance is effective for fiscal years beginning after December 31, 2021. Early adoption is permitted. We plan to adopt this new guidance by the required date and do not anticipate that this update will have a material impact on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This new guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. In January 2021, the FASB issued ASU 2021-01, "Reference Rate Reform (Topic 848): Scope." This new guidance clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. This new guidance is effective for all entities as of March 12, 2020 through December 31, 2022. We are currently evaluating the impact the adoption of this standard would have on our consolidated financial statements. Through September 30, 2021, we have not elected to apply the optional expedients and exceptions to any of our existing contracts, hedging relationships, or other transactions.

Balance Sheet Netting

Certain of our derivatives and short-term debt are subject to master netting arrangements or similar agreements. Under GAAP, in certain circumstances we may elect to present certain financial assets, liabilities and related collateral subject to master netting arrangements in a net position on our consolidated balance sheets. However, we do not report any of these financial assets or liabilities on a net basis, and instead present them on a gross basis on our consolidated balance sheets.

Note 3. Summary of Significant Accounting Policies - (continued)

The table below presents financial assets and liabilities that are subject to master netting arrangements or similar agreements categorized by financial instrument, together with corresponding financial instruments and corresponding collateral received or pledged at September 30, 2021 and December 31, 2020.

Table 3.1 – Offsetting of Financial Assets, Liabilities, and Collateral

September 30, 2021 (In Thousands)	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in Consolidated Balance Sheet	Net Amounts of Assets (Liabilities) Presented in Consolidated Balance Sheet	Gross Amounts Not Offset in Consolidated Balance Sheet (1): Financial Instruments	Gross Amounts Not Offset in Consolidated Balance Sheet (1): Cash Collateral (Received) Pledged	Net Amount
Assets (2)						
Interest rate agreements	$ 33,628	$ —	$ 33,628	$ (74)	$ (32,408)	$ 1,146
TBAs	8,213	—	8,213	(4,278)	(3,117)	818
Total Assets	$ 41,841	$ —	$ 41,841	$ (4,352)	$ (35,525)	$ 1,964
Liabilities (2)						
Interest rate agreements	$ (74)	$ —	$ (74)	$ 74	$ —	$ —
TBAs	(7,599)	—	(7,599)	4,278	3,321	—
Futures	(749)	—	(749)	—	749	—
Loan warehouse debt	(1,335,464)	—	(1,335,464)	1,335,464	—	—
Security repurchase agreements	(79,766)	—	(79,766)	79,766	—	—
Total Liabilities	$ (1,423,652)	$ —	$ (1,423,652)	$ 1,419,582	$ 4,070	$ —

Note 3. Summary of Significant Accounting Policies - (continued)

December 31, 2020 (In Thousands)	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in Consolidated Balance Sheet	Net Amounts of Assets (Liabilities) Presented in Consolidated Balance Sheet	Gross Amounts Not Offset in Consolidated Balance Sheet (1)		Net Amount
				Financial Instruments	Cash Collateral (Received) Pledged	
Assets (2)						
Interest rate agreements	$ 19,951	$ —	$ 19,951	$ —	$ (7,769)	$ 12,182
TBAs	18,260	—	18,260	(13,423)	(4,658)	179
Total Assets	$ 38,211	$ —	$ 38,211	$ (13,423)	$ (12,427)	$ 12,361
Liabilities (2)						
TBAs	$ (15,495)	$ —	$ (15,495)	$ 13,423	$ 1,061	$ (1,011)
Loan warehouse debt	(137,269)	—	(137,269)	137,269	—	—
Security repurchase agreements	(77,775)	—	(77,775)	77,775	—	—
Total Liabilities	$ (230,539)	$ —	$ (230,539)	$ 228,467	$ 1,061	$ (1,011)

(1) Amounts presented in these columns are limited in total to the net amount of assets or liabilities presented in the prior column ("Net Amounts of Assets (Liabilities) Presented in Consolidated Balance Sheet") by instrument. In certain cases, there is excess cash collateral or financial assets we have pledged to a counterparty (which may, in certain circumstances, be a clearinghouse) that exceed the financial liabilities subject to a master netting arrangement or similar agreement. Additionally, in certain cases, counterparties may have pledged excess cash collateral to us that exceeds our corresponding financial assets. In each case, any of these excess amounts are excluded from the table although they are separately reported in our consolidated balance sheets as assets or liabilities, respectively.

(2) Interest rate agreements and TBAs are components of derivatives instruments on our consolidated balance sheets. Loan warehouse debt, which is secured by certain residential and business purpose loans, and security repurchase agreements are components of Short-term debt and Long-term debt on our consolidated balance sheets.

For each category of financial instrument set forth in the table above, the assets and liabilities resulting from individual transactions within that category between us and a counterparty are subject to a master netting arrangement or similar agreement with that counterparty that provides for individual transactions to be aggregated and treated as a single transaction. For certain categories of these instruments, some of our transactions are cleared and settled through one or more clearinghouses that are substituted as our counterparty. References herein to master netting arrangements or similar agreements include the arrangements and agreements governing the clearing and settlement of these transactions through the clearinghouses. In the event of the termination and close-out of any of those transactions, the corresponding master netting agreement or similar agreement provides for settlement on a net basis. Any such settlement would include the proceeds of the liquidation of any corresponding collateral, subject to certain limitations on termination, settlement, and liquidation of collateral that may apply in the event of the bankruptcy or insolvency of a party. Such limitations should not inhibit the eventual practical realization of the principal benefits of those transactions or the corresponding master netting arrangement or similar agreement and any corresponding collateral.

Note 4. Principles of Consolidation

GAAP requires us to consider whether securitizations we sponsor and other transfers of financial assets should be treated as sales or financings, as well as whether any VIEs that we hold variable interests in – for example, certain legal entities often used in securitization and other structured finance transactions – should be included in our consolidated financial statements. The GAAP principles we apply require us to reassess our requirement to consolidate VIEs each quarter and therefore our determination may change based upon new facts and circumstances pertaining to each VIE. This could result in a material impact to our consolidated financial statements during subsequent reporting periods.

Note 4. Principles of Consolidation - (continued)

Analysis of Consolidated VIEs

At September 30, 2021, we consolidated Legacy Sequoia, Sequoia, CAFL, Freddie Mac SLST, Freddie Mac K-Series, and Point HEI securitization entities that we determined were VIEs and for which we determined we were the primary beneficiary. Each of these entities is independent of Redwood and of each other and the assets and liabilities of these entities are not owned by and are not legal obligations of ours. Our exposure to these entities is primarily through the financial interests we have retained, although for certain securitizations, we are exposed to financial risks associated with our role as a sponsor, servicing administrator, collateral administrator, or depositor of these entities or as a result of our having sold assets directly or indirectly to these entities.

We also consolidate two Servicing Investment entities formed to invest in servicing-related assets that we determined were VIEs and for which we determined we were the primary beneficiary. At September 30, 2021, we held an 80% ownership interest in, and were responsible for the management of, each entity. See *Note 10* for a further description of these entities and the investments they hold and *Note 12* for additional information on the minority partner's non-controlling interest. Additionally, we consolidated an entity that was formed to finance servicer advances that we determined was a VIE and for which we, through our control of one of the aforementioned partnerships, were the primary beneficiary. The servicer advance financing consists of non-recourse short-term securitization debt, secured by servicer advances. We consolidate the securitization entity, but the securitization entity is independent of Redwood and the assets and liabilities are not owned by and are not legal obligations of Redwood. See *Note 13* for additional information on the servicer advance financing.

During the third quarter of 2021, we consolidated a Point securitization entity formed to invest in Point HEIs that we determined was a VIE and for which we determined we were the primary beneficiary. At September 30, 2021, we owned a portion of the subordinate certificates issued by the entity and had certain decision making rights for the entity. See *Note 10* for a further description of this entity and the investments it holds and *Note 12* for additional information on non-controlling interests in the entity. We consolidate the Point securitization entity, but the securitization entity is independent of Redwood and the assets and liabilities are not owned by and are not legal obligations of Redwood.

Note 4. Principles of Consolidation - (continued)

For certain of our consolidated VIEs, we have elected to account for the assets and liabilities of these entities as collateralized financing entities ("CFE")A CFE is a variable interest entity that holds financial assets and issues beneficial interests in those assets, and these beneficial interests have contractual recourse only to the related assets of the CFE. Accounting guidance for CFEs allows companies to elect to measure both the financial assets and financial liabilities of a CFE using the more observable of the fair value of the financial assets or fair value of the financial liabilities. The net equity in an entity effectively represents the fair value of the beneficial interests we own in the entity. The following table presents a summary of the assets and liabilities of these VIEs.

Table 4.1 – Assets and Liabilities of Consolidated VIEs Accounted for as Collateralized Financing Entities

September 30, 2021 (Dollars in Thousands)	Legacy Sequoia	Sequoia	CAFL SFR	Freddie Mac SLST	Freddie Mac K-Series	Servicing Investment	Point HEI	Total Consolidated CFE VIEs
Residential loans, held-for-investment	$ 242,234	$ 2,479,750	$ —	$ 1,999,405	$ —	$ —	$ —	$ 4,721,389
Business purpose loans, held-for-investment	—	—	3,402,410	—	—	—	—	3,402,410
Multifamily loans, held-for-investment	—	—	—	—	482,791	—	—	482,791
Other investments	—	—	—	—	—	187,880	167,442	355,322
Cash and cash equivalents	—	—	—	—	—	12,977	—	12,977
Restricted cash	148	—	—	—	—	19,872	5,033	25,053
Accrued interest receivable	232	7,869	13,451	6,068	1,321	1,068	—	30,009
Other assets	275	—	13,172	1,958	—	6,283	50	21,738
Total Assets	$ 242,889	$ 2,487,619	$ 3,429,033	$ 2,007,431	$ 484,112	$ 228,080	$ 172,525	$ 9,051,689
Short-term debt	$ —	$ —	$ —	$ —	$ —	$ 151,910	$ —	$ 151,910
Accrued interest payable	108	5,918	10,691	4,279	1,195	97	—	22,288
Accrued expenses and other liabilities	—	—	224	—	—	15,835	16,740	32,799
Asset-backed securities issued	239,447	2,243,299	3,126,405	1,550,111	451,402	—	145,437	7,756,101
Total Liabilities	$ 239,555	$ 2,249,217	$ 3,137,320	$ 1,554,390	$ 452,597	$ 167,842	$ 162,177	$ 7,963,098
Fair value of our investments	$ 3,062	$ 236,451	$ 287,813	$ 451,252	$ 31,389	$ 60,238	$ 10,348	$ 1,080,553
Number of VIEs	20	13	15	3	1	3	1	56

Note 4. Principles of Consolidation - (continued)

December 31, 2020 (Dollars in Thousands)	Legacy Sequoia	Sequoia	CAFL SFR	Freddie Mac SLST	Freddie Mac K-Series	Servicing Investment	Point HEI	Total Consolidated CFE VIEs
Residential loans, held-for-investment	$ 285,935	$ 1,565,322	$ —	$ 2,221,153	$ —	$ —	$ —	$ 4,072,410
Business purpose loans, held-for-investment	—	—	3,249,194	—	—	—	—	3,249,194
Multifamily loans, held-for-investment	—	—	—	—	492,221	—	—	492,221
Other investments	—	—	—	—	—	251,773	—	251,773
Cash and cash equivalents	—	—	—	—	—	11,579	—	11,579
Restricted cash	148	—	—	—	—	23,220	—	23,368
Accrued interest receivable	305	6,802	13,055	6,754	1,337	2,334	—	30,587
Other assets	638	—	2,930	646	—	5,723	—	9,937
Total Assets	$ 287,026	$ 1,572,124	$ 3,265,179	$ 2,228,553	$ 493,558	$ 294,629	$ —	$ 8,141,069
Short-term debt	$ —	$ —	$ —	$ —	$ —	$ 208,375	$ —	$ 208,375
Accrued interest payable	141	4,697	10,278	4,846	1,177	135	—	21,274
Accrued expenses and other liabilities	—	50	—	—	—	18,353	—	18,403
Asset-backed securities issued	282,326	1,347,357	3,013,093	1,793,620	463,966	—	—	6,900,362
Total Liabilities	$ 282,467	$ 1,352,104	$ 3,023,371	$ 1,798,466	$ 465,143	$ 226,863	$ —	$ 7,148,414
Fair value of our investments	$ 4,559	$ 220,020	$ 241,808	$ 430,087	$ 28,415	$ 67,766	$ —	$ 992,655
Number of VIEs	20	10	14	2	1	3	—	50

The following table presents income (loss) from these VIEs for the three and nine months ended September 30, 2021 and 2020.

Table 4.2 – Income (Loss) from Consolidated VIEs Accounted for as Collateralized Financing Entities

	Three Months Ended September 30, 2021							
(Dollars in Thousands)	**Legacy Sequoia**	**Sequoia**	**CAFL SFR**	**Freddie Mac SLST**	**Freddie Mac K-Series**	**Servicing Investment**	**Point HEI**	**Total Consolidated CFE VIEs**
Interest income	$ 1,042	$ 18,867	$ 48,723	$ 18,707	$ 4,846	$ 3,905	$ —	$ 96,090
Interest expense	(641)	(15,368)	(37,415)	(13,303)	(4,460)	(1,018)	—	(72,205)
Net interest income	401	3,499	11,308	5,404	386	2,887	—	23,885
Non-interest income								
Investment fair value changes, net	(247)	3,314	2,943	13,849	554	(2,080)	47	18,380
Other income	—	—	10	—	—	—	—	10
Total non-interest income, net	(247)	3,314	2,953	13,849	554	(2,080)	47	18,390
General and administrative expenses	—	—	—	—	—	(60)	—	(60)
Other expenses	—	—	—	—	—	(149)	—	(149)
Income from Consolidated VIEs	$ 154	$ 6,813	$ 14,261	$ 19,253	$ 940	$ 598	$ 47	$ 42,066

Note 4. Principles of Consolidation - (continued)

(Dollars in Thousands)	Legacy Sequoia	Sequoia	CAFL SFR	Freddie Mac SLST	Freddie Mac K-Series	Servicing Investment	Point HEI	Total Consolidated CFE VIEs
	Nine Months Ended September 30, 2021							
Interest income	$ 3,559	$ 48,842	$ 152,445	$ 58,372	$ 14,492	$ 12,168	$ —	$ 289,878
Interest expense	(2,271)	(38,848)	(118,469)	(41,698)	(13,294)	(3,414)	—	(217,994)
Net interest income	1,288	9,994	33,976	16,674	1,198	8,754	—	71,884
Non-interest income								
Investment fair value changes, net	(1,162)	13,118	6,354	54,282	11,330	(5,646)	47	78,323
Other income	—	—	10	—	—	—	—	10
Total non-interest income, net	(1,162)	13,118	6,364	54,282	11,330	(5,646)	47	78,333
General and administrative expenses	—	—	—	—	—	(150)	—	(150)
Other expenses	—	—	—	—	—	(591)	—	(591)
Income from Consolidated VIEs	$ 126	$ 23,112	$ 40,340	$ 70,956	$ 12,528	$ 2,367	$ 47	$ 149,476

(Dollars in Thousands)	Legacy Sequoia	Sequoia	CAFL SFR	Freddie Mac SLST	Freddie Mac K-Series	Servicing Investment	Point HEI	Total Consolidated CFE VIEs
	Three Months Ended September 30, 2020							
Interest income	$ 1,795	$ 20,919	$ 36,181	$ 21,696	$ 4,918	$ 4,403	$ —	$ 89,912
Interest expense	(1,059)	(17,828)	(26,383)	(15,473)	(4,426)	(1,587)	—	(66,756)
Net interest income	736	3,091	9,798	6,223	492	2,816	—	23,156
Non-interest income								
Investment fair value changes, net	(81)	7,851	9,692	82,214	2,166	(422)	—	101,420
Total non-interest income, net	(81)	7,851	9,692	82,214	2,166	(422)	—	101,420
General and administrative expenses	—	—	—	—	—	(41)	—	(41)
Other expenses	—	—	—	—	—	(471)	—	(471)
Income from Consolidated VIEs	$ 655	$ 10,942	$ 19,490	$ 88,437	$ 2,658	$ 1,882	$ —	$ 124,064

(Dollars in Thousands)	Legacy Sequoia	Sequoia	CAFL SFR	Freddie Mac SLST	Freddie Mac K-Series	Servicing Investment	Point HEI	Total Consolidated CFE VIEs
	Nine Months Ended September 30, 2020							
Interest income	$ 7,674	$ 68,566	$ 99,169	$ 64,869	$ 49,960	$ 13,026	$ —	$ 303,264
Interest expense	(5,099)	(58,455)	(72,768)	(47,495)	(47,154)	(4,961)	—	(235,932)
Net interest income	2,575	10,111	26,401	17,374	2,806	8,065	—	67,332
Non-interest income								
Investment fair value changes, net	(702)	(22,065)	(41,841)	(33,081)	(82,744)	(9,015)	—	(189,448)
Total non-interest income, net	(702)	(22,065)	(41,841)	(33,081)	(82,744)	(9,015)	—	(189,448)
General and administrative expenses	—	—	—	—	—	(784)	—	(784)
Other expenses	—	—	—	—	—	346	—	346
Income (Loss) from Consolidated VIEs	$ 1,873	$ (11,954)	$ (15,440)	$ (15,707)	$ (79,938)	$ (1,388)	$ —	$ (122,554)

Note 4. Principles of Consolidation - (continued)

In addition to our consolidated VIEs for which we made the CFE election, we consolidate additional VIEs for which we did not make the CFE election, and elected to account for the ABS issued by these entities at amortized cost. These include our CAFL Bridge securitization, Freddie Mac SLST re-securitization, and Servicing Investment entities.

We consolidate the assets and liabilities of certain Sequoia, CAFL and Point HEI securitization entities, as we did not meet the GAAP sale criteria at the time we transferred financial assets to these entities. Our involvement in consolidated Sequoia, CAFL and Point HEI entities continues in the following ways: (i) we continue to hold subordinate investments in each entity, and for certain entities, more senior investments; (ii) we maintain certain discretionary rights associated with our sponsorship of, or our subordinate investments in, each entity including rights to direct loss mitigation activities; and (iii) we continue to hold a right to call the assets of certain entities (once they have been paid down below a specified threshold) at a price equal to, or in excess of, the current outstanding principal amount of the entity’s asset-backed securities issued. These factors have resulted in our continuing to consolidate the assets and liabilities of these Sequoia, CAFL and Point HEI entities in accordance with GAAP.

We consolidate the assets and liabilities of certain Freddie Mac K-Series and SLST securitization trusts resulting from our investment in subordinate securities issued by these trusts, and in the case of certain CAFL securitizations, resulting from securities acquired through our acquisition of CoreVest. Additionally, we consolidate the assets and liabilities of Servicing Investment entities from our investment in servicer advance investments and excess MSRs. In each case, we maintain certain discretionary rights associated with the ownership of these investments that we determined reflected a controlling financial interest, as we have both the power to direct the activities that most significantly impact the economic performance of the VIEs and the right to receive benefits of and the obligation to absorb losses from the VIEs that could potentially be significant to the VIEs.

During the three months ended September 30, 2021, we did not call any of our consolidated CAFL entities. During the nine months ended September 30, 2021, we called one of our consolidated CAFL entities and repaid the associated ABS issued. In association with this call, we transferred $45 million (unpaid principal balance) of loans from held-for-investment to held-for-sale.

During 2020, we re-securitized subordinate securities we owned in our consolidated Freddie Mac SLST securitization trusts, through the transfer of these financial assets to a re-securitization trust that we sponsored. We retain a subordinate investment in the re-securitization trust and maintain certain discretionary rights associated with the ownership of this investment that we determined reflected a controlling financial interest in the entity, as we have both the power to direct the activities that most significantly impact the performance of the VIE and the right to receive benefits of and the obligation to absorb losses from the VIE that could potentially be significant to the VIE.

Analysis of Unconsolidated VIEs with Continuing Involvement

Since 2012, we have transferred residential loans to 50 Sequoia securitization entities sponsored by us that are still outstanding as of September 30, 2021, and accounted for these transfers as sales for financial reporting purposes, in accordance with ASC 860. We also determined we were not the primary beneficiary of these VIEs as we lacked the power to direct the activities that will have the most significant economic impact on the entities. For certain of these transfers to securitization entities, for the transferred loans where we held the servicing rights prior to the transfer and continued to hold the servicing rights following the transfer, we recorded mortgage servicing rights ("MSRs") on our consolidated balance sheets, and classified those MSRs as Level 3 assets. We also retained senior and subordinate securities in these securitizations that we classified as Level 3 assets. Our continuing involvement in these securitizations is limited to customary servicing obligations associated with retaining servicing rights (which we retain a third-party sub-servicer to perform) and the receipt of interest income associated with the securities we retained.

During the three months ended September 30, 2021, we called two of our unconsolidated Sequoia entities, and purchased $66 million (unpaid principal balance) of loans from the securitization trusts. In association with these calls, we realized a $6 million gain on the securities we owned from these called securitizations, which was recognized through Realized gains, net on our consolidated statements of income (loss). During the nine months ended September 30, 2021, we called six of our unconsolidated Sequoia entities, and purchased $167 million (unpaid principal balance) of loans from the securitization trusts. In association with these calls, we realized a $15 million gain on the securities we owned from these called securitizations, which was recognized through Realized gains, net on our consolidated statements of income (loss). At September 30, 2021, we held $151 million of loans for sale at fair value that were acquired following the calls.

Note 4. Principles of Consolidation - (continued)

The following table presents information related to securitization transactions that occurred during the three and nine months ended September 30, 2021 and 2020.

Table 4.3 – Securitization Activity Related to Unconsolidated VIEs Sponsored by Redwood

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	**2021**	**2020**	**2021**	**2020**
Principal balance of loans transferred	$ —	$ —	$ 1,231,803	$ 1,573,703
Trading securities retained, at fair value	—	—	7,774	43,362
AFS securities retained, at fair value	—	—	1,600	3,198

The following table summarizes the cash flows during the three and nine months ended September 30, 2021 and 2020 between us and the unconsolidated VIEs sponsored by us and accounted for as sales since 2012.

Table 4.4 – Cash Flows Related to Unconsolidated VIEs Sponsored by Redwood

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	**2021**	**2020**	**2021**	**2020**
Proceeds from new transfers	$ —	$ —	$ 1,266,063	$ 1,610,761
MSR fees received	1,095	2,280	4,038	7,445
Funding of compensating interest, net	54	4	(116)	(293)
Cash flows received on retained securities	16,724	5,873	42,117	19,242

The following table presents the key weighted-average assumptions used to value securities retained at the date of securitization for securitizations completed during the three and nine months ended September 30, 2021 and 2020.

Table 4.5 – Assumptions Related to Assets Retained from Unconsolidated VIEs Sponsored by Redwood

	Three Months Ended September 30, 2021		Three Months Ended September 30, 2020	
At Date of Securitization	**Senior IO Securities**	**Subordinate Securities**	**Senior IO Securities**	**Subordinate Securities**
Prepayment rates	N/A	N/A	N/A	N/A
Discount rates	N/A	N/A	N/A	N/A
Credit loss assumptions	N/A	N/A	N/A	N/A

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2020	
At Date of Securitization	**Senior IO Securities**	**Subordinate Securities**	**Senior IO Securities**	**Subordinate Securities**
Prepayment rates	11 %	11 %	41 %	13 %
Discount rates	15 %	6 %	16 %	6 %
Credit loss assumptions	0.23 %	0.23 %	0.21 %	0.22 %

Note 4. Principles of Consolidation - (continued)

The following table presents additional information at September 30, 2021 and December 31, 2020, related to unconsolidated VIEs sponsored by Redwood and accounted for as sales since 2012.

Table 4.6 – Unconsolidated VIEs Sponsored by Redwood

(In Thousands)	September 30, 2021	December 31, 2020
On-balance sheet assets, at fair value:		
Interest-only, senior and subordinate securities, classified as trading	$ 18,380	$ 20,982
Subordinate securities, classified as AFS	128,874	136,475
Mortgage servicing rights	6,068	8,413
Maximum loss exposure (1)	$ 153,322	$ 165,870
Assets transferred:		
Principal balance of loans outstanding	$ 5,542,244	$ 7,728,432
Principal balance of loans 30+ days delinquent	32,422	138,029

(1) Maximum loss exposure from our involvement with unconsolidated VIEs pertains to the carrying value of our securities and MSRs retained from these VIEs and represents estimated losses that would be incurred under severe, hypothetical circumstances, such as if the value of our interests and any associated collateral declines to zero. This does not include, for example, any potential exposure to representation and warranty claims associated with our initial transfer of loans into a securitization.

The following table presents key economic assumptions for assets retained from unconsolidated VIEs and the sensitivity of their fair values to immediate adverse changes in those assumptions at September 30, 2021 and December 31, 2020.

Table 4.7 – Key Assumptions and Sensitivity Analysis for Assets Retained from Unconsolidated VIEs Sponsored by Redwood

September 30, 2021 (Dollars in Thousands)	MSRs	Senior Securities (1)	Subordinate Securities
Fair value at September 30, 2021	$ 6,068	$ 18,380	$ 128,874
Expected life (in years)(2)	2	4	8
Prepayment speed assumption (annual CPR) (2)	36 %	25 %	32 %
Decrease in fair value from:			
10% adverse change	$ 502	$ 1,173	$ 57
25% adverse change	1,173	2,789	141
Discount rate assumption (2)	12 %	18 %	3.8 %
Decrease in fair value from:			
100 basis point increase	$ 134	$ 417	$ 9,353
200 basis point increase	261	812	17,829
Credit loss assumption (2)	N/A	0.34 %	0.34 %
Decrease in fair value from:			
10% higher losses	N/A	$ —	$ 2,190
25% higher losses	N/A	—	5,473

Note 4. Principles of Consolidation - (continued)

December 31, 2020 (Dollars in Thousands)	MSRs	Senior Securities (1)	Subordinate Securities
Fair value at December 31, 2020	$ 8,413	$ 17,333	$ 140,124
Expected life (in years)(2)	2	3	8
Prepayment speed assumption (annual CPR) (2)	37 %	31 %	33 %
Decrease in fair value from:			
10% adverse change	$ 906	$ 1,557	$ 452
25% adverse change	2,058	3,754	2,298
Discount rate assumption (2)	12 %	21 %	5 %
Decrease in fair value from:			
100 basis point increase	$ 196	$ 337	$ 9,769
200 basis point increase	380	659	18,650
Credit loss assumption (2)	N/A	0.41 %	0.41 %
Decrease in fair value from:			
10% higher losses	N/A	$ —	$ 2,409
25% higher losses	N/A	—	5,915

(1) Senior securities included $18 million and $17 million of interest-only securities at September 30, 2021 and December 31, 2020, respectively.

(2) Expected life, prepayment speed assumption, discount rate assumption, and credit loss assumption presented in the tables above represent weighted averages.

Analysis of Unconsolidated Third-Party VIEs

Third-party VIEs are securitization entities in which we maintain an economic interest, but do not sponsor. Our economic interest may include several securities and other investments from the same third-party VIE, and in those cases, the analysis is performed in consideration of all of our interests. The following table presents a summary of our interests in third-party VIEs at September 30, 2021 and December 31, 2020, grouped by asset type.

Table 4.8 – Third-Party Sponsored VIE Summary

(In Thousands)	September 30, 2021	December 31, 2020
Mortgage-Backed Securities		
Senior	$ 4,114	$ 11,131
Mezzanine	—	2,014
Subordinate	201,918	173,523
Total Mortgage-Backed Securities	206,032	186,668
Excess MSR	11,368	14,133
Total Investments in Third-Party Sponsored VIEs	$ 217,400	$ 200,801

We determined that we are not the primary beneficiary of these third-party VIEs, as we do not have the required power to direct the activities that most significantly impact the economic performance of these entities. Specifically, we do not service or manage these entities or otherwise solely hold decision making powers that are significant. As a result of this assessment, we do not consolidate any of the underlying assets and liabilities of these third-party VIEs – we only account for our specific interests in them.

Our assessments of whether we are required to consolidate a VIE may change in subsequent reporting periods based upon changing facts and circumstances pertaining to each VIE. Any related accounting changes could result in a material impact to our financial statements.

Note 5. Fair Value of Financial Instruments

For financial reporting purposes, we follow a fair value hierarchy established under GAAP that is used to determine the fair value of financial instruments. This hierarchy prioritizes relevant market inputs in order to determine an “exit price” at the measurement date, or the price at which an asset could be sold or a liability could be transferred in an orderly process that is not a forced liquidation or distressed sale. Level 1 inputs are observable inputs that reflect quoted prices for identical assets or liabilities in active markets. Level 2 inputs are observable inputs other than quoted prices for an asset or liability that are obtained through corroboration with observable market data. Level 3 inputs are unobservable inputs (e.g., our own data or assumptions) that are used when there is little, if any, relevant market activity for the asset or liability required to be measured at fair value.

In certain cases, inputs used to measure fair value fall into different levels of the fair value hierarchy. In such cases, the level at which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. Our assessment of the significance of a particular input requires judgment and considers factors specific to the asset or liability being measured.

Note 5. Fair Value of Financial Instruments - (continued)

The following table presents the carrying values and estimated fair values of assets and liabilities that are required to be recorded or disclosed at fair value at September 30, 2021 and December 31, 2020.

Table 5.1 – Carrying Values and Fair Values of Assets and Liabilities

	September 30, 2021		December 31, 2020	
(In Thousands)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Assets				
Residential loans, held-for-sale at fair value	$ 1,495,044	$ 1,495,044	$ 176,604	$ 176,604
Residential loans, held-for-investment	4,721,389	4,721,389	4,072,410	4,072,410
Business purpose loans, held-for-sale	466,346	466,346	245,394	245,394
Business purpose loans, held-for-investment	4,227,209	4,227,209	3,890,959	3,890,959
Multifamily loans	482,791	482,791	492,221	492,221
Real estate securities	353,286	353,286	344,125	344,125
Servicer advance investments (1)	170,062	170,062	231,489	231,489
MSRs (1)	12,389	12,389	8,815	8,815
Excess MSRs (1)	29,185	29,185	34,418	34,418
HEIs (1)	167,856	167,856	42,440	42,440
Other investments (2)	17,574	17,574	18,847	18,847
Cash and cash equivalents	556,989	556,989	461,260	461,260
Restricted cash	88,717	88,717	83,190	83,190
Derivative assets	51,103	51,103	53,238	53,238
REO (3)	18,863	21,657	8,413	9,229
Margin receivable (3)	16,503	16,503	4,758	4,758
FHLBC stock (3)	10	10	5,000	5,000
Pledged collateral (3)	—	—	1,177	1,177
Liabilities				
Short-term debt	$ 1,750,941	$ 1,750,941	$ 522,609	$ 522,609
Margin payable (4)	48,298	48,298	—	—
Guarantee obligation (4)	7,902	5,263	10,039	7,843
Point HEI non-controlling interest	16,722	16,722	—	—
Derivative liabilities	10,972	10,972	16,072	16,072
ABS issued, net				
Fair value	7,756,101	7,756,101	6,900,362	6,900,362
Amortized cost	427,724	428,059	200,299	204,892
Other long-term debt, net (5)	847,889	848,929	774,726	783,570
Convertible notes, net (5)	512,979	539,067	511,085	499,865
Trust preferred securities and subordinated notes, net (5)	138,709	94,163	138,674	80,910

(1) These investments are included in Other investments on our consolidated balance sheets.

(2) Comprised of financial instruments included in Other investments on our consolidated balance sheets.

(3) These assets are included in Other assets on our consolidated balance sheets.

(4) These liabilities are included in Accrued expenses and other liabilities on our consolidated balance sheets.

(5) These liabilities are included in Long-term debt, net on our consolidated balance sheets.

Note 5. Fair Value of Financial Instruments - (continued)

During the three and nine months ended September 30, 2021, we elected the fair value option for $11 million and $37 million of securities, respectively, $3.17 billion and $9.75 billion of residential loans (principal balance), respectively, $637 million and $1.55 billion of business purpose loans (principal balance), respectively, $5 million and $9 million of MSRs, respectively, and $11 million and $15 million of other financial instruments, respectively. Additionally, during the three months ended September 30, 2021, we elected the fair value option for $122 million of HEIs. We anticipate electing the fair value option for all future purchases of residential and business purpose loans that we intend to sell to third parties or transfer to securitizations, for business purpose bridge loans, HEIs, MSRs retained from sales of residential loans, and for certain securities we purchase, including IO securities and fixed-rate securities rated investment grade or higher.

The following table presents the assets and liabilities that are reported at fair value on our consolidated balance sheets on a recurring basis at September 30, 2021 and December 31, 2020, as well as the fair value hierarchy of the valuation inputs used to measure fair value.

Table 5.2 – Assets and Liabilities Measured at Fair Value on a Recurring Basis

September 30, 2021	Carrying	Fair Value Measurements Using		
(In Thousands)	Value	Level 1	Level 2	Level 3
Assets				
Residential loans	$ 6,216,433	$ —	$ —	$ 6,216,433
Business purpose loans	4,693,555	—	—	4,693,555
Multifamily loans	482,791	—	—	482,791
Real estate securities	353,286	—	—	353,286
Servicer advance investments	170,062	—	—	170,062
MSRs	12,389	—	—	12,389
Excess MSRs	29,185	—	—	29,185
HEIs	167,856	—	—	167,856
Other investments	17,574	—	—	17,574
Derivative assets	51,103	8,213	33,628	9,262
Liabilities				
Non-controlling interest in consolidated Point HEI entity	$ 16,722	$ —	$ —	$ 16,722
Derivative liabilities	10,972	8,348	74	2,550
ABS issued	7,756,101	—	—	7,756,101

Note 5. Fair Value of Financial Instruments - (continued)

December 31, 2020 (In Thousands)	**Carrying Value**	**Fair Value Measurements Using Level 1**	**Level 2**	**Level 3**
Assets				
Residential loans	$ 4,249,014	$ —	$ —	$ 4,249,014
Business purpose loans	4,136,353	—	—	4,136,353
Multifamily loans	492,221	—	—	492,221
Real estate securities	344,125	—	—	344,125
Servicer advance investments	231,489	—	—	231,489
MSRs	8,815	—	—	8,815
Excess MSRs	34,418	—	—	34,418
HEIs	42,440	—	—	42,440
Other investments	18,847	—	—	18,847
Derivative assets	53,238	18,260	19,951	15,027
Pledged collateral	1,177	1,177	—	—
FHLBC stock	5,000	—	5,000	—
Liabilities				
Derivative liabilities	$ 16,072	$ 15,495	$ —	$ 577
ABS issued	6,900,362	—	—	6,900,362

Note 5. Fair Value of Financial Instruments - (continued)

The following table presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2021.

Table 5.3 – Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Assets								
(In Thousands)	**Residential Loans**	**Business Purpose Loans**	**Multifamily Loans**	**Trading Securities**	**AFS Securities**	**Servicer Advance Investments**	**Excess MSRs**	**HEIs**	**Other**
Beginning balance - December 31, 2020	$ 4,249,014	$ 4,136,353	$ 492,221	$ 125,667	$ 218,458	$ 231,489	$ 34,418	$ 42,440	$ 27,662
Acquisitions	9,926,335	38,176	—	37,117	1,600	—	—	122,373	14,615
Originations	—	1,515,262	—	—	—	—	—	—	—
Sales	(6,958,669)	(9,484)	—	(32,704)	(4,785)	—	—	—	—
Principal paydowns	(1,051,390)	(942,096)	(5,685)	(1,783)	(45,120)	(58,248)	—	(10,220)	(9,224)
Gains (losses) in net income (loss), net	53,549	(25,658)	(3,745)	24,713	26,998	(3,179)	(5,233)	13,263	(2,974)
Unrealized losses in OCI, net	—	—	—	—	3,125	—	—	—	—
Other settlements, net (1)	(2,406)	(18,998)	—	—	—	—	—	—	(116)
Ending balance - September 30, 2021	$ 6,216,433	$ 4,693,555	$ 482,791	$ 153,010	$ 200,276	$ 170,062	$ 29,185	$ 167,856	$ 29,963

		Liabilities	
(In Thousands)	**Derivatives (2)**	**Point HEI Non-Controlling Interest**	**ABS Issued**
Beginning balance - December 31, 2020	$ 14,450	$ —	$ 6,900,362
Acquisitions	—	16,639	2,552,785
Principal paydowns	—	—	(1,500,357)
Gains (losses) in net income (loss), net	17,806	83	(196,689)
Other settlements, net (1)	(25,544)	—	—
Ending balance - September 30, 2021	$ 6,712	$ 16,722	$ 7,756,101

(1) Other settlements, net for residential and business purpose loans represents the transfer of loans to REO, and for derivatives, the settlement of forward sale commitments and the transfer of the fair value of loan purchase or interest rate lock commitments at the time loans are acquired to the basis of residential and single-family rental loans.

(2) For the purpose of this presentation, derivative assets and liabilities, which consist of loan purchase commitments and interest rate lock commitments, are presented on a net basis.

Note 5. Fair Value of Financial Instruments - (continued)

The following table presents the portion of gains or losses included in our consolidated statements of income (loss) that were attributable to Level 3 assets and liabilities recorded at fair value on a recurring basis and held at September 30, 2021 and 2020. Gains or losses incurred on assets or liabilities sold, matured, called, or fully written down during the three and nine months ended September 30, 2021 and 2020 are not included in this presentation.

Table 5.4 – Portion of Net Gains (Losses) Attributable to Level 3 Assets and Liabilities Still Held at September 30, 2021 and 2020 Included in Net Income

	Included in Net Income			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	**2021**	**2020**	**2021**	**2020**
Assets				
Residential loans at Redwood	$ 6,553	$ (107)	$ 9,371	$ (865)
Business purpose loans	18,810	21,155	19,829	17,901
Net investments in consolidated Sequoia entities [(1)]	2,885	7,700	11,779	(22,802)
Net investments in consolidated Freddie Mac SLST entities [(1)]	13,781	82,209	54,006	(33,087)
Net investments in consolidated Freddie Mac K-Series entity [(1)]	555	2,165	11,330	(11,014)
Net investments in consolidated CAFL SFR entities [(1)]	2,943	9,673	5,500	(41,048)
Net investment in consolidated Point HEI entity [(1)]	47	—	129	—
Trading securities	1,547	(3,549)	3,824	(80,358)
Servicer advance investments	(2,079)	25	(3,179)	(6,172)
MSRs	(235)	(2,376)	(49)	(16,798)
Excess MSRs	(803)	(1,127)	(5,233)	(7,650)
HEIs at Redwood	(41)	2,384	21	(4,286)
Loan purchase and interest rate lock commitments	9,021	10,791	9,261	10,773
Liabilities				
Non-controlling interest in consolidated Point HEI entity	$ (83)	$ —	$ (83)	$ —
Loan purchase commitments	(2,570)	420	(2,550)	(1,334)

(1) Represents the portion of net gains or losses included in our consolidated statements of income (loss) related to loans, securitized HEIs, and the associated ABS issued at our consolidated securitization entities held at September 30, 2021 and 2020, which netted together represent the change in value of our investments at the consolidated VIEs, excluding REO.

Note 5. Fair Value of Financial Instruments - (continued)

The following table presents information on assets recorded at fair value on a non-recurring basis at September 30, 2021. This table does not include the carrying value and gains or losses associated with the asset types below that were not recorded at fair value on our consolidated balance sheets at September 30, 2021.

Table 5.5 – Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis at September 30, 2021

September 30, 2021 (In Thousands)	Carrying Value	Fair Value Measurements Using			Gain (Loss) for	
		Level 1	Level 2	Level 3	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
Assets						
REO	$ 622	$ —	$ —	$ 622	$ (1)	$ (4)

The following table presents the net market valuation gains and losses recorded in each line item of our consolidated statements of income for the three and nine months ended September 30, 2021 and 2020.

Note 5. Fair Value of Financial Instruments - (continued)

Table 5.6 – Market Valuation Gains and Losses, Net

(In Thousands)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Mortgage Banking Activities, Net				
Residential loans held-for-sale, at fair value	$ 9,045	$ (478)	$ 57,145	$ (15,972)
Residential loan purchase commitments	18,817	13,067	18,351	35,123
Single-family rental loans held-for-sale, at fair value	19,205	43,191	54,675	55,868
Single-family rental loan interest rate lock commitments	(744)	—	—	341
Bridge loans	3,433	938	6,702	(4,256)
Trading securities (1)	32	—	(342)	—
Risk management derivatives, net	3,539	(99)	38,117	(52,931)
Total mortgage banking activities, net (2)	$ 53,327	$ 56,619	$ 174,648	$ 18,173
Investment Fair Value Changes, Net				
Residential loans at Redwood	$ 816	$ 218	$ 2,423	$ (93,314)
Single-family rental loans held-for-investment	—	—	—	(20,806)
Bridge loans held-for-investment	900	6,812	4,142	(10,016)
Trading securities	1,546	(3,600)	25,067	(224,679)
Servicer advance investments	(2,079)	26	(3,179)	(6,172)
Excess MSRs	(803)	(1,127)	(5,233)	(7,650)
Net investments in Legacy Sequoia entities (3)	(247)	(81)	(1,162)	(702)
Net investments in Sequoia entities (3)	3,314	7,851	13,118	(22,065)
Net investments in Freddie Mac SLST entities (3)	13,849	82,214	54,282	(33,081)
Net investment in Freddie Mac K-Series entity (3)	554	2,166	11,330	(82,744)
Net investments in CAFL entities (3)	2,943	9,673	6,354	(41,048)
Net investment in Point HEI entity (3)	47	—	47	—
HEIs at Redwood	5,622	2,384	13,017	(4,286)
Other investments	(385)	67	50	(4,825)
Risk management derivatives, net	—	—	—	(59,142)
Credit recoveries (losses) on AFS securities	—	444	388	(1,027)
Total investment fair value changes, net	$ 26,077	$ 107,047	$ 120,644	$ (611,557)
Other Income				
MSRs	$ (989)	$ (4,783)	$ (3,236)	$ (27,346)
Risk management derivatives, net	—	—	—	13,966
Total other income (4)	$ (989)	$ (4,783)	$ (3,236)	$ (13,380)
Total Market Valuation Gains (Losses), Net	$ 78,415	$ 158,883	$ 292,056	$ (606,764)

(1) Represents fair value changes on trading securities that are being used along with risk management derivatives to manage the mark-to-market risks associated with our residential mortgage banking operations.

(2) Mortgage banking activities, net presented above does not include fee income from loan originations or acquisitions, provisions for repurchases expense, and other expenses that are components of Mortgage banking activities, net presented on our consolidated statements of income (loss), as these amounts do not represent market valuation changes.

(3) Includes changes in fair value of the residential loans held-for-investment, securitized Point HEIs, REO and the ABS issued at the entities, which netted together represent the change in value of our investments at the consolidated VIEs.

(4) Other income presented above does not include net MSR fee income or provisions for repurchases for MSRs, as these amounts do not represent market valuation adjustments.

Note 5. Fair Value of Financial Instruments - (continued)

At September 30, 2021, our valuation policy and processes had not changed from those described in our Annual Report on Form 10-K for the year ended December 31, 2020. The following table provides quantitative information about the significant unobservable inputs used in the valuation of our Level 3 assets and liabilities measured at fair value.

Table 5.7 – Fair Value Methodology for Level 3 Financial Instruments

September 30, 2021			Input Values	
(Dollars in Thousands, except Input Values)	Fair Value	Unobservable Input	Range	Weighted Average[1]
Assets				
Residential loans, at fair value:				
Jumbo fixed-rate loans	$ 624,477	Prepayment rate (annual CPR)	20 - 20 %	20 %
		Whole loan spread to TBA price	$ 3.00 - $ 3.00	$ 3.00
		Whole loan spread to swap rate	202 - 202 bps	202 bps
Jumbo loans committed to sell	870,568	Whole loan committed sales price	$ 101.90 - $ 103.32	$ 102.46
Loans held by Legacy Sequoia [2]	242,234	Liability price	N/A	N/A
Loans held by Sequoia [2]	2,479,750	Liability price	N/A	N/A
Loans held by Freddie Mac SLST [2]	1,999,405	Liability price	N/A	N/A
Business purpose loans:				
Single-family rental loans	466,346	Senior credit spread	65 - 65 bps	65 bps
		Subordinate credit spread	110 - 1,523 bps	401 bps
		Senior credit support	35 - 35 %	35 %
		IO discount rate	9 - 9 %	9 %
		Prepayment rate (annual CPR)	3 - 3 %	3 %
		Non-securitizable loan dollar price	$ 76 - $ 111	$ 101
Single-family rental loans held by CAFL [2]	3,402,410	Liability price	N/A	N/A
Bridge loans	824,799	Discount rate	4 - 15 %	6 %
Multifamily loans held by Freddie Mac K-Series [2]	482,791	Liability price	N/A	N/A
Trading and AFS securities	353,286	Discount rate	2 - 38 %	7 %
		Prepayment rate (annual CPR)	8 - 58 %	27 %
		Default rate	— - 25 %	4 %
		Loss severity	— - 50 %	24 %
		CRT dollar price	$ 96 - $ 116	$ 104
Servicer advance investments	170,062	Discount rate	2 - 3 %	2 %
		Prepayment rate (annual CPR)	20 - 30 %	21 %
		Expected remaining life [3]	5 - 5 years	5 years
		Mortgage servicing income	2 - 11 bps	9 bps
MSRs	12,389	Discount rate	12 - 15 %	13 %
		Prepayment rate (annual CPR)	6 - 80 %	28 %
		Per loan annual cost to service	$ 95 - $ 95	$ 95
Excess MSRs	29,185	Discount rate	13 - 16 %	15 %
		Prepayment rate (annual CPR)	21 - 30 %	25 %
		Excess mortgage servicing income	8 - 17 bps	11 bps

Note 5. Fair Value of Financial Instruments - (continued)

Table 5.7 – Fair Value Methodology for Level 3 Financial Instruments (continued)

September 30, 2021

(Dollars in Thousands, except Input Values)	Fair Value	Unobservable Input	Input Values: Range		Input Values: Weighted Average [(1)]
Assets (continued)					
HEIs at Redwood	$ 414	Dollar Price	$ 92	- $ 124	$ 105
HEIs held by Point HEI entity	167,442	Liability price		N/A	N/A
REO	622	Loss severity	11	- 40 %	22 %
Residential loan purchase commitments, net	6,712	Committed sales price	$ 102.11	- $ 102.77	$ 102.54
		Pull-through rate	4	- 100 %	71 %
		Whole loan spread to TBA price	$ 3.00	- $ 3.00	$ 3.00
		Whole loan spread to swap rate	185	- 202 bps	201 bps
		Prepayment rate (annual CPR)	20	- 20 %	20 %
Liabilities					
ABS issued [(2)]:					
At consolidated Sequoia entities	2,482,746	Discount rate	1	- 18 %	3 %
		Prepayment rate (annual CPR)	7	- 55 %	33 %
		Default rate	—	- 36 %	2 %
		Loss severity	25	- 50 %	32 %
At consolidated CAFL SFR entities [(4)]	3,126,405	Discount rate	1	- 13 %	3 %
		Prepayment rate (annual CPR)	3	- 3 %	3 %
		Default rate	2	- 18 %	9 %
		Loss severity	30	- 30 %	30 %
At consolidated Freddie Mac SLST entities	1,550,111	Discount rate	2	- 7 %	3 %
		Prepayment rate (annual CPR)	6	- 8 %	6 %
		Default rate	9	- 10 %	9 %
		Loss severity	35	- 35 %	35 %
At consolidated Freddie Mac K-Series entities [(4)]	451,402	Discount rate	1	- 8 %	2 %
At consolidated Point HEI entity [(4)]	145,437	Discount rate	3	- 15 %	4 %
		Prepayment rate (annual CPR)	20	- 20 %	20 %
		Default rate	6	- 6 %	6 %
		Loss severity	25	- 25 %	25 %
		Home price appreciation	3	- 4 %	3 %

(1) The weighted average input values for all loan types are based on the unpaid principal balance. The weighted average input values for all other assets and liabilities are based on relative fair value.

(2) The fair value of the loans and HEIs held by consolidated entities was based on the fair value of the ABS issued by these entities and the securities and other investments we own in those entities, which we determined were more readily observable in accordance with accounting guidance for collateralized financing entities. At September 30, 2021, the fair value of securities we owned at the consolidated Sequoia, CAFL SFR, Freddie Mac SLST, Freddie Mac K-Series, and Point HEI entities was $240 million, $288 million, $451 million, $31 million, and $10 million, respectively.

(3) Represents the estimated average duration of outstanding servicer advances at a given point in time (not taking into account new advances made with respect to the pool).

(4) As a market convention, certain securities are priced to a no-loss yield and therefore do not include default and loss severity assumptions.

Note 5. Fair Value of Financial Instruments - (continued)

Determination of Fair Value

We generally use both market comparable information and discounted cash flow modeling techniques to determine the fair value of our Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the preceding table. Accordingly, a significant increase or decrease in any of these inputs - such as anticipated credit losses, prepayment rates, interest rates, or other valuation assumptions - in isolation would likely result in a significantly lower or higher fair value measurement.

Included in *Note 5* to the Consolidated Financial Statements of our Annual Report on Form 10-K for the year endedDecember 31, 2020 is a more detailed description of our financial instruments measured at fair value and their significant inputs, as well as the general classification of such instruments pursuant to the Level 1, Level 2, and Level 3 valuation hierarchy.

In addition to the Level 3 financial instruments included in Table 5.7 above, certain of our Other investments (comprised of strategic investments in early-stage start-up companies) are Level 3 financial instruments that we account for under the fair value option. These investments generally take the form of equity or debt with conversion features and do not have readily determinable fair values. We generally value these assets based on our original investment price until there is an observable price change in an orderly transaction for the identical or similar investment of the same issuer.

Note 6. Residential Loans

We acquire residential loans from third-party originators and may sell or securitize these loans or hold them for investment.The following table summarizes the classifications and carrying values of the residential loans owned at Redwood and at consolidated Sequoia and Freddie Mac SLST entities at September 30, 2021 and December 31, 2020.

Table 6.1 – Classifications and Carrying Values of Residential Loans

September 30, 2021 (In Thousands)	Redwood	Legacy Sequoia	Sequoia	Freddie Mac SLST	Total
Held-for-sale at fair value	$ 1,495,079	$ —	$ —	$ —	$ 1,495,079
Held-for-investment at fair value	—	242,234	2,479,750	1,999,405	4,721,389
Total Residential Loans	$ 1,495,079	$ 242,234	$ 2,479,750	$ 1,999,405	$ 6,216,468

December 31, 2020 (In Thousands)	Redwood	Legacy Sequoia	Sequoia	Freddie Mac SLST	Total
Held-for-sale at fair value	$ 176,641	$ —	$ —	$ —	$ 176,641
Held-for-investment at fair value	—	285,935	1,565,322	2,221,153	4,072,410
Total Residential Loans	$ 176,641	$ 285,935	$ 1,565,322	$ 2,221,153	$ 4,249,051

At September 30, 2021, we owned mortgage servicing rights associated with $1.40 billion (principal balance) of residential loans owned at Redwood that were purchased from third-party originators. The value of these MSRs is included in the carrying value of the associated loans on our consolidated balance sheets. We contract with licensed sub-servicers that perform servicing functions for these loans.

Note 6. Residential Loans - (continued)

Residential Loans Held-for-Sale

At Fair Value

The following table summarizes the characteristics of residential loans held-for-sale at September 30, 2021 and December 31, 2020.

Table 6.2 – Characteristics of Residential Loans Held-for-Sale

(Dollars in Thousands)	September 30, 2021	December 31, 2020
Number of loans	1,958	198
Unpaid principal balance	$ 1,464,767	$ 172,748
Fair value of loans	$ 1,495,079	$ 176,641
Market value of loans pledged as collateral under short-term borrowing agreements	$ 1,478,424	$ 156,355
Delinquency information		
Number of loans with 90+ day delinquencies	4	1
Unpaid principal balance of loans with 90+ day delinquencies	$ 3,159	$ 1,882
Fair value of loans with 90+ day delinquencies	$ 2,490	$ 1,223
Number of loans in foreclosure	—	—

The following table provides the activity of residential loans held-for-sale during the three and nine months ended September 30, 2021 and 2020.

Table 6.3 – Activity of Residential Loans Held-for-Sale

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2021	2020	2021	2020
Principal balance of loans acquired	$ 3,167,186	$ 172,162	$ 9,747,867	$ 2,859,813
Principal balance of loans sold	2,360,862	87,868	6,787,490	4,750,615
Principal balance of loans transferred to HFI	448,878	—	1,623,000	274,048
Net market valuation gains (losses) recorded (1)	9,861	(478)	59,568	(15,972)

(1) Net market valuation gains (losses) on residential loans held-for-sale are recorded primarily through Mortgage banking activities, net on our consolidated statements of income (loss).

Note 6. Residential Loans - (continued)

Residential Loans Held-for-Investment at Fair Value

We invest in residential subordinate securities issued by Legacy Sequoia, Sequoia, and Freddie Mac SLST securitization trusts and consolidate the underlying residential loans owned by these entities for financial reporting purposes in accordance with GAAP. The following tables summarize the characteristics of the residential loans owned at consolidated Sequoia and Freddie Mac SLST entities at September 30, 2021 and December 31, 2020.

Table 6.4 – Characteristics of Residential Loans Held-for-Investment

September 30, 2021 **(Dollars in Thousands)**	**Legacy Sequoia**	**Sequoia**	**Freddie Mac SLST**
Number of loans	1,653	3,022	12,444
Unpaid principal balance	$ 278,815	$ 2,447,402	$ 2,022,724
Fair value of loans	$ 242,234	$ 2,479,750	$ 1,999,405
Delinquency information			
Number of loans with 90+ day delinquencies (1)	40	30	1,168
Unpaid principal balance of loans with 90+ day delinquencies	$ 14,038	$ 24,438	$ 209,913
Fair value of loans with 90+ day delinquencies (2)	N/A	N/A	N/A
Number of loans in foreclosure	18	4	305
Unpaid principal balance of loans in foreclosure	$ 4,416	$ 2,863	$ 52,319

December 31, 2020 **(Dollars in Thousands)**	**Legacy Sequoia**	**Sequoia**	**Freddie Mac SLST**
Number of loans	1,908	2,177	13,605
Unpaid principal balance	$ 333,474	$ 1,550,454	$ 2,247,771
Fair value of loans	$ 285,935	$ 1,565,322	$ 2,221,153
Delinquency information			
Number of loans with 90+ day delinquencies (1)	52	94	2,110
Unpaid principal balance of loans with 90+ day delinquencies	$ 17,285	$ 74,742	$ 389,245
Fair value of loans with 90+ day delinquencies (2)	N/A	N/A	N/A
Number of loans in foreclosure	21	3	245
Unpaid principal balance of loans in foreclosure	$ 4,939	$ 2,251	$ 38,610

(1) For loans held at consolidated entities, the number of loans greater than 90 days delinquent includes loans in foreclosure.

(2) The fair value of the loans held by consolidated entities was based on the fair value of the ABS issued by these entities, including securities we own, which we determined were more readily observable, in accordance with accounting guidance for collateralized financing entities.

Note 6. Residential Loans - (continued)

The following table provides the activity of residential loans held-for-investment at Redwood during the three and nine months ended September 30, 2021 and 2020.

Table 6.5 – Activity of Residential Loans Held-for-Investment at Redwood

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	**2021**	**2020**	**2021**	**2020**
Fair value of loans transferred from HFS to HFI	$ —	$ —	$ —	$ 13,258
Fair value of loans transferred from HFI to HFS	—	—	—	1,870,986
Net market valuation gains (losses) recorded (1)	—	218	—	(93,314)

(1) Subsequent to the transfer of these loans to our investment portfolio, net market valuation gains (losses) on residential loans held-for-investment at Redwood are recorded through Investment fair value changes, net on our consolidated statements of income (loss).

The following table provides the activity of residential loans held-for-investment at consolidated entities during the three and nine months ended September 30, 2021 and 2020.

Table 6.6 – Activity of Residential Loans Held-for-Investment at Consolidated Entities

	Three Months Ended September 30, 2021			Three Months Ended September 30, 2020		
(In Thousands)	**Legacy Sequoia**	**Sequoia**	**Freddie Mac SLST**	**Legacy Sequoia**	**Sequoia**	**Freddie Mac SLST**
Fair value of loans transferred from HFS to HFI (1)	N/A	$ 464,189	N/A	N/A	$ —	N/A
Net market valuation gains (losses) recorded (2)	(2,580)	(11,663)	(13,836)	21,938	(5,175)	159,687

	Nine Months Ended September 30, 2021			Nine Months Ended September 30, 2020		
(In Thousands)	**Legacy Sequoia**	**Sequoia**	**Freddie Mac SLST**	**Legacy Sequoia**	**Sequoia**	**Freddie Mac SLST**
Fair value of loans transferred from HFS to HFI (1)	N/A	$ 1,669,683	N/A	N/A	$ 270,506	N/A
Net market valuation gains (losses) recorded (2)	9,896	(27,076)	5,177	(38,996)	(21,727)	15,254

(1) Represents the transfer of loans from held-for-sale to held-for-investment associated with Sequoia securitizations.
(2) For loans held at our consolidated Legacy Sequoia, Sequoia, and Freddie Mac SLST entities, market value changes are based on the estimated fair value of the associated ABS issued, pursuant to collateralized financing entity guidelines. The net impact to our income statement associated with our economic investments in these securitization entities is presented in Table 4.2.

Note 7. Business Purpose Loans

We originate and invest in business purpose loans, including single-family rental ("SFR") loans and bridge loans.The following table summarizes the classifications and carrying values of the business purpose loans owned at Redwood and at consolidated CAFL entities at September 30, 2021 and December 31, 2020.

Table 7.1 – Classifications and Carrying Values of Business Purpose Loans

September 30, 2021	**Single-Family Rental**		**Bridge**		
(In Thousands)	**Redwood**	**CAFL**	**Redwood**	**CAFL**	**Total**
Held-for-sale at fair value	$ 466,346	—	$ —	$ —	$ 466,346
Held-for-investment at fair value	—	3,402,410	548,445	276,354	4,227,209
Total Business Purpose Loans	$ 466,346	$ 3,402,410	$ 548,445	$ 276,354	$ 4,693,555

December 31, 2020	**Single-Family Rental**		**Bridge**		
(In Thousands)	**Redwood**	**CAFL**	**Redwood**	**CAFL**	**Total**
Held-for-sale at fair value	$ 245,394	$ —	$ —	$ —	$ 245,394
Held-for-investment at fair value	—	3,249,194	641,765	—	3,890,959
Total Business Purpose Loans	$ 245,394	$ 3,249,194	$ 641,765	$ —	$ 4,136,353

Single-Family Rental Loans

Nearly all of the outstanding single-family rental loans at September 30, 2021 were first-lien, fixed-rate loans with original maturities of five, seven, or ten years, with less than 1% with original maturities of 30 years.

Bridge Loans

The outstanding bridge loans held-for-investment at September 30, 2021 were first-lien, interest-only loans with original maturities of six to 24 months and were comprised of 69% one-month LIBOR-indexed adjustable-rate loans and31% fixed-rate loans.

At September 30, 2021, we had a $426 million commitment to fund bridge loans. See *Note 16* for additional information on this commitment.

Note 7. Business Purpose Loans - (continued)

The following table provides the activity of business purpose loans at Redwood during the three and nine months ended September 30, 2021 and 2020.

Table 7.2 – Activity of Business Purpose Loans at Redwood

	Three Months Ended September 30, 2021		Three Months Ended September 30, 2020	
(In Thousands)	**SFR at Redwood**	**Bridge at Redwood**	**SFR at Redwood**	**Bridge at Redwood**
Principal balance of loans originated	$ 392,620	$ 208,938	$ 195,744	$ 65,517
Principal balance of loans acquired	2,463	35,713	—	—
Principal balance of loans sold to third parties	—	253	7,695	1,567
Fair value of loans transferred from HFS to HFI[(1)]	332,670	276,354	326,405	N/A
Fair value of loans transferred from HFI to HFS[(2)]	—	N/A	—	N/A
Mortgage banking activities income (loss) recorded[(3)]	19,205	3,691	43,191	29
Investment fair value changes recorded[(4)]	—	900	—	6,812

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2020	
(In Thousands)	**SFR at Redwood**	**Bridge at Redwood**	**SFR at Redwood**	**Bridge at Redwood**
Principal balance of loans originated	$ 957,935	$ 557,327	$ 631,749	$ 351,353
Principal balance of loans acquired	2,463	35,713	—	—
Principal balance of loans sold to third parties	—	9,484	33,843	23,860
Fair value of loans transferred from HFS to HFI[(1)]	799,375	276,354	925,437	N/A
Fair value of loans transferred from HFI to HFS[(2)]	44,922	N/A	—	N/A
Mortgage banking activities income (loss) recorded[(3)]	54,675	5,212	54,731	(3,412)
Investment fair value changes recorded[(4)]	—	4,142	(20,806)	(10,016)

(1) Represents the transfer of loans from held-for-sale to held-for-investment associated with CAFL securitizations.

(2) Represents the transfer of single-family rental loans from held-for-investment to held-for-sale associated with the call of a consolidated CAFL securitization during the second quarter of 2021.

(3) Represents net market valuation changes from the time a loan is originated to when it is sold or transferred to our investment portfolio. Additionally, for the three and nine months ended September 30, 2021, we recorded loan origination fee income of $9 million and $22 million, respectively, through Mortgage banking activities, net on our consolidated statements of income (loss). For the three and nine months ended September 30, 2020, we recorded loan origination fee income of $3 million and $13 million, respectively, through Mortgage banking activities, net on our consolidated statements of income (loss).

(4) Represents net market valuation changes for loans classified as held-for-investment.

Note 7. Business Purpose Loans - (continued)

Business Purpose Loans Held-for-Investment at CAFL

We invest in securities issued by CAFL securitizations sponsored by CoreVest and consolidate the underlying single-family rental loans and bridge loans owned by these entities. During the nine months ended September 30, 2021, we transferred three CAFL loans with a fair value of $12 million to REO, which is included in Other assets on our consolidated balance sheets.

The following table provides the activity of business purpose loans held-for-investment at CAFL during the three and nine months ended September 30, 2021 and 2020.

Table 7.3 – Activity of Business Purpose Loans Held-for-Investment at CAFL

	Three Months Ended September 30, 2021		Three Months Ended September 30, 2020	
(In Thousands)	**SFR at CAFL**	**Bridge at CAFL**	**SFR at CAFL**	**Bridge at CAFL**
Net market valuation gains (losses) recorded (1)	$ (34,803)	$ —	$ 88,271	$ —

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2020	
(In Thousands)	**SFR at CAFL**	**Bridge at CAFL**	**SFR at CAFL**	**Bridge at CAFL**
Net market valuation gains (losses) recorded (1)	$ (96,934)	$ —	$ (14,319)	$ —

(1) For loans held at our consolidated CAFL entities, market value changes are based on the estimated fair value of the associated ABS issued, including securities we own, pursuant to collateralized financing entity guidelines. The net impact to our income statement associated with our economic investments in these securitization entities is presented in Table 4.2.

REO

See *Note 12* for detail on BPL loans transferred to REO during 2021.

Note 7. Business Purpose Loans - (continued)

Business Purpose Loan Characteristics

The following tables summarize the characteristics of the business purpose loans owned at Redwood and at consolidated CAFL entities at September 30, 2021 and December 31, 2020.

Table 7.4 – Characteristics of Business Purpose Loans

September 30, 2021 **(Dollars in Thousands)**	**SFR at Redwood**	**SFR at CAFL**	**Bridge at Redwood**	**Bridge at CAFL**
Number of loans	123	1,157	1,092	1,589
Unpaid principal balance	$ 451,295	$ 3,207,118	$ 550,711	$ 272,243
Fair value of loans	$ 466,346	$ 3,402,411	$ 548,445	$ 276,354
Weighted average coupon	4.57 %	5.27 %	7.48 %	7.19 %
Weighted average remaining loan term (years)	7	6	1	1
Market value of loans pledged as collateral under short-term debt facilities	$ 127,930	N/A	$ 126,725	N/A
Market value of loans pledged as collateral under long-term debt facilities	$ 298,014	N/A	$ 373,597	N/A
Delinquency information				
Number of loans with 90+ day delinquencies (1)	7	15	35	—
Unpaid principal balance of loans with 90+ day delinquencies	$ 5,067	$ 39,423	$ 30,132	$ —
Fair value of loans with 90+ day delinquencies (2)	$ 2,664	N/A	$ 26,525	$ —
Number of loans in foreclosure	6	10	34	—
Unpaid principal balance of loans in foreclosure	$ 4,978	$ 22,004	$ 26,177	$ —
Fair value of loans in foreclosure (2)	$ 2,619	N/A	$ 22,570	$ —

December 31, 2020 **(Dollars in Thousands)**	**SFR at Redwood**	**SFR at CAFL**	**Bridge at Redwood**	**Bridge at CAFL**
Number of loans	65	1,094	1,725	—
Unpaid principal balance	$ 234,475	$ 3,017,137	$ 649,532	$ —
Fair value of loans	$ 245,394	$ 3,249,194	$ 641,765	$ —
Weighted average coupon	4.84 %	5.44 %	8.09 %	— %
Weighted average remaining loan term (years)	8	5	1	—
Market value of loans pledged as collateral under short-term debt facilities	$ 34,098	N/A	$ 92,931	N/A
Market value of loans pledged as collateral under long-term debt facilities	$ 154,774	N/A	$ 544,151	N/A
Delinquency information				
Number of loans with 90+ day delinquencies (1)	10	22	31	—
Unpaid principal balance of loans with 90+ day delinquencies	$ 7,127	$ 61,440	$ 39,415	$ —
Fair value of loans with 90+ day delinquencies (2)	$ 6,143	N/A	$ 33,605	$ —
Number of loans in foreclosure	—	10	25	—
Unpaid principal balance of loans in foreclosure	$ —	$ 24,745	$ 38,552	$ —
Fair value of loans in foreclosure (2)	$ —	N/A	$ 33,066	$ —

(1) The number of loans greater than 90 days delinquent includes loans in foreclosure.

(2) The fair value of the loans held by consolidated entities was based on the fair value of the ABS issued by these entities, including securities we own, which we determined were more readily observable, in accordance with accounting guidance for collateralized financing entities.

Note 8. Multifamily Loans

We invest in multifamily subordinate securities issued by a Freddie Mac K-Series securitization trust and consolidate the underlying multifamily loans owned by this entity for financial reporting purposes in accordance with GAAP. The following table summarizes the characteristics of the multifamily loans consolidated at Redwood at September 30, 2021 and December 31, 2020.

Table 8.1 – Characteristics of Multifamily Loans

(Dollars in Thousands)	September 30, 2021	December 31, 2020
Number of loans	28	28
Unpaid principal balance	$ 457,123	$ 462,808
Fair value of loans	$ 482,791	$ 492,221
Weighted average coupon	4.25 %	4.25 %
Weighted average remaining loan term (years)	4	5
Delinquency information		
Number of loans with 90+ day delinquencies	—	—
Number of loans in foreclosure	—	—

The outstanding multifamily loans held-for-investment at the consolidated Freddie Mac K-Series entity at September 30, 2021 were first-lien, fixed-rate loans that were originated in 2015. The following table provides the activity of multifamily loans held-for-investment during the three and nine months ended September 30, 2021 and 2020.

Table 8.2 – Activity of Multifamily Loans Held-for-Investment

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2021	2020	2021	2020
Net market valuation gains (losses) recorded (1)	$ (487)	$ 2,340	$ (3,745)	$ (61,500)

(1) Net market valuation gains (losses) on multifamily loans held-for-investment are recorded through Investment fair value changes, net on our consolidated statements of income (loss). For loans held at our consolidated Freddie Mac K-Series entity, market value changes are based on the estimated fair value of the associated ABS issued, including securities we own, pursuant to collateralized financing entity guidelines. The net impact to our income statement associated with our economic investment in these securitization entities is presented in Table 4.2.

Note 9. Real Estate Securities

We invest in real estate securities that we create and retain from our Sequoia securitizations or acquire from third parties.The following table presents the fair values of our real estate securities by type at September 30, 2021 and December 31, 2020.

Table 9.1 – Fair Values of Real Estate Securities by Type

(In Thousands)	September 30, 2021	December 31, 2020
Trading	$ 153,010	$ 125,667
Available-for-sale	200,276	218,458
Total Real Estate Securities	$ 353,286	$ 344,125

Our real estate securities include mortgage-backed securities, which are presented in accordance with their general position within a securitization structure based on their rights to cash flows. Senior securities are those interests in a securitization that generally have the first right to cash flows and are last in line to absorb losses. Mezzanine securities are interests that are generally subordinate to senior securities in their rights to receive cash flows, and have subordinate securities below them that are first to absorb losses. Subordinate securities are all interests below mezzanine. Exclusive of our re-performing loan securities, nearly all of our residential securities are supported by collateral that was designated as prime at the time of issuance.

Note 9. Real Estate Securities - (continued)

Trading Securities

We elected the fair value option for certain securities and classify them as trading securities. Our trading securities include both residential and multifamily mortgage-backed securities, and our residential securities also include securities backed by re-performing loans ("RPL"). The following table presents the fair value of trading securities by position and collateral type at September 30, 2021 and December 31, 2020.

Table 9.2 – Fair Value of Trading Securities by Position

(In Thousands)	September 30, 2021	December 31, 2020
Senior		
Interest-only securities (1)	$ 22,494	$ 28,464
Total Senior	22,494	28,464
Mezzanine		
Sequoia securities	—	3,649
Total Mezzanine	—	3,649
Subordinate		
RPL securities	64,845	47,448
Multifamily securities	11,298	5,592
Other third-party residential securities	54,373	40,514
Total Subordinate	130,516	93,554
Total Trading Securities	$ 153,010	$ 125,667

(1) Includes $15 million and $13 million of Sequoia certificated mortgage servicing rights at September 30, 2021 and December 31, 2020, respectively.

The following table presents the unpaid principal balance of trading securities by position and collateral type at September 30, 2021 and December 31, 2020.

Table 9.3 – Unpaid Principal Balance of Trading Securities by Position

(In Thousands)	September 30, 2021	December 31, 2020
Senior (1)	$ —	$ —
Mezzanine	—	3,577
Subordinate	216,771	242,278
Total Trading Securities	$ 216,771	$ 245,855

(1) Our senior trading securities include interest-only securities, for which there is no principal balance.

The following table provides the activity of trading securities during the three and nine months ended September 30, 2021 and 2020.

Table 9.4 – Trading Securities Activity

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2021	2020	2021	2020
Principal balance of securities acquired	$ 10,750	$ 11,000	$ 28,380	$ 77,721
Principal balance of securities sold	750	15,903	53,561	720,517
Net market valuation gains (losses) recorded (1)	1,578	(3,600)	24,725	(224,679)

(1) Net market valuation gains (losses) on trading securities are recorded through Investment fair value changes, net and Mortgage banking activities, net on our consolidated statements of income (loss).

Note 9. Real Estate Securities - (continued)

AFS Securities

The following table presents the fair value of our available-for-sale securities by position and collateral type at September 30, 2021 and December 31, 2020.

Table 9.5 – Fair Value of Available-for-Sale Securities by Position

(In Thousands)	September 30, 2021	December 31, 2020
Mezzanine		
Other third-party residential securities	$ —	$ 2,014
Total Mezzanine	—	2,014
Subordinate		
Sequoia securities	128,874	136,475
Multifamily securities	31,320	43,663
Other third-party residential securities	40,082	36,306
Total Subordinate	200,276	216,444
Total AFS Securities	$ 200,276	$ 218,458

The following table provides the activity of available-for-sale securities during the three and nine months ended September 30, 2021 and 2020.

Table 9.6 – Available-for-Sale Securities Activity

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2021	2020	2021	2020
Fair value of securities acquired	$ —	$ 25,483	$ 1,600	$ 56,664
Fair value of securities sold	—	—	4,785	55,193

We often purchase AFS securities at a discount to their outstanding principal balances. To the extent we purchase an AFS security that has a likelihood of incurring a loss, we do not amortize into income the portion of the purchase discount that we do not expect to collect due to the inherent credit risk of the security. We may also expense a portion of our investment in the security to the extent we believe that principal losses will exceed the purchase discount. We designate any amount of unpaid principal balance that we do not expect to receive and thus do not expect to earn or recover as a credit reserve on the security. Any remaining net unamortized discounts or premiums on the security are amortized into income over time using the effective yield method.

At September 30, 2021, we had $28 million of AFS securities with contractual maturities less than five years, $4 million with contractual maturities greater than five years but less than ten years, and the remainder of our AFS securities had contractual maturities greater than ten years.

Note 9. Real Estate Securities - (continued)

The following table presents the components of carrying value (which equals fair value) of AFS securities at September 30, 2021 and December 31, 2020.

Table 9.7 – Carrying Value of AFS Securities

September 30, 2021 (In Thousands)	Mezzanine	Subordinate	Total
Principal balance	$ —	$ 238,459	$ 238,459
Credit reserve	—	(29,448)	(29,448)
Unamortized discount, net	—	(88,108)	(88,108)
Amortized cost	—	120,903	120,903
Gross unrealized gains	—	79,406	79,406
Gross unrealized losses	—	(33)	(33)
CECL allowance	—	—	—
Carrying Value	$ —	$ 200,276	$ 200,276

December 31, 2020 (In Thousands)	Mezzanine	Subordinate	Total
Principal balance	$ 2,000	$ 281,284	$ 283,284
Credit reserve	—	(44,967)	(44,967)
Unamortized discount, net	—	(95,718)	(95,718)
Amortized cost	2,000	140,599	142,599
Gross unrealized gains	14	77,280	77,294
Gross unrealized losses	—	(1,047)	(1,047)
CECL allowance	—	(388)	(388)
Carrying Value	$ 2,014	$ 216,444	$ 218,458

The following table presents the changes for the three and nine months ended September 30, 2021, in unamortized discount and designated credit reserves on residential AFS securities.

Table 9.8 – Changes in Unamortized Discount and Designated Credit Reserves on AFS Securities

	Three Months Ended September 30, 2021		Nine Months Ended September 30, 2021	
(In Thousands)	Credit Reserve	Unamortized Discount, Net	Credit Reserve	Unamortized Discount, Net
Beginning balance	$ 40,349	$ 90,216	$ 44,967	$ 95,718
Amortization of net discount	—	(6,437)	—	(9,620)
Realized credit losses	(184)	—	(433)	—
Acquisitions	—	—	2,825	1,208
Sales, calls, other	(320)	(6,068)	(1,312)	(15,797)
Transfers to (release of) credit reserves, net	(10,397)	10,397	(16,599)	16,599
Ending Balance	$ 29,448	$ 88,108	$ 29,448	$ 88,108

Note 9. Real Estate Securities - (continued)

AFS Securities with Unrealized Losses

The following table presents the components comprising the total carrying value of residential AFS securities that were in a gross unrealized loss position at September 30, 2021 and December 31, 2020.

Table 9.9 – Components of Fair Value of AFS Securities by Holding Periods

	Less Than 12 Consecutive Months			12 Consecutive Months or Longer		
(In Thousands)	**Amortized Cost**	**Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Unrealized Losses**	**Fair Value**
September 30, 2021	$ —	$ —	$ —	$ 1,600	$ (33)	$ 1,567
December 31, 2020	9,129	(1,047)	7,920	—	—	—

At September 30, 2021, after giving effect to purchases, sales, and extinguishment due to credit losses, our consolidated balance sheet included 84 AFS securities, of which one was in a continuous unrealized loss position for 12 consecutive months or longer. At December 31, 2020, our consolidated balance sheet included 96 AFS securities, of which five were in an unrealized loss position and zero were in a continuous unrealized loss position for 12 consecutive months or longer.

Evaluating AFS Securities for Credit Losses

Gross unrealized losses on our AFS securities were $33 thousand at September 30, 2021. We evaluate all securities in an unrealized loss position to determine if the impairment is credit-related (resulting in an allowance for credit losses recorded in earnings) or non-credit-related (resulting in an unrealized loss through other comprehensive income). At September 30, 2021, we did not intend to sell any of our AFS securities that were in an unrealized loss position, and it is more likely than not that we will not be required to sell these securities before recovery of their amortized cost basis, which may be at their maturity. We review our AFS securities that are in an unrealized loss position to identify those securities with losses based on an assessment of changes in expected cash flows for such securities, which considers recent security performance and expected future performance of the underlying collateral.

At September 30, 2021, our current expected credit loss ("CECL") allowance related to our AFS securities was zero. AFS securities for which an allowance is recognized have experienced, or are expected to experience, credit-related adverse cash flow changes. In determining our estimate of cash flows for AFS securities we may consider factors such as structural credit enhancement, past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, which are informed by prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, FICO scores at loan origination, year of origination, loan-to-value ratios, and geographic concentrations, as well as general market assessments. Changes in our evaluation of these factors impacted the cash flows expected to be collected at the assessment date and were used to determine if there were credit-related adverse cash flows and if so, the amount of credit related losses. Significant judgment is used in both our analysis of the expected cash flows for our AFS securities and any determination of security credit losses.

The table below summarizes the weighted average of the significant credit quality indicators we used for the credit loss allowance on our AFS securities at September 30, 2021.

Table 9.10 – Significant Credit Quality Indicators

September 30, 2021	**Subordinate Securities**
Default rate	N/A
Loss severity	N/A

Note 9. Real Estate Securities - (continued)

The following table details the activity related to the allowance for credit losses for AFS securities for the three and nine months ended September 30, 2021.

Table 9.11 – Rollforward of Allowance for Credit Losses

(In Thousands)	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
Beginning balance allowance for credit losses	$ —	$ 388
Additions to allowance for credit losses on securities for which credit losses were not previously recorded	—	—
Additional increases (decreases) to the allowance for credit losses on securities that had an allowance recorded in a previous period	—	(388)
Allowance on purchased financial assets with credit deterioration	—	—
Reduction to allowance for securities sold during the period	—	—
Reduction to allowance for securities we intend to sell or more likely than not will be required to sell	—	—
Write-offs charged against allowance	—	—
Recoveries of amounts previously written off	—	—
Ending balance of allowance for credit losses	$ —	$ —

Gains and losses from the sale of AFS securities are recorded as Realized gains, net, in our consolidated statements of income (loss).The following table presents the gross realized gains and losses on sales and calls of AFS securities for the three and nine months ended September 30, 2021 and 2020.

Table 9.12 – Gross Realized Gains and Losses on AFS Securities

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2021	2020	2021	2020
Gross realized gains - sales	$ —	$ —	$ 1,507	$ 8,779
Gross realized gains - calls	6,389	—	15,484	—
Gross realized losses - sales	—	—	—	(4,144)
Total Realized Gains on Sales and Calls of AFS Securities, net	$ 6,389	$ —	$ 16,991	$ 4,635

During the three months ended September 30, 2021, we calledtwo of our unconsolidated Sequoia entities, and purchased $66 million (unpaid principal balance) of loans from the securitization trusts. In association with these calls, we realized a $6 million gain on the securities we owned from these securitizations, which was recognized through Realized gains, net on our consolidated statements of income (loss). During the nine months ended September 30, 2021, we called six of our unconsolidated Sequoia entities, and purchased $167 million (unpaid principal balance) of loans from the securitization trusts. In association with these calls, we realized a $15 million gain on the securities we owned from these securitizations, which was recognized through Realized gains, net on our consolidated statements of income (loss).

Note 10. Other Investments

Other investments at September 30, 2021 and December 31, 2020 are summarized in the following table.

Table 10.1 – Components of Other Investments

(In Thousands)	September 30, 2021	December 31, 2020
Servicer advance investments	$ 170,062	$ 231,489
HEIs	167,856	42,440
Strategic investments	31,108	4,449
Excess MSRs	29,185	34,418
Mortgage servicing rights	12,389	8,815
Other	11,766	26,564
Total Other Investments	$ 422,366	$ 348,175

Servicer advance investments

We and a third-party co-investor, through two partnerships ("SA Buyers") consolidated by us, purchased the outstanding servicer advances and excess MSRs related to a portfolio of legacy residential mortgage-backed securitizations serviced by the co-investor (Refer to our Annual Report on Form 10-K for the year ended December 31, 2020 for additional information regarding the transactions). At September 30, 2021, we had funded $94 million of total capital to the SA Buyers (see *Note 16* for additional detail).

At September 30, 2021, our servicer advance investments had a carrying value of $170 million and were associated with a portfolio of residential mortgage loans with an unpaid principal balance of $7.53 billion. The outstanding servicer advance receivables associated with this investment were $159 million at September 30, 2021, which were financed with short-term non-recourse securitization debt (see *Note 13* for additional detail on this debt). The servicer advance receivables were comprised of the following types of advances at September 30, 2021 and December 31, 2020.

Table 10.2 – Components of Servicer Advance Receivables

(In Thousands)	September 30, 2021	December 31, 2020
Principal and interest advances	$ 77,116	$ 110,923
Escrow advances (taxes and insurance advances)	62,117	79,279
Corporate advances	20,175	27,454
Total Servicer Advance Receivables	$ 159,408	$ 217,656

We account for our servicer advance investments at fair value and during the three and nine months ended September 30, 2021, we recorded $2 million and $7 million of interest income, respectively, through Other interest income, and recorded net market valuation losses of $2 million and $3 million, respectively, through Investment fair value changes, net in our consolidated statements of income (loss). During the three and nine months ended September 30, 2020, we recorded $3 million and $8 million of interest income, respectively, through Other interest income, and recorded a net market valuation gain of less than $0.1 million and a net market valuation loss of $6 million, respectively, through Investment fair value changes, net in our consolidated statements of income (loss).

Note 10. Other Investments - (continued)

HEIs

In 2019, we entered into a flow purchase agreement to acquire home equity investment contracts from Point Digital. At September 30, 2021, we had acquired $47 million of HEIs under this flow purchase agreement. We account for these investments under the fair value option and during the three and nine months ended September 30, 2021, we recorded net market valuation gains of $6 million and $13 million, respectively, related to these assets through Investment fair value changes, net on our consolidated statements of income (loss). During the three and nine months ended September 30, 2020, we recorded a net market valuation gain of $2 million and a net market valuation loss of $4 million, respectively, related to these assets through Investment fair value changes, net on our consolidated statements of income (loss).

During the three months ended September 30, 2021, in conjunction with co-sponsoring a securitization of HEIs, we purchased $122 million of additional HEIs from other contributors to the securitization, then transferred $170 million of HEIs to the Point HEI securitization entity and issued $146 million of ABS (See *Note 4* for further discussion on the Point securitization entity and *Note 14* for further discussion on ABS issued). We retained subordinate certificates from the entity valued at $10 million as of September 30, 2021, representing our economic interest in the entity. The other contributors to the securitization own subordinate certificates in the entity that were valued at $17 million at September 30, 2021 and are carried on our balance sheet as non-controlling interests within the Accrued expenses and other liabilities line item of our consolidated balance sheets.

We consolidate the Point HEI securitization entity in accordance with GAAP and have elected to account for it under the CFE election. During the three months ended September 30, 2021, we recorded net market valuation gains of less than $0.1 million related to our net investment in the Point HEI entity through Investment fair value changes, net on our consolidated statements of income (loss).

During three months ended September 30, 2021, we amended our flow purchase agreement with Point Digital and committed to purchase additional HEIs. See *Note 16* for additional detail on this commitment.

Strategic Investments

Strategic investments represent investments we have made in companies through our RWT Horizons venture investment strategy or at a corporate level. At September 30, 2021, we had made 11 investments in companies through RWT Horizons and two corporate investments, including our investment in Churchill Finance. See *Note 3* for additional detail on how we account for our strategic investments.

Excess MSRs

In association with our servicer advance investments described above, we (through our consolidated SA Buyers) invested in excess MSRs associated with the same portfolio of legacy residential mortgage-backed securitizations. Additionally, we own excess MSRs associated with specified pools of multifamily loans. We account for our excess MSRs at fair value and during the three and nine months ended September 30, 2021, we recognized $3 million and $9 million of interest income, respectively, through Other interest income, and recorded net market valuation losses of $1 million and $5 million, respectively, through Investment fair value changes, net on our consolidated statements of income (loss). During the three and nine months ended September 30, 2020, we recognized $3 million and $9 million of interest income, respectively, through Other interest income, and recorded net market valuation losses of $1 million and $8 million, respectively, through Investment fair value changes, net on our consolidated statements of income (loss).

Mortgage Servicing Rights

We invest in mortgage servicing rights associated with residential mortgage loans and contract with licensed sub-servicers to perform all servicing functions for these loans. The majority of our investments in MSRs were made through the retention of servicing rights associated with the residential jumbo mortgage loans that we acquired and subsequently sold to third parties. During the three and nine months ended September 30, 2021, we retained $5 million and $9 million of MSRs, respectively, from sales of residential loans to third parties. We hold our MSR investments at our taxable REIT subsidiaries.

Note 10. Other Investments - (continued)

At September 30, 2021 and December 31, 2020, our MSRs had a fair value of $12 million and $9 million, respectively, and were associated with loans with an aggregate principal balance of $2.29 billion and $2.59 billion, respectively. During the three and nine months ended September 30, 2021, including net market valuation gains and losses on our MSRs and related risk management derivatives, we recorded net income of $0.3 million and $1 million, respectively, through Other income on our consolidated statements of income (loss). During the three and nine months ended September 30, 2020, we recorded net losses of $2 million and $6 million, respectively, through Other income on our consolidated statements of income (loss).

Note 11. Derivative Financial Instruments

The following table presents the fair value and notional amount of our derivative financial instruments at September 30, 2021 and December 31, 2020.

Table 11.1 – Fair Value and Notional Amount of Derivative Financial Instruments

	September 30, 2021		December 31, 2020	
(In Thousands)	**Fair Value**	**Notional Amount**	**Fair Value**	**Notional Amount**
Assets - Risk Management Derivatives				
Interest rate swaps	$ 3,213	$ 293,200	$ 224	$ 42,000
TBAs	8,213	2,205,000	18,260	3,520,000
Swaptions	30,415	1,335,000	19,727	1,585,000
Assets - Other Derivatives				
Loan purchase and interest rate lock commitments	9,262	1,687,314	15,027	2,617,254
Total Assets	$ 51,103	$ 5,520,514	$ 53,238	$ 7,764,254
Liabilities - Risk Management Derivatives				
Interest rate swaps	$ (74)	$ 40,500	$ —	$ —
TBAs	(7,599)	2,190,000	(15,495)	3,105,000
Interest rate futures	(749)	133,200	—	—
Liabilities - Other Derivatives				
Loan purchase commitments	(2,550)	1,084,579	(577)	477,153
Total Liabilities	$ (10,972)	$ 3,448,279	$ (16,072)	$ 3,582,153
Total Derivative Financial Instruments, Net	$ 40,131	$ 8,968,793	$ 37,166	$ 11,346,407

Risk Management Derivatives

To manage, to varying degrees, risks associated with certain assets and liabilities on our consolidated balance sheets, we may enter into derivative contracts. At September 30, 2021, we were party to swaps and swaptions with an aggregate notional amount of $1.67 billion, TBA agreements with an aggregate notional amount of $4.40 billion, and interest rate futures contracts with an aggregate notional amount of $133 million. At December 31, 2020, we were party to swaps and swaptions with an aggregate notional amount of $1.63 billion and TBA agreements with an aggregate notional amount of $6.63 billion.

During the three and nine months ended September 30, 2021, risk management derivatives had net market valuation gains of $4 million and $38 million, respectively. During the three and nine months ended September 30, 2020, risk management derivatives had net market valuation losses of zero and $98 million, respectively. These market valuation gains and losses are recorded in Mortgage banking activities, net, Investment fair value changes, net, and Other income on our consolidated statements of income (loss).

Note 11. Derivative Financial Instruments - (continued)

Loan Purchase and Interest Rate Lock Commitments

LPCs and IRLCs that qualify as derivatives are recorded at their estimated fair values. For both the three and nine months ended September 30, 2021, LPCs and IRLCs had net market valuation gains of $18 million that were recorded in Mortgage banking activities, net on our consolidated statements of income (loss). For the three and nine months ended September 30, 2020, LPCs and IRLCs had net market valuation gains of $13 million and $35 million, respectively, that were recorded in Mortgage banking activities, net on our consolidated statements of income (loss).

Derivatives Designated as Cash Flow Hedges

To manage the variability in interest expense related to a portion of our long-term debt that is included in our consolidated balance sheets for financial reporting purposes, we designated certain interest rate swaps as cash flow hedges.

During the first quarter of 2020, we terminated and settled all of our outstanding derivatives that had been designated as cash flow hedges for our long-term debt, with a payment of $84 million. For interest rate agreements previously designated as cash flow hedges, our total unrealized loss reported in Accumulated other comprehensive income was $77 million and $81 million at September 30, 2021 and December 31, 2020, respectively. We are amortizing this loss into interest expense over the remaining term of the debt they were originally hedging. As of September 30, 2021, we expect to amortize $4 million of realized losses related to terminated cash flow hedges into interest expense over the next twelve months.

For both the three and nine months ended September 30, 2021, we didnot have any derivatives designated as cash flow hedges. For the three and nine months ended September 30, 2020, changes in the values of designated cash flow hedges were zero and negative $33 million, respectively, and were recorded in Accumulated other comprehensive income, a component of equity.

The following table illustrates the impact on interest expense of our interest rate agreements accounted for as cash flow hedges for the three and nine months ended September 30, 2021 and 2020.

Table 11.2 – Impact on Interest Expense of Interest Rate Agreements Accounted for as Cash Flow Hedges

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	**2021**	**2020**	**2021**	**2020**
Net interest expense on cash flows hedges	$ —	$ —	$ —	$ (860)
Realized net losses reclassified from other comprehensive income	(1,041)	(1,040)	(3,086)	(2,148)
Total Interest Expense	$ (1,041)	$ (1,040)	$ (3,086)	$ (3,008)

Derivative Counterparty Credit Risk

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2020, we consider counterparty risk as part of our fair value assessments of all derivative financial instruments at each quarter-end. At September 30, 2021, we assessed this risk as remote and did not record an associated specific valuation adjustment.

At September 30, 2021, we were in compliance with our derivative counterparty ISDA agreements.

Note 12. Other Assets and Liabilities

Other assets at September 30, 2021 and December 31, 2020 are summarized in the following table.

Table 12.1 – Components of Other Assets

(In Thousands)	September 30, 2021	December 31, 2020
Accrued interest receivable	$ 41,997	$ 39,445
Investment receivable	32,420	43,176
Deferred tax asset	20,153	871
REO	18,863	8,413
Margin receivable	16,503	4,758
Operating lease right-of-use assets	13,659	15,012
Fixed assets and leasehold improvements (1)	9,344	4,203
Pledged collateral	—	1,177
Other	9,254	13,533
Total Other Assets	$ 162,193	$ 130,588

(1) Fixed assets and leasehold improvements had a basis of $17 million and accumulated depreciation of $7 million at September 30, 2021.

Accrued expenses and other liabilities at September 30, 2021 and December 31, 2020 are summarized in the following table.

Table 12.2 – Components of Accrued Expenses and Other Liabilities

(In Thousands)	September 30, 2021	December 31, 2020
Accrued compensation	$ 64,354	$ 24,393
Margin payable	48,298	14,728
Accrued interest payable	34,545	34,858
Payable to non-controlling interests (1)	31,781	16,941
Operating lease liabilities	15,771	16,687
Accrued income taxes payable	11,336	5,614
Residential loan and MSR repurchase reserve	9,003	8,631
Guarantee obligations	7,902	10,039
Accrued operating expenses	4,068	5,509
Bridge loan holdbacks	3,784	5,708
Deferred consideration	—	14,579
Other	20,734	21,653
Total Accrued Expenses and Other Liabilities	$ 251,576	$ 179,340

(1) Includes $11 million and $17 million of payables to non-controlling interest holders in our consolidated Servicing Investment and Point HEI entities, respectively, as September 30, 2021. Includes $17 million payable to a non-controlling interest holder in our consolidated Servicing Investment entities at December 31, 2020.

Deferred Consideration

The deferred consideration presented in the table above is related to our acquisition of 5 Arches in 2019. During the first quarter of 2021, we distributed 806,068 shares of Redwood common stock and paid $1 million in cash in full settlement of the remaining deferred consideration associated with this acquisition.

Note 12. Other Assets and Liabilities - (continued)

REO

The following table summarizes the activity and carrying values of REO assets held at Redwood and at consolidated Legacy Sequoia, Freddie Mac SLST, and CAFL SFR entities during the nine months ended September 30, 2021.

Table 12.3 – REO Activity

	Nine Months Ended September 30, 2021				
(In Thousands)	**Bridge** (1)	**Legacy Sequoia**	**Freddie Mac SLST**	**CAFL SFR**	**Total**
Balance at beginning of period	$ 4,600	$ 638	$ 646	$ 2,529	$ 8,413
Transfers to REO	7,074	65	2,591	11,924	21,654
Liquidations (2)	(7,387)	(607)	(1,555)	(1,990)	(11,539)
Changes in fair value, net	536	178	276	(655)	335
Balance at End of Period	$ 4,823	$ 274	$ 1,958	$ 11,808	$ 18,863

(1) Includes activity of bridge loans at Redwood and at consolidated CAFL bridge entity.

(2) For the nine months ended September 30, 2021, REO liquidations resulted in $0.3 million of realized losses, which were recorded in Investment fair value changes, net on our consolidated statements of income (loss).

The following table provides the detail of REO assets at Redwood and at consolidated Legacy Sequoia, Freddie Mac SLST, and CAFL SFR entities at September 30, 2021 and December 31, 2020.

Table 12.4 – REO Assets

Number of REO assets	**Bridge**	**Legacy Sequoia**	**Freddie Mac SLST**	**CAFL SFR**	**Total**
At September 30, 2021	5	2	20	2	29
At December 31, 2020	3	3	9	2	17

Refer to our Annual Report on Form 10-K for the year ended December 31, 2020 for additional descriptions of our other assets and liabilities.

Note 13. Short-Term Debt

We enter into repurchase agreements ("repo"), loan warehouse agreements, and other forms of collateralized (and generally uncommitted) short-term borrowings with several banks and major investment banking firms. At September 30, 2021, we had outstanding agreements with several counterparties and we were in compliance with all of the related covenants.

The table below summarizes our short-term debt, including the facilities that are available to us, the outstanding balances, the weighted average interest rate, and the maturity information at September 30, 2021 and December 31, 2020.

Table 13.1 – Short-Term Debt

	September 30, 2021					
(Dollars in Thousands)	Number of Facilities	Outstanding Balance	Limit	Weighted Average Interest Rate (1)	Maturity	Weighted Average Days Until Maturity
Facilities						
Residential loan warehouse	7	$ 1,335,464	$ 2,700,000	1.89 %	11/2021-8/2022	156
Business purpose loan warehouse	2	183,800	350,000	3.39 %	3/2022-7/2022	201
Real estate securities repo	3	79,766	—	1.23 %	10/2021-12/2021	34
Total Short-Term Debt Facilities	12	1,599,030				
Servicer advance financing	1	151,911	260,000	1.89 %	11/2021	61
Total Short-Term Debt		$ 1,750,941				

	December 31, 2020					
(Dollars in Thousands)	Number of Facilities	Outstanding Balance	Limit	Weighted Average Interest Rate (1)	Maturity	Weighted Average Days Until Maturity
Facilities						
Residential loan warehouse	4	$ 137,269	$ 1,300,000	2.45 %	1/2021-11/2021	268
Business purpose loan warehouse	2	99,190	500,000	3.37 %	5/2022-6/2022	521
Real estate securities repo	3	77,775	—	2.24 %	1/2021-3/2021	36
Total Short-Term Debt Facilities	9	314,234				
Servicer advance financing	1	208,375	335,000	1.95 %	11/2021	334
Total Short-Term Debt		$ 522,609				

(1) Borrowings under our facilities are generally uncommitted and charged interest based on a specified margin over the 1- or 3-month LIBOR.

Note 13. Short-Term Debt - (continued)

The following table below presents the value of loans, securities, and other assets pledged as collateral under our short-term debt at September 30, 2021 and December 31, 2020.

Table 13.2 – Collateral for Short-Term Debt

(In Thousands)	**September 30, 2021**	**December 31, 2020**
Collateral Type		
Held-for-sale residential loans	$ 1,478,424	$ 156,355
Business purpose loans	254,655	127,029
Real estate securities		
On balance sheet	14,367	23,193
Sequoia securitizations (1)	62,075	63,105
Freddie Mac K-Series securitization (1)	31,388	28,255
Total real estate securities owned	107,830	114,553
Restricted cash and other assets	1,709	315
Total Collateral for Short-Term Debt Facilities	1,842,618	398,252
Cash	12,975	9,978
Restricted cash	19,872	23,220
Servicer advances	159,408	217,656
Total Collateral for Servicer Advance Financing	192,255	250,854
Total Collateral for Short-Term Debt	$ 2,034,873	$ 649,106

(1) Represents securities we have retained from consolidated securitization entities. For GAAP purposes, we consolidate the loans and non-recourse ABS debt issued from these securitizations.

For the three and nine months ended September 30, 2021, the average balances of our short-term debt facilities were $1.98 billion and $1.61 billion, respectively. At September 30, 2021 and December 31, 2020, accrued interest payable on our short-term debt facilities was $2 million and $1 million, respectively.

Servicer advance financing consists of non-recourse short-term securitization debt used to finance servicer advance investments. We consolidate the securitization entity that issued the debt, but the entity is independent of Redwood and the assets and liabilities are not owned by and are not legal obligations of Redwood. At September 30, 2021, the accrued interest payable balance on this financing was $0.1 million and the unamortized capitalized commitment costs were $0.1 million.

We also maintain a $10 million committed line of credit with a financial institution that is secured by certain mortgage-backed securities with a fair market value of $2 million at September 30, 2021. At both September 30, 2021 and December 31, 2020, we had no outstanding borrowings on this facility.

Note 13. Short-Term Debt - (continued)

Remaining Maturities of Short-Term Debt

The following table presents the remaining maturities of our secured short-term debt by the type of collateral securing the debt at September 30, 2021.

Table 13.3 – Short-Term Debt by Collateral Type and Remaining Maturities

	September 30, 2021			
(In Thousands)	**Within 30 days**	**31 to 90 days**	**Over 90 days**	**Total**
Collateral Type				
Held-for-sale residential loans	$ —	$ 278,663	$ 1,056,801	$ 1,335,464
Business purpose loans	—	—	183,800	183,800
Real estate securities	43,800	35,966	—	79,766
Total Secured Short-Term Debt	43,800	314,629	1,240,601	1,599,030
Servicer advance financing	—	151,911	—	151,911
Total Short-Term Debt	$ 43,800	$ 466,540	$ 1,240,601	$ 1,750,941

Note 14. Asset-Backed Securities Issued

ABS issued represents securities issued by non-recourse securitization entities we consolidate under GAAP. The majority of our ABS issued is carried at fair value under the CFE election (see *Note 4* for additional detail) with the remainder carried at amortized cost.The carrying values of ABS issued by our consolidated securitization entities at September 30, 2021 and December 31, 2020, along with other selected information, are summarized in the following table.

Table 14.1 – Asset-Backed Securities Issued

September 30, 2021 (Dollars in Thousands)	**Legacy Sequoia**	**Sequoia**	**CAFL [1]**	**Freddie Mac SLST [2]**	**Freddie Mac K-Series**	**Point HEI**	**Total**
Certificates with principal balance	$ 273,957	$ 2,199,488	$ 3,134,946	$ 1,630,252	$ 420,654	$ 145,320	$ 7,804,617
Interest-only certificates	739	21,003	189,946	19,787	10,885	—	242,360
Market valuation adjustments	(35,249)	22,808	68,684	60,625	19,863	117	136,848
ABS Issued, Net	$ 239,447	$ 2,243,299	$ 3,393,576	$ 1,710,664	$ 451,402	$ 145,437	$ 8,183,825
Range of weighted average interest rates, by series[3]	0.49% to 1.45%	2.34% to 5.07%	2.34% to 5.21%	3.50% to 4.75%	3.41 %	3.27 %	
Stated maturities[3]	2024 - 2036	2047 - 2051	2021 - 2031	2028 - 2059	2025	2052	
Number of series	20	13	16	3	1	1	

Note 14. Asset-Backed Securities Issued - (continued)

December 31, 2020 (Dollars in Thousands)	**Legacy Sequoia**	**Sequoia**	**CAFL**	**Freddie Mac SLST (2)**	**Freddie Mac K-Series**	**Point HEI**	**Total**
Certificates with principal balance	$ 329,039	$ 1,309,957	$ 2,716,425	$ 1,866,145	$ 416,339	$ —	$ 6,637,905
Interest-only certificates	1,092	4,591	162,934	23,335	13,026	—	204,978
Market valuation adjustments	(47,805)	32,809	133,734	104,439	34,601	—	257,778
ABS Issued, Net	$ 282,326	$ 1,347,357	$ 3,013,093	$ 1,993,919	$ 463,966	$ —	$ 7,100,661
Range of weighted average interest rates, by series(3)	0.35% to 1.55%	2.25% to 5.04%	2.68% to 5.42%	3.50% to 4.75%	3.39 %	— %	
Stated maturities(3)	2024 - 2036	2047 - 2050	2021 - 2031	2028 - 2059	2025	—	
Number of series	20	10	14	3	1	—	

(1) Includes $270 million (principal balance) of ABS issued by a CAFL bridge securitization trust sponsored by Redwood and accounted for at amortized cost at September 30, 2021.
(2) Includes $163 million and $205 million (principal balance) of ABS issued by a re-securitization trust sponsored by Redwood and accounted for at amortized cost at September 30, 2021 and December 31, 2020, respectively.
(3) Certain ABS issued by CAFL, Freddie Mac SLST, and Point HEI entities is subject to early redemption and interest rate step-ups as described below.

During the third quarter of 2021, we consolidated the assets and liabilities of a securitization entity formed in connection with the securitization of CoreVest bridge loans (presented within CAFL in table 14.1 above), which we determined was a VIE and for which we determined we are the primary beneficiary. At issuance, we sold $270 million (principal balance) of ABS issued to third parties and retained the remaining beneficial ownership interest in the trust. The ABS were issued at a discount and we have elected to account for the ABS issued at amortized cost. At September 30, 2021, the principal balance of the ABS issued was $ 270 million, and the debt discount and deferred issuance costs were $3 million, for a net carrying value of $267 million. The weighted average stated coupon of the ABS issued was 2.34% at issuance. The ABS issued by the CAFL bridge entity are subject to an optional redemption in March 2024, and beginning in March 2025 the interest rate on the ABS issued increases by 2% through final maturity in March 2029. The ABS issued by this securitization were backed by assets including $276 million of bridge loans and $28 million of restricted cash at September 30, 2021. The securitization is structured with $300 million of total funding capacity and a feature to allow reinvestment of loan payoffs for the first 30 months of the transaction (through March 2024).

During the third quarter of 2021, we consolidated the assets and liabilities of the Point HEI entity formed in connection with the securitization of HEIs, which we determined was a VIE and for which we determined we are the primary beneficiary. At issuance, we sold $ 146 million (principal balance) of ABS issued to third parties and retained a portion of the remaining beneficial ownership interest in the trust. We elected to account for the entity under the CFE election and account for the ABS issued at fair value, with the entire change in fair value of the ABS issued (including accrued interest) recorded through Investment fair value changes, net on our consolidated statements of income (loss). The ABS issued by the Point HEI entity are subject to an optional redemption in September 2023, and beginning in September 2024 the interest rate on the ABS issued increases by 2% through final maturity in 2052.

During the third quarter of 2020, we transferred all of the subordinate securities we owned from two consolidated re-performing loan securitization VIEs sponsored by Freddie Mac SLST to a re-securitization trust, which we determined was a VIE and for which we determined we are the primary beneficiary. At issuance, we sold $ 210 million (principal balance) of ABS issued to third parties and retained 100% of the remaining beneficial ownership interest in the trust through ownership of a subordinate security issued by the trust. The ABS was issued at a discount and we have elected to account for the ABS issued at amortized cost. At September 30, 2021, the principal balance of the ABS issued was $163 million, and the debt discount and deferred issuance costs were $3 million, for a carrying value of $161 million. The stated coupon of the ABS issued was 4.75% at issuance and the final stated maturity occurs in July 2059. The ABS issued is subject to an optional redemption in July 2022 and in July 2023 the ABS interest rate steps up to 7.75%.

Note 14. Asset-Backed Securities Issued - (continued)

The actual maturity of each class of ABS issued is primarily determined by the rate of principal prepayments on the assets of the issuing entity. Each series is also subject to redemption prior to the stated maturity according to the terms of the respective governing documents of each ABS issuing entity. As a result, the actual maturity of ABS issued may occur earlier than its stated maturity. At September 30, 2021, the majority of the ABS issued and outstanding had contractual maturities beyond five years. See *Note 4* for detail on the carrying value components of the collateral for ABS issued and outstanding. The following table summarizes the accrued interest payable on ABS issued at September 30, 2021 and December 31, 2020. Interest due on consolidated ABS issued is payable monthly.

Table 14.2 – Accrued Interest Payable on Asset-Backed Securities Issued

(In Thousands)	**September 30, 2021**	**December 31, 2020**
Legacy Sequoia	$ 107	$ 141
Sequoia	5,918	4,697
CAFL	10,760	10,122
Freddie Mac SLST [(1)]	4,925	5,656
Freddie Mac K-Series	1,195	1,177
Total Accrued Interest Payable on ABS Issued	$ 22,905	$ 21,793

(1) Includes accrued interest payable on ABS issued by a re-securitization trust sponsored by Redwood.

Note 15. Long-Term Debt

The table below summarizes our long-term debt, including the facilities that are available to us, the outstanding balances, the weighted average interest rate, and the maturity information at September 30, 2021.

Table 15.1 – Long-Term Debt

	September 30, 2021					
(Dollars in Thousands)	**Borrowings**	**Unamortized Deferred Issuance Costs / Discount**	**Net Carrying Value**	**Limit**	**Weighted Average Interest Rate (1)**	**Final Maturity**
Facilities						
Recourse Subordinate Securities Financing						
Sequoia	$ 147,182	$ (417)	$ 146,765	N/A	4.21 %	9/2024
CAFL						
Facility A	102,370	(429)	101,941	N/A	4.21 %	2/2025
Facility B	95,011	(439)	94,572	N/A	4.75 %	6/2026
Non-Recourse BPL Financing						
Facility C	105,961	(320)	105,641	250,000	L + 3.00%	N/A
Recourse BPL Financing						
Facility D	168,228	—	168,228	450,000	L + 3.10%	6/2023
Facility E	230,883	(141)	230,742	250,000	L + 3.00%	9/2023
Total Long-Term Debt Facilities	849,635	(1,746)	847,889			
Convertible notes						
4.75% convertible senior notes	198,629	(2,098)	196,531	N/A	4.75 %	8/2023
5.625% convertible senior notes	150,200	(2,262)	147,938	N/A	5.625 %	7/2024
5.75% exchangeable senior notes	172,092	(3,582)	168,510	N/A	5.75 %	10/2025
Trust preferred securities and subordinated notes	139,500	(791)	138,709	N/A	L + 2.25%	7/2037
Total Long-Term Debt	$ 1,510,056	$ (10,479)	$ 1,499,577			

(1) Variable rate borrowings are based on 1- or 3-month LIBOR ("L" in the table above) plus an applicable spread.

Recourse Subordinate Securities Financing

In the third quarter of 2021, a subsidiary of Redwood entered into a repurchase agreement providing non-marginable recourse debt financing of certain securities retained from our consolidated CAFL securitizations. The financing is guaranteed by Redwood, with an interest rate of approximately 4.75% through June 2024. The financing facility may be terminated, at our option, in June 2023, and has a final maturity in June 2026, provided that the interest rate on amounts outstanding under the facility increases between June 2024 and June 2026. See "Facility B" above for details on borrowings and securities pledged as collateral under this facility at September 30, 2021.

Non-Recourse BPL Financing Facilities

In the third quarter of 2021, we reclassified one of our non-recourse facilities from long-term to short-term debt as the maturity of this facility was less than one year at September 30, 2021.

Note 15. Long-Term Debt - (continued)

In the second quarter of 2021, we repaid one of our non-recourse BPL financing facilities that had a balance of $242 million at March 31, 2021, and entered into a new non-recourse facility to finance business purpose bridge loans with a total borrowing capacity of $250 million (see details for "Facility C" above).

Recourse BPL Financing Facilities

In the second quarter of 2021, we reclassified one of our recourse facilities with a borrowing capacity of $450 million from short-term to long-term debt as we amended the terms of this facility, including an extension of its maturity (see details for "Facility D" above).

The following table below presents the value of loans, securities, and other assets pledged as collateral under our long-term debt at September 30, 2021 and December 31, 2020.

Table 15.2 – Collateral for Long-Term Debt

(In Thousands)	September 30, 2021	December 31, 2020
Collateral Type		
Bridge loans	$ 373,597	$ 544,151
Single-family rental loans	298,014	154,774
Real estate securities		
Sequoia securitizations (1)	246,892	249,446
CAFL securitizations (1)	256,976	114,044
Total real estate securities owned	503,868	363,490
Other BPL investments	—	21,414
Restricted cash	—	1,100
Total Collateral for Long-Term Debt	$ 1,175,479	$ 1,084,929

(1) Represents securities we have retained from consolidated securitization entities. For GAAP purposes, we consolidate the loans and non-recourse ABS debt issued from these securitizations.

The following table summarizes the accrued interest payable on long-term debt at September 30, 2021 and December 31, 2020.

Table 15.3 – Accrued Interest Payable on Long-Term Debt

(In Thousands)	September 30, 2021	December 31, 2020
Long-term debt facilities	$ 900	$ 1,799
Convertible notes		
4.75% convertible senior notes	1,206	3,564
5.625% convertible senior notes	1,784	3,896
5.75% exchangeable senior notes	4,948	2,474
Trust preferred securities and subordinated notes	572	669
Total Accrued Interest Payable on Long-Term Debt	$ 9,410	$ 12,402

Refer to our Annual Report on Form 10-K for the year ended December 31, 2020 for a full description of our long-term debt

Note 16. Commitments and Contingencies

Lease Commitments

At September 30, 2021, we were obligated under seven non-cancelable operating leases with expiration dates through 2031 for $18 million of cumulative lease payments. Our operating lease expense was $3 million for both nine-month periods ended September 30, 2021 and 2020.

Note 16. Commitments and Contingencies - (continued)

The following table presents our future lease commitments at September 30, 2021.

Table 16.1 – Future Lease Commitments by Year

(In Thousands)	September 30, 2021
2021 (3 months)	$ 928
2022	3,714
2023	3,235
2024	2,411
2025	1,983
2026 and thereafter	6,128
Total Lease Commitments	18,399
Less: Imputed interest	(2,628)
Operating Lease Liabilities	$ 15,771

During the nine months ended September 30, 2021, we did not enter into any new office leases. During the nine months ended September 30, 2021, we increased our operating lease right-of-use assets and liabilities by $1 million as the result of an amendment to one of our existing leases. At September 30, 2021, our operating lease liabilities were $16 million, which were a component of Accrued expenses and other liabilities, and our operating lease right-of-use assets were $14 million, which were a component of Other assets.

We determined that none of our leases contained an implicit interest rate and used a discount rate equal to our incremental borrowing rate on a collateralized basis to determine the present value of our total lease payments. As such, we determined the applicable discount rate for each of our leases using a swap rate plus an applicable spread for borrowing arrangements secured by our real estate loans and securities for a length of time equal to the remaining lease term on the date of adoption. At September 30, 2021, the weighted-average remaining lease term and weighted-average discount rate for our leases was 7 years and 4.9%, respectively.

Commitment to Fund Bridge Loans

As of September 30, 2021, we had commitments to fund up to $426 million of additional advances on existing bridge loans. These commitments are generally subject to loan agreements with covenants regarding the financial performance of the borrower and other terms regarding advances that must be met before we fund the commitment. At September 30, 2021, we carried a $1 million contingent liability related to these commitments to fund construction advances. During the three and nine months ended September 30, 2021, we recorded a net market valuation loss of $0.3 million and a net market valuation gain of $1 million, respectively, related to this liability through Mortgage banking activities, net on our consolidated statements of income (loss). During the three and nine months ended September 30, 2020, we recorded a net market valuation gain of $1 million and a net market valuation loss of $1 million, respectively, related to this liability through Mortgage banking activities, net on our consolidated statements of income (loss).

Commitment to Fund Partnerships

In 2018, we invested in two partnerships created to acquire and manage certain mortgage servicing related assets (see *Note 10* for additional detail). In connection with this investment, we are required to fund future net servicer advances related to the underlying mortgage loans. The actual amount of net servicer advances we may fund in the future is subject to significant uncertainty and will be based on the credit and prepayment performance of the underlying loans.

Note 16. Commitments and Contingencies - (continued)

Commitment to Acquire HEIs

In the third quarter of 2021, we amended an existing flow purchase agreement with Point Digital to acquire HEIs that Point Digital originates with homeowners. Each HEI provides the owner of such HEI the right to purchase a percentage ownership interest in an associated residential property, and the homeowner's obligations under the HEI are secured by a lien (primarily second liens) on the property created by a deed of trust or a mortgage. Our investments in HEIs allow us to share in both home price appreciation and depreciation of the associated property. At September 30, 2021, we had an outstanding commitment to fund up to $125 million under this agreement.

Loss Contingencies — Risk-Sharing

During 2015 and 2016, we sold conforming loans to the Agencies with an original unpaid principal balance of $3.19 billion, subject to our risk-sharing arrangements with the Agencies. At September 30, 2021, the maximum potential amount of future payments we could be required to make under these arrangements was $44 million and this amount was partially collateralized by assets we transferred to pledged accounts and is presented as pledged collateral in Other assets on our consolidated balance sheets. We have no recourse to any third parties that would allow us to recover any amounts related to our obligations under the arrangements. At September 30, 2021, we had incurred less than $0.1 million of losses under these arrangements. For the three and nine months ended September 30, 2021, other income related to these arrangements was $1 million and $2 million, respectively, and net market valuation losses related to these investments were less than $0.1 million and $0.1 million, respectively. For the three and nine months ended September 30, 2020, other income related to these arrangements was $1 million and $3 million, respectively, and net market valuation losses related to these investments were $0.3 million and $1 million, respectively.

All of the loans in the reference pools subject to these risk-sharing arrangements were originated in 2014 and 2015, and at September 30, 2021, the loans had an unpaid principal balance of $618 million and a weighted average FICO score of 756 (at origination) and LTV ratio of 74% (at origination). At September 30, 2021, $21 million of the loans were 90 days or more delinquent, of which one of these loans with an unpaid principal balance of $0.2 million was in foreclosure. At September 30, 2021, the carrying value of our guarantee obligation was $8 million and included $5 million designated as a non-amortizing credit reserve, which we believe is sufficient to cover current expected losses under these obligations.

Our consolidated balance sheets include assets of special purpose entities ("SPEs") associated with these risk-sharing arrangements (i.e., the "pledged collateral" referred to above) that can only be used to settle obligations of these SPEs for which the creditors of these SPEs (the Agencies) do not have recourse to us. At September 30, 2021 and December 31, 2020, assets of such SPEs totaled $34 million and $46 million, respectively, and liabilities of such SPEs totaled $8 million and $10 million, respectively.

Loss Contingencies — Residential Repurchase Reserve

We maintain a repurchase reserve for potential obligations arising from representation and warranty violations related to residential loans we have sold to securitization trusts or third parties and for conforming residential loans associated with MSRs that we have purchased from third parties. We do not originate residential loans and we believe the initial risk of loss due to loan repurchases (i.e., due to a breach of representations and warranties) would generally be a contingency to the companies from whom we acquired the loans. However, in some cases, for example, where loans were acquired from companies that have since become insolvent, repurchase claims may result in our being liable for a repurchase obligation. Additionally, for certain loans we sold during the second quarter of 2020 that were previously held for investment, we have a direct obligation to repurchase these loans in the event of any early payment defaults (or "EPDs") by the underlying mortgage borrowers within certain specified periods following the sales.

At both September 30, 2021 and December 31, 2020, our repurchase reserve associated with our residential loans and MSRs was $9 million and was recorded in Accrued expenses and other liabilities on our consolidated balance sheets.

During the nine months ended September 30, 2021 and 2020, we received three and eight repurchase requests, respectively, and repurchased one and zero loans, respectively. During the nine months ended September 30, 2021 and 2020, we recorded repurchase provisions of $0.6 million and $4 million, respectively, that were recorded in Mortgage banking activities, net; Investment fair value changes, net; and Other income on our consolidated statements of income (loss).

Note 16. Commitments and Contingencies - (continued)

Loss Contingencies — Litigation, Claims and Demands

There is no significant update regarding the litigation matters described in Note 16 within the financial statements included in Redwood's Annual Report on Form 10-K for the year ended December 31, 2020 under the heading "Loss Contingencies - Litigation." At September 30, 2021, the aggregate amount of loss contingency reserves established in respect of the FHLB-Seattle and Schwab litigation matters described in our Annual Report on Form 10-K for the year ended December 31, 2020 was $2 million. At September 30, 2021, the aggregate amount of our accrual for estimated costs associated with the "Residential Loan Seller Demands" described in our Annual Report on Form 10-K for the year ended December 31, 2020 was $2 million, a portion of which is contingent on the successful completion of future residential loan purchase and sale transactions with certain counterparties. We believe we have either resolved or adequately accrued for any unresolved Residential Loan Seller Demands and that there are no other Residential Loan Seller Demands that are reasonably possible to result in a material loss.

Note 17. Equity

The following table provides a summary of changes to accumulated other comprehensive income by component for the three and nine months ended September 30, 2021 and 2020.

Table 17.1 – Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Three Months Ended September 30, 2021		Three Months Ended September 30, 2020	
(In Thousands)	**Available-for-Sale Securities**	**Interest Rate Agreements Accounted for as Cash Flow Hedges**	**Available-for-Sale Securities**	**Interest Rate Agreements Accounted for as Cash Flow Hedges**
Balance at beginning of period	$ 88,251	$ (78,511)	$ 53,246	$ (82,637)
Other comprehensive (loss) income before reclassifications	(2,658)	—	8,236	—
Amounts reclassified from other accumulated comprehensive income (loss)	(6,200)	1,041	(445)	1,040
Net current-period other comprehensive (loss) income	(8,858)	1,041	7,791	1,040
Balance at End of Period	$ 79,393	$ (77,470)	$ 61,037	$ (81,597)

	Nine Months Ended September 30, 2021		Nine Months Ended September 30, 2020	
(In Thousands)	**Available-for-Sale Securities**	**Interest Rate Agreements Accounted for as Cash Flow Hedges**	**Available-for-Sale Securities**	**Interest Rate Agreements Accounted for as Cash Flow Hedges**
Balance at beginning of period	$ 76,336	$ (80,557)	$ 92,452	$ (50,939)
Other comprehensive income (loss) before reclassifications	19,552	—	(19,890)	(32,806)
Amounts reclassified from other accumulated comprehensive income (loss)	(16,495)	3,087	(11,525)	2,148
Net current-period other comprehensive income (loss)	3,057	3,087	(31,415)	(30,658)
Balance at End of Period	$ 79,393	$ (77,470)	$ 61,037	$ (81,597)

ote 17. Equity - (continued)

The following table provides a summary of reclassifications out of accumulated other comprehensive income for the three and nine months ended September 30, 2021 and 2020.

Table 17.2 – Reclassifications Out of Accumulated Other Comprehensive Income (Loss)

		Amount Reclassified From Accumulated Other Comprehensive Income	
	Affected Line Item in the	Three Months Ended September 30,	
(In Thousands)	**Income Statement**	**2021**	**2020**
Net Realized (Gain) Loss on AFS Securities			
Decrease in allowance for credit losses on AFS securities	Investment fair value changes, net	$ —	$ (445)
Gain on sale of AFS securities	Realized gains, net	(6,200)	—
		$ (6,200)	$ (445)
Net Realized Loss on Interest Rate Agreements Designated as Cash Flow Hedges			
Amortization of deferred loss	Interest expense	$ 1,041	$ 1,040
		$ 1,041	$ 1,040

		Amount Reclassified From Accumulated Other Comprehensive Income	
	Affected Line Item in the	Nine Months Ended September 30,	
(In Thousands)	**Income Statement**	**2021**	**2020**
Net Realized (Gain) Loss on AFS Securities			
(Decrease) increase in allowance for credit losses on AFS securities	Investment fair value changes, net	$ (388)	$ 1,026
Gain on sale of AFS securities	Realized gains, net	(16,107)	(12,552)
		$ (16,495)	$ (11,526)
Net Realized Loss on Interest Rate Agreements Designated as Cash Flow Hedges			
Amortization of deferred loss	Interest expense	$ 3,087	$ 2,148
		$ 3,087	$ 2,148

Issuance of Common Stock

We have an established program to sell up to an aggregate of $175 million of common stock from time to time in at-the-market ("ATM") offerings. During the nine months ended September 30, 2021, we issued 1,466,669 common shares for net proceeds of $18 million under this program. At September 30, 2021, approximately $92 million remained outstanding for future offerings under this program.

Direct Stock Purchase and Dividend Reinvestment Plan

During the nine months ended September 30, 2021, we issued119,040 shares of common stock for net proceeds of $1 million through our Direct Stock Purchase and Dividend Reinvestment Plan. During the nine months ended September 30, 2020, we did not issue any shares of common stock through our Direct Stock Purchase and Dividend Reinvestment Plan. At September 30, 2021, approximately 6 million shares remained outstanding for future offerings under this plan.

ote 17. Equity - (continued)

Earnings (Loss) per Common Share

The following table provides the basic and diluted earnings (loss) per common share computations for the three and nine months ended September 30, 2021 and 2020.

Table 17.3 – Basic and Diluted Earnings (Loss) per Common Share

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands, except Share Data)	**2021**	**2020**	**2021**	**2020**
Basic Earnings (Loss) per Common Share:				
Net income (loss) attributable to Redwood	$ 88,286	$ 141,812	$ 275,568	$ (636,142)
Less: Dividends and undistributed earnings allocated to participating securities	(2,984)	(4,067)	(8,979)	(1,427)
Net income (loss) allocated to common shareholders	$ 85,302	$ 137,745	$ 266,589	$ (637,569)
Basic weighted average common shares outstanding	112,995,847	113,403,102	112,754,691	113,952,308
Basic Earnings (Loss) per Common Share	$ 0.75	$ 1.21	$ 2.36	$ (5.60)
Diluted Earnings (Loss) per Common Share:				
Net income (loss) attributable to Redwood	$ 88,286	$ 141,812	$ 275,568	$ (636,142)
Less: Dividends and undistributed earnings allocated to participating securities	(2,747)	(3,512)	(8,151)	(1,427)
Add back: Interest expense on convertible notes for the period, net of tax	6,870	6,990	20,585	—
Net income (loss) allocated to common shareholders	$ 92,409	$ 145,290	$ 288,002	$ (637,569)
Weighted average common shares outstanding	112,995,847	113,403,102	112,754,691	113,952,308
Net effect of dilutive equity awards	292,749	—	253,819	—
Net effect of assumed convertible notes conversion to common shares	28,566,875	28,566,875	28,566,875	—
Diluted weighted average common shares outstanding	141,855,471	141,969,977	141,575,385	113,952,308
Diluted Earnings (Loss) per Common Share	$ 0.65	$ 1.02	$ 2.03	$ (5.60)

We included participating securities, which are certain equity awards that have non-forfeitable dividend participation rights, in the calculations of basic and diluted earnings per common share as we determined that the two-class method was more dilutive than the alternative treasury stock method for these shares. Dividends and undistributed earnings allocated to participating securities under the basic and diluted earnings per share calculations require specific shares to be included that may differ in certain circumstances.

During the three and nine months ended September 30, 2021 and the three months ended September 30, 2020, certain of our convertible notes were determined to be dilutive and were included in the calculation of diluted EPS under the "if-converted" method. Under this method, the periodic interest expense (net of applicable taxes) for dilutive notes is added back to the numerator and the weighted average number of shares that the notes are entitled to (if converted, regardless of whether they are in or out of the money) are included in the denominator.

For the nine months ended September 30, 2020,32.2 million of common shares related to the assumed conversion of our convertible notes were antidilutive and were excluded in the calculation of diluted earnings per share. For the three and nine months ended September 30, 2021, the number of outstanding equity awards that were antidilutive totaled 22,102 and 18,736, respectively. For the three and nine months ended September 30, 2020, the number of outstanding equity awards that were antidilutive totaled 13,560 and 15,457, respectively.

ote 17. Equity - (continued)

Stock Repurchases

In February 2018, our Board of Directors approved an authorization for the repurchase of our common stock, increasing the total amount authorized for repurchases of common stock to $100 million, and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. This authorization increased the previous share repurchase authorization approved in February 2016 and has no expiration date. This repurchase authorization does not obligate us to acquire any specific number of shares or securities. Under this authorization, shares or securities may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. During the nine months ended September 30, 2021, we did not repurchase any shares. At September 30, 2021, $78 million of the current authorization remained available for the repurchase of shares of our common stock and we also continued to be authorized to repurchase outstanding debt securities.

Note 18. Equity Compensation Plans

At September 30, 2021 and December 31, 2020, 7,273,676 and 7,957,891 shares of common stock, respectively, were available for grant under our Incentive Plan.The unamortized compensation cost of awards issued under the Incentive Plan, which are settled by delivery of shares of common stock and purchases under the Employee Stock Purchase Plan, totaled $26 million at September 30, 2021, as shown in the following table.

Table 18.1 – Activities of Equity Compensation Costs by Award Type

	Nine Months Ended September 30, 2021					
(In Thousands)	**Restricted Stock Awards**	**Restricted Stock Units**	**Deferred Stock Units**	**Performance Stock Units**	**Employee Stock Purchase Plan**	**Total**
Unrecognized compensation cost at beginning of period	$ 564	$ 3,540	$ 17,766	$ 5,794	$ —	$ 27,664
Equity grants	—	2,370	5,766	—	335	8,471
Performance-based valuation adjustment	—	—	—	1,072	—	1,072
Equity grant forfeitures	(2)	(670)	(550)	—	—	(1,222)
Equity compensation expense	(375)	(1,188)	(5,681)	(2,002)	(251)	(9,497)
Unrecognized Compensation Cost at End of Period	$ 187	$ 4,052	$ 17,301	$ 4,864	$ 84	$ 26,488

At September 30, 2021, the weighted average amortization period remaining for all of our equity awards wasone year.

Restricted Stock Awards ("RSAs")

At September 30, 2021 and December 31, 2020, there were29,693 and 78,998 shares, respectively, of RSAs outstanding. Restrictions on these shares lapse through 2022. During the nine months ended September 30, 2021, there were no RSAs granted, restrictions on49,305 RSAs lapsed and those shares were distributed, andno RSAs were forfeited.

Restricted Stock Units ("RSUs")

At September 30, 2021 and December 31, 2020, there were445,183 and 282,424 shares, respectively, of RSUs outstanding. During the nine months ended September 30, 2021, there were 272,261 RSUs granted, 64,759 RSUs distributed, and 44,743 RSUs forfeited. Unvested RSUs at September 30, 2021 vest through 2025.

Deferred Stock Units ("DSUs")

At September 30, 2021 and December 31, 2020, there were3,318,540 and 2,805,144 DSUs, respectively, outstanding of which 1,546,724 and 1,206,125, respectively, had vested. During the nine months ended September 30, 2021, there were 700,552 DSUs granted, 155,995 DSUs distributed, and 31,161 DSUs forfeited. Unvested DSUs at September 30, 2021 vest through 2025.

Note 18. Equity Compensation Plans - (continued)

Performance Stock Units ("PSUs")

At September 30, 2021 and December 31, 2020, the target number of PSUs that were unvested was955,710 and 978,735, respectively. Vesting for PSUs generally occurs at the end of three years from their respective grant dates based on various total shareholder return performance calculations, as discussed in our Annual Report on Form 10-K for the year ended December 31, 2020. With respect to PSUs granted in May 2018, the three-year performance period ended during the second quarter of 2021, resulting in the vesting of no shares of our common stock. During the second quarter of 2021, for PSUs granted in 2020, we adjusted the future amortization expense by $1 million to reflect our current estimate of the number of shares expected to vest in relation to the performance condition for the initial one-year vesting tranche.

Employee Stock Purchase Plan ("ESPP")

The ESPP allows a maximum of 850,000 shares of common stock to be purchased in aggregate for all employees. As of September 30, 2021 and December 31, 2020, 546,093 and 489,886 shares had been purchased, respectively, and there remained a negligible amount of uninvested employee contributions in the ESPP at September 30, 2021.

Note 19. Mortgage Banking Activities, Net

The following table presents the components of Mortgage banking activities, net, recorded in our consolidated statements of income (loss) for the three and nine months ended September 30, 2021 and 2020.

Table 19.1 – Mortgage Banking Activities

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	**2021**	**2020**	**2021**	**2020**
Residential Mortgage Banking Activities, Net				
Changes in fair value of:				
Residential loans, at fair value (1)	$ 27,862	$ 12,589	$ 75,496	$ 19,151
Trading securities (2)	32	—	(342)	—
Risk management derivatives (3)	3,963	(10)	37,187	(31,304)
Other income (expense), net (4)	1,089	(715)	3,305	(7,069)
Total residential mortgage banking activities, net	32,946	11,864	115,646	(19,222)
Business Purpose Mortgage Banking Activities, Net:				
Changes in fair value of:				
Single-family rental loans, at fair value (1)	18,461	43,191	54,675	56,209
Risk management derivatives (3)	(424)	(89)	930	(21,627)
Bridge loans, at fair value	3,433	938	6,702	(4,256)
Other income, net (5)	8,747	3,491	22,236	13,407
Total business purpose mortgage banking activities, net	30,217	47,531	84,543	43,733
Mortgage Banking Activities, Net	$ 63,163	$ 59,395	$ 200,189	$ 24,511

(1) For residential loans, includes changes in fair value for associated loan purchase and forward sale commitments. For single-family rental loans, includes changes in fair value for associated interest rate lock commitments.
(2) Represents fair value changes on trading securities that are being used as hedges to manage the mark-to-market risks associated with our residential mortgage banking operations.
(3) Represents market valuation changes of derivatives that were used to manage risks associated with our mortgage banking operations.
(4) Amounts in this line item include other fee income from loan acquisitions and provisions for repurchase expense, presented net.
(5) Amounts in this line item include other fee income from loan originations.

Note 20. Other Income

The following table presents the components of Other income recorded in our consolidated statements of income (loss) for the three and nine months ended September 30, 2021 and 2020.

Table 20.1 – Other Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	**2021**	**2020**	**2021**	**2020**
MSR (loss) income, net [1]	$ 295	$ (2,362)	$ 949	$ (5,595)
Agency risk sharing agreement income	575	1,200	2,318	3,146
FHLBC capital stock dividend	3	116	53	1,201
Bridge loan fees	1,131	716	2,735	2,520
Other	384	216	2,302	2,707
Other Income, Net	$ 2,388	$ (114)	$ 8,357	$ 3,979

(1) Includes servicing fees and fair value changes for MSRs and associated hedges, net.

Note 21. General and Administrative Expenses, Loan Acquisition Costs, and Other Expenses

Components of our general and administrative expenses, loan acquisition costs, and other expenses for the three and nine months ended September 30, 2021 and 2020 are presented in the following table.

Table 21.1 – Components of General and Administrative Expenses, Loan Acquisition Costs, and Other Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	**2021**	**2020**	**2021**	**2020**
General and Administrative Expenses				
Fixed compensation expense	$ 11,285	$ 10,103	$ 34,359	$ 36,605
Annual variable compensation	19,844	5,882	51,021	9,171
Long-term incentive award expense (1)	4,915	2,639	14,766	7,896
Acquisition-related equity compensation expense (2)	1,189	1,212	3,613	3,636
Systems and consulting	2,975	2,145	9,224	7,752
Office costs	2,197	1,859	6,029	5,854
Accounting and legal	1,197	1,601	3,132	6,605
Corporate costs	964	831	2,528	2,128
Other	3,126	1,358	7,165	5,185
Total General and Administrative Expenses	47,692	27,630	131,837	84,832
Loan Acquisition Costs				
Commissions	1,906	879	4,830	3,027
Underwriting costs	2,351	771	5,872	3,289
Transfer and holding costs	364	508	1,226	1,400
Total Loan Acquisition Costs	4,621	2,158	11,928	7,716
Other Expenses				
Goodwill impairment expense	—	—	—	88,675
Amortization of purchase-related intangible assets	3,873	3,873	11,619	12,052
Other	150	3,915	485	3,559
Total Other Expenses	4,023	7,788	12,104	104,286
Total General and Administrative Expenses, Loan Acquisition Costs, and Other Expenses	$ 56,336	$ 37,576	$ 155,869	$ 196,834

(1) For the three months ended September 30, 2021, long-term incentive award expense includes $3 million of expense for awards settleable in shares of our common stock and $1 million of expense for awards settleable in cash. For the nine months ended September 30, 2021, long-term incentive award expense includes $10 million of expense for awards settleable in shares of our common stock and $4 million of expense for awards settleable in cash.

(2) Acquisition-related equity compensation expense relates to 588,260 shares of restricted stock that were issued to members of CoreVest management as a component of the consideration paid to them for our purchase of their interests in CoreVest. The grant date fair value of these restricted stock awards was $10 million, which is being recognized as compensation expense over the two-year vesting period on a straight-line basis in accordance with GAAP.

Note 22. Taxes

We believe that we have met all requirements for qualification as a REIT for federal income tax purposes. To qualify as a REIT, the Company must distribute at least 90% of its annual REIT taxable income and meet certain other requirements that relate to, among others, the assets it holds, the income it generates, and the composition of its stockholders.

For the nine months ended September 30, 2021 and 2020, we recognized a provision for income taxes of $14 million and a benefit from income taxes of $13 million, respectively. The following is a reconciliation of the statutory federal and state tax rates to our effective tax rate at September 30, 2021 and 2020.

Table 22.1 – Reconciliation of Statutory Tax Rate to Effective Tax Rate

	September 30, 2021	September 30, 2020
Federal statutory rate	21.0 %	21.0 %
State statutory rate, net of Federal tax effect	8.6 %	8.6 %
Differences in taxable (loss) income from GAAP income	(13.1) %	(23.6) %
Change in valuation allowance	(6.8) %	(4.0) %
Dividends paid deduction [1]	(4.9) %	— %
Effective Tax Rate	4.8 %	2.0 %

(1) The dividends paid deduction in the effective tax rate reconciliation is generally representative of the amount of distributions to shareholders that reduce REIT taxable income. For the nine months ended September 30, 2020, the dividends paid deduction is 0% because there was no REIT taxable income available to apply against the dividends paid. This was due to our REIT incurring a taxable loss during the period.

We assessed our tax positions for all open tax years (i.e., Federal, 2017 to 2021, and State, 2016 to 2021) at September 30, 2021 and December 31, 2020, and concluded that we had no uncertain tax positions that resulted in material unrecognized tax benefits.

For the three months ended September 30, 2021, we reassessed the valuation allowance on our deferred tax assets ("DTAs") noting an increase in positive evidence related to our ability to utilize certain DTAs. The positive evidence includes significant revenue growth in recent quarters and expectations regarding future profitability at our TRS. After assessing both the positive and negative evidence, we determined it was more likely than not that we will realize all of our federal DTAs. Therefore, we reversed our federal valuation allowance of $17 million as a discrete benefit in the third quarter of 2021. In addition to the federal valuation allowance release, we determined it was more likely than not that we will realize a portion of our state DTAs and, as such, reversed $3 million of state valuation allowance as a discrete item in the third quarter of 2021. Consistent with prior periods, we continued to maintain a valuation allowance against the majority of our net state DTAs as realization of our state DTAs is dependent on generating sufficient taxable income in the same jurisdictions in which the DTAs exist and we project most of our state DTAs will expire prior to their utilization.

Note 23. Segment Information

Redwood operates in three segments: Residential Lending, Business Purpose Lending, and Third-Party Investments. For a full description of our segments, see *Part I, Item 1—Business* in our Annual Report on Form 10-K for the year ended December 31, 2020.

Segment contribution represents the measure of profit that management uses to assess the performance of our business segments and make resource allocation and operating decisions. Certain corporate expenses not directly assigned or allocated to one of our three segments, as well as activity from certain consolidated Sequoia entities, are included in the Corporate/Other column as reconciling items to our consolidated financial statements. These unallocated corporate expenses primarily include interest expense from our convertible notes and trust preferred securities, indirect general and administrative expenses and other expense.

Note 23. Segment Information - (continued)

The following tables present financial information by segment for the three and nine months ended September 30, 2021 and 2020.

Table 23.1 – Business Segment Financial Information

	Three Months Ended September 30, 2021				
(In Thousands)	**Residential Lending**	**Business Purpose Lending**	**Third-Party Investments**	**Corporate/ Other**	**Total**
Interest income	$ 44,220	$ 67,235	$ 33,218	$ 1,049	$ 145,722
Interest expense	(25,395)	(46,834)	(21,370)	(10,155)	(103,754)
Net interest income	18,825	20,401	11,848	(9,106)	41,968
Non-interest income					
Mortgage banking activities, net	32,946	30,217	—	—	63,163
Investment fair value changes, net	2,285	3,470	20,569	(247)	26,077
Other income, net	874	1,184	—	330	2,388
Realized gains, net	6,389	314	—	—	6,703
Total non-interest income (loss), net	42,494	35,185	20,569	83	98,331
General and administrative expenses	(8,989)	(13,987)	(1,415)	(23,301)	(47,692)
Loan acquisition costs	(2,395)	(2,175)	(51)	—	(4,621)
Other expenses	—	(3,873)	(150)	—	(4,023)
(Provision for) benefit from income taxes	(11,139)	(3,485)	(335)	19,282	4,323
Segment Contribution	$ 38,796	$ 32,066	$ 30,466	$ (13,042)	
Net Income					$ 88,286
Non-cash amortization (expense) income, net	$ 5,862	$ (4,713)	$ 276	$ (1,995)	$ (570)

	Nine Months Ended September 30, 2021				
(In Thousands)	**Residential Lending**	**Business Purpose Lending**	**Third-Party Investments**	**Corporate/ Other**	**Total**
Interest income	$ 104,801	$ 202,155	$ 102,180	$ 3,586	$ 412,722
Interest expense	(65,488)	(151,351)	(66,883)	(30,649)	(314,371)
Net interest income	39,313	50,804	35,297	(27,063)	98,351
Non-interest income					
Mortgage banking activities, net	115,646	84,543	—	—	200,189
Investment fair value changes, net	8,958	10,551	102,303	(1,168)	120,644
Other income, net	4,566	3,044	5	742	8,357
Realized gains, net	15,484	812	1,507	—	17,803
Total non-interest income, net	144,654	98,950	103,815	(426)	346,993
General and administrative expenses	(30,539)	(38,834)	(3,476)	(58,988)	(131,837)
Loan acquisition costs	(5,698)	(6,088)	(138)	(4)	(11,928)
Other expenses	(6)	(11,523)	(592)	17	(12,104)
(Provision for) benefit from income taxes	(25,289)	(6,988)	(912)	19,282	(13,907)
Segment Contribution	$ 122,435	$ 86,321	$ 133,994	$ (67,182)	
Net Income					$ 275,568
Non-cash amortization (expense) income, net	$ 8,867	$ (16,154)	$ 317	$ (5,845)	$ (12,815)

Note 23. Segment Information - (continued)

(In Thousands)	Three Months Ended September 30, 2020 Residential Lending	Business Purpose Lending	Third-Party Investments	Corporate/ Other	Total
Interest income	$ 26,672	$ 55,930	$ 37,576	$ 1,804	$ 121,982
Interest expense	(21,401)	(44,159)	(24,238)	(10,613)	(100,411)
Net interest income	5,271	11,771	13,338	(8,809)	21,571
Non-interest income					
Mortgage banking activities, net	11,864	47,531	—	—	59,395
Investment fair value changes, net	2,443	16,892	87,890	(178)	107,047
Other income, net	(2,011)	623	340	934	(114)
Realized gains, net	—	—	602	—	602
Total non-interest income, net	12,296	65,046	88,832	756	166,930
General and administrative expenses	(4,602)	(9,321)	(709)	(12,998)	(27,630)
Loan acquisition costs	(304)	(1,660)	(194)	—	(2,158)
Other expenses	(3,309)	(3,874)	(470)	(135)	(7,788)
(Provision for) benefit from income taxes	(826)	(8,544)	257	—	(9,113)
Segment Contribution	$ 8,526	$ 53,418	$ 101,054	$ (21,186)	
Net Income					$ 141,812
Non-cash amortization income (expense), net	$ 1,785	$ (6,719)	$ 117	$ (1,516)	$ (6,333)

(In Thousands)	Nine Months Ended September 30, 2020 Residential Lending	Business Purpose Lending	Third-Party Investments	Corporate/ Other	Total
Interest income	$ 123,956	$ 162,732	$ 155,583	$ 7,738	$ 450,009
Interest expense	(87,725)	(113,143)	(111,666)	(37,214)	(349,748)
Net interest income	36,231	49,589	43,917	(29,476)	100,261
Non-interest income					
Mortgage banking activities, net	(19,222)	43,733	—	—	24,511
Investment fair value changes, net	(159,107)	(84,837)	(366,696)	(917)	(611,557)
Other income, net	(2,278)	3,493	1,072	1,692	3,979
Realized gains, net	2,001	—	3,236	25,182	30,419
Total non-interest income, net	(178,606)	(37,611)	(362,388)	25,957	(552,648)
General and administrative expenses	(12,901)	(29,977)	(4,230)	(37,724)	(84,832)
Loan acquisition costs	(1,512)	(5,630)	(567)	(7)	(7,716)
Other expenses	(3,309)	(100,743)	347	(581)	(104,286)
Benefit from income taxes	7,827	477	4,775	—	13,079
Segment Contribution	$ (152,270)	$ (123,895)	$ (318,146)	$ (41,831)	
Net Loss					$ (636,142)
Non-cash amortization income (expense), net	$ 732	$ (18,035)	$ 1,170	$ (3,244)	$ (19,377)
Other significant non-cash expense: goodwill impairment	$ —	$ (88,675)	$ —	$ —	$ (88,675)

Note 23. Segment Information - (continued)

The following table presents the components of Corporate/Other for the three and nine months ended September 30, 2021 and 2020.

Table 23.2 – Components of Corporate/Other

	Three Months Ended September 30,					
	2021			2020		
(In Thousands)	**Legacy Consolidated VIEs (1)**	**Other**	**Total**	**Legacy Consolidated VIEs (1)**	**Other**	**Total**
Interest income	$ 1,042	$ 7	$ 1,049	$ 1,795	$ 9	$ 1,804
Interest expense	(641)	(9,514)	(10,155)	(1,059)	(9,554)	(10,613)
Net interest income	401	(9,507)	(9,106)	736	(9,545)	(8,809)
Non-interest income						
Investment fair value changes, net	(247)	—	(247)	(81)	(97)	(178)
Other income	—	330	330	—	934	934
Total non-interest income, net	(247)	330	83	(81)	837	756
General and administrative expenses	—	(23,301)	(23,301)	—	(12,998)	(12,998)
Other expenses	—	—	—	—	(135)	(135)
Provision for income taxes	—	19,282	19,282	—	—	—
Total	$ 154	$ (13,196)	$ (13,042)	$ 655	$ (21,841)	$ (21,186)

	Nine Months Ended September 30,					
	2021			2020		
(In Thousands)	**Legacy Consolidated VIEs (1)**	**Other**	**Total**	**Legacy Consolidated VIEs (1)**	**Other**	**Total**
Interest income	$ 3,559	$ 27	$ 3,586	$ 7,674	$ 64	$ 7,738
Interest expense	(2,271)	(28,378)	(30,649)	(5,099)	(32,115)	(37,214)
Net interest income	1,288	(28,351)	(27,063)	2,575	(32,051)	(29,476)
Non-interest income						
Investment fair value changes, net	(1,162)	(6)	(1,168)	(702)	(215)	(917)
Other income	—	742	742	—	1,692	1,692
Realized gains, net	—	—	—	—	25,182	25,182
Total non-interest income, net	(1,162)	736	(426)	(702)	26,659	25,957
General and administrative expenses	—	(58,988)	(58,988)	—	(37,724)	(37,724)
Loan acquisition costs	—	(4)	(4)	—	(7)	(7)
Other expenses	—	17	17	—	(581)	(581)
Provision for income taxes	—	19,282	19,282	—	—	—
Total	$ 126	$ (67,308)	$ (67,182)	$ 1,873	$ (43,704)	$ (41,831)

(1) Legacy consolidated VIEs represent Legacy Sequoia entities that are consolidated for GAAP financial reporting purposes. See *Note 4* for further discussion on VIEs.

Note 23. Segment Information - (continued)

The following table presents supplemental information by segment at September 30, 2021 and December 31, 2020.

Table 23.3 – Supplemental Segment Information

(In Thousands)	Residential Lending	Business Purpose Lending	Third-Party Investments	Corporate/ Other	Total
September 30, 2021					
Residential loans	$ 3,974,829	$ —	$ 1,999,405	$ 242,234	$ 6,216,468
Business purpose loans	—	4,693,555	—	—	4,693,555
Multifamily loans	—	—	482,791	—	482,791
Real estate securities	150,368	—	202,918	—	353,286
Other investments	12,389	6,767	379,102	24,108	422,366
Intangible assets	—	45,246	—	—	45,246
Total assets	4,219,950	4,860,226	3,088,815	903,723	13,072,714
December 31, 2020					
Residential loans	$ 1,741,963	$ —	$ 2,221,153	$ 285,935	$ 4,249,051
Business purpose loans	—	4,136,353	—	—	4,136,353
Multifamily loans	—	—	492,221	—	492,221
Real estate securities	160,780	—	183,345	—	344,125
Other investments	8,815	21,627	317,282	451	348,175
Intangible assets	—	56,865	—	—	56,865
Total assets	1,989,802	4,323,040	3,232,415	809,809	10,355,066

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in six main sections:

- Overview
- Results of Operations
  - Consolidated Results of Operations
  - Results of Operations by Segment
  - Investments Detail
  - Income Taxes
- Liquidity and Capital Resources
- Off-Balance Sheet Arrangements and Contractual Obligations
- Critical Accounting Policies and Estimates
- New Accounting Standards

Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q and in Part II, Item 8, Financial Statements and Supplementary Data in our most recent Annual Report on Form 10-K, as well as the sections entitled "Risk Factors" in Part I, Item 1A of our most recent Annual Report on Form 10-K and Part II, Item 1A of this Quarterly Report on Form 10-Q, as well as other cautionary statements and risks described elsewhere in this report and our most recent Annual Report on Form 10-K. The discussion in this MD&A contains forward-looking statements that involve substantial risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, such as those discussed in the Cautionary Statement below.

References herein to "Redwood," the "company," "we," "us," and "our" include Redwood Trust, Inc. and its consolidated subsidiaries, unless the context otherwise requires. Financial information concerning our business is set forth in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and notes thereto, which are included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Our website can be found at www.redwoodtrust.com. We make available, free of charge through the investor information section of our website, access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission ("SEC"). We also make available, free of charge, access to our charters for our Audit Committee, Compensation Committee, and Governance and Nominating Committee, our Corporate Governance Standards, and our Code of Ethics governing our directors, officers, and employees. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to the Code of Ethics and any waiver applicable to any executive officer or director of Redwood. In addition, our website includes information concerning purchases and sales of our equity securities by our executive officers and directors, and may include disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast, or by similar means from time to time. The information on our website is not part of this Quarterly Report on Form 10-Q.

Our Investor Relations Department can be contacted at One Belvedere Place, Suite 300, Mill Valley, CA 94941, Attn: Investor Relations, telephone (866) 269-4976.

Our Business

Redwood Trust, Inc., together with its subsidiaries, is a specialty finance company focused on several distinct areas of housing credit. Our operating platforms occupy a unique position in the housing finance value chain, providing liquidity to growing segments of the U.S. housing market not served by government programs. We deliver customized housing credit investments to a diverse mix of investors through our best-in-class securitization platforms, whole-loan distribution activities and our publicly-traded shares. Our consolidated investment portfolio has evolved to incorporate a diverse mix of residential, business purpose and multifamily investments. Our goal is to provide attractive returns to shareholders through a stable and growing stream of earnings and dividends, capital appreciation, and a commitment to technological innovation that facilitates risk-minded scale. We operate our business in three segments: Residential Lending, Business Purpose Lending, and Third-Party Investments. For a full description of our segments, see *Part 1, Item 1—Business* in our Annual Report on Form 10-K for the year ended December 31, 2020.

Cautionary Statement

This Quarterly Report on Form 10-Q and the documents incorporated by reference herein contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our beliefs, 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 fiscal year ended December 31, 2020, under the caption “Risk Factors.” Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected may be described from time to time in reports we file with the SEC, including reports on Forms 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.

Statements regarding the following subjects, among others, are forward-looking by their nature: (i) statements we make regarding Redwood's business strategy and strategic focus, including statements relating to our overall market position, strategy and long-term prospects (including trends driving the flow of capital in the housing finance market, our strategic initiatives designed to capitalize on those trends, our ability to attract capital to finance those initiatives, our approach to raising capital, our ability to pay dividends in the future, and the prospects for federal housing finance reform); (ii) statements related to our financial outlook and expectations for 2021 and future years; (iii) statements related to our opportunities for growth, including by continuing to creatively expand distribution channels for our loans products; (iv) statements related to our investment portfolio, including that there remains potential upside in our portfolio through a combination of accretable market discount and call rights that we control, and that we reinitiated our flow purchase arrangement with Point, providing us with continuing HEI acquisition and securitization opportunities; (v) statements related to our residential and business purpose lending platforms, including that we expect CoreVest to continue to consider issuing bridge loan securitizations in conjunction with our traditional SFR loan securitizations; (vi) statements relating to our estimate of our available capital (including that we estimate our available capital at September 30, 2021 was approximately $350 million); (vii) statements relating to acquiring residential mortgage loans in the future that we have identified for purchase or plan to purchase, including the amount of such loans that we identified for purchase during the third quarter of 2021 and at September 30, 2021, and expected fallout and the corresponding volume of residential mortgage loans expected to be available for purchase; (viii) statements we make regarding future dividends, including with respect to our regular quarterly dividends in 2021; and (ix) statements regarding our expectations and estimates relating to the characterization for income tax purposes of our dividend distributions, our expectations and estimates relating to tax accounting, tax liabilities and tax savings, and GAAP tax provisions, and our estimates of REIT taxable income and TRS taxable income.

Many of the factors that could affect our actual results are summarized below. One of the most significant factors, however, is the ongoing impact of the pandemic on the United States economy, homeowners, renters of housing, the housing market, the mortgage finance markets and the broader financial markets. It is difficult to fully assess the impact of the pandemic at this time, including because of the uncertainty around the severity and duration of the pandemic domestically and internationally, as well as the uncertainty around the efficacy of Federal, State and local governments' efforts to contain the spread of COVID-19 and respond to its direct and indirect impacts on many aspects of Americans' lives and economic activity. Moreover, each of the factors summarized below is likely to also be impacted directly or indirectly by the ongoing impact of the pandemic and investors are cautioned to interpret substantially all of the risks identified in the Company's previously published “Risk Factors” as being heightened as a result of the ongoing impact of the pandemic.

Important factors, among others, that may affect our actual results include:

- the impact of the COVID-19 pandemic;

- general economic trends and the performance of the housing, real estate, mortgage finance, and broader financial markets;
- federal and state legislative and regulatory developments and the actions of governmental authorities and entities;
- changing benchmark interest rates, and the Federal Reserve's actions and statements regarding monetary policy;
- our ability to compete successfully;
- our ability to adapt our business model and strategies to changing circumstances;
- strategic business and capital deployment decisions we make;
- our use of financial leverage;
- our exposure to a breach of our cybersecurity or data security;
- 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, the geographical concentration of real estate underlying assets we own, and our exposure to environmental and climate-related risks;
- 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 mortgage prepayment rates;
- changes in interest rates;
- our ability to 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;
- our ability to finance the acquisition of real estate-related assets with short-term debt;
- changes in the values of assets we own;
- the ability of counterparties to satisfy their obligations to us;
- our exposure to the discontinuation of LIBOR;
- our exposure to liquidity risk, risks associated with the use of leverage, and market risks;
- changes in the demand from investors for residential and business purpose mortgages and investments, and our ability to distribute residential and business purpose mortgages through our whole-loan distribution channel;
- 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 loan origination and securitization transactions;
- whether we have sufficient liquid assets to meet short-term needs;
- our ability to successfully retain or attract key personnel;
- 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 of our technology infrastructure and systems;
- the impact on our reputation that could result from our actions or omissions or from those of others;
- our failure to maintain appropriate internal controls over financial reporting and disclosure controls and procedures;
- the termination of our captive insurance subsidiary's membership in the Federal Home Loan Bank and the implications for our income generating abilities;
- the impact of changes to U.S. federal income tax laws on the U.S. housing market, mortgage finance markets, and our business;
- our failure to comply with applicable laws and regulation, including our ability to obtain or maintain the governmental licenses;
- 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;
- our common stock may experience price declines, volatility, and poor liquidity, and we may reduce our dividends in a variety of circumstances;
- decisions about raising, managing, and distributing capital;
- our exposure to broad market fluctuations; and
- other factors not presently identified.

This Quarterly Report on Form 10-Q may contain statistics and other data that in some cases have been obtained from or compiled from information made available by servicers and other third-party service providers.

OVERVIEW

Business Update

During the third quarter, we hosted Redwood’s third annual Investor Day. During our event we affirmed our commitment to our corporate mission to make quality housing, whether rented or owned, accessible to all American households, and discussed the Company's vision of being the leading operator and strategic capital provider driving sustainable innovation in housing finance.

We have significantly broadened our business within the housing market over the past several years. This includes expanding our mortgage banking platform and investment portfolio beyond the jumbo residential mortgage space, while maintaining the core competencies of the firm around our expertise in residential housing credit. Our expansion includes our acquisition of CoreVest in 2019 – which has now been part of our platform for two years – and investments in several other areas of housing finance. More recently, our approach to capital deployment has continued to evolve. Our progress this year growing our RWT Horizons initiative – investing in advanced technologies with the potential to transform our businesses – reflects an important step in that process. While our capital remains predominantly allocated to our operating businesses and investment portfolio, RWT Horizons reflects our belief in the strategic importance of innovation and partnership in driving profitable scale.

Our strategic vision is based upon the vast addressable market we see in front of us, driven by macroeconomic and market forces that have made liquidity sourced from the private markets essential for a robust housing finance system, for both consumers and investors alike. The recent modest increase in benchmark rates belies a lack of yield in the market that – but for some brief and notable intervals – has been persistent for over a decade. Taken together, this puts a premium on enterprises that can directly access markets efficiently and with discipline. We believe that these competencies, coupled with capital optimization and efficiency gains, will drive our financial results, and continuing to creatively expand distribution channels for mortgage loans we originate or acquire will be an important part of our evolution.

Turning to the third quarter of 2021, after a successful first half of the year, our team continued its strong performance. CoreVest maintained its momentum, funding $639 million of loans for the quarter, including $239 million in September alone. Our third quarter results saw strong contributions from both our SFR and Bridge lending teams, and we made key progress in our correspondent loan business, including our strategic investment in Churchill. Meanwhile, the Residential business identified $4.7 billion of loans for purchase in the third quarter (locked loans, unadjusted for fallout). Notwithstanding that benchmark interest rates hit lows not seen since February, almost 60% of our residential loan locks during the third quarter were on purchase-money loans, which we believe is indicative of the quality of our pipeline and our sellers.

Our investment portfolio remained in step with this operating progress, appreciating in value by approximately 2% during the third quarter of 2021. We believe there remains potential upside in our securities portfolio from a combination of accretable market discount and call rights that we control.

These factors contributed to another strong quarter of financial results, with GAAP earnings of $0.65 per diluted share, a 27% annualized return on equity for the third quarter of 2021. Book value increased 4.7% in the third quarter to $12.00 per share, contributing to an overall year-to-date increase of 21%. We declared a third quarter dividend of $0.21 per share and have now earned a 27% economic return year to date, which represents growth in GAAP book value combined with dividends paid.

Additionally, we executed a series of strategic and novel transactions across various disciplines within our firm that both positively contributed to earnings and provided indicators of our operating progress. Our Residential team completed a securitization leveraging blockchain technology for enhanced payment reporting for Sequoia investors. Historically, RMBS investors have needed to wait until well into the following month to see a month’s worth of remittance details on underlying loans. Liquid Mortgage – an early portfolio company of RWT Horizons – has coordinated with our sub-servicer to publish daily remittance information on a public blockchain. We believe this implementation is just the first step in the application of this type of technology to our business.

Next, we completed CoreVest’s first securitization of bridge loans, which priced competitively against comparable transactions in the market. This new form of distribution provides a valuable capital management tool with a 30-month reinvestment feature. We expect CoreVest to continue to consider issuing bridge loan securitizations in conjunction with our traditional single-family rental ("SFR") loan securitizations, having recently priced the 19th overall CAFL securitization in October 2021.

Finally, we co-sponsored a securitization backed entirely by residential Home Equity Investment contracts ("HEIs"). Co-sponsored with Point Digital, a financial technology company, this transaction allowed investors to participate in a new sector of the residential housing finance market that enables homeowners to participate in the benefits of home price appreciation without having to sell their homes or incur additional debt obligations. In parallel with this securitization, we renewed our flow purchase arrangement with Point, providing us with continuing HEI acquisition and securitization opportunities.

RWT Horizons also continued its investment activity, completing six investments during the third quarter while continuing to analyze a broad array of opportunities in the pipeline, including several in the climate analytics area, which continues to be of interest as traditional methods of predicting how climate change can impact property valuation and insurability continue to evolve. With a direct relationship to our firmwide ESG work, we expect to continue dedicating focus to this type of opportunity through RWT Horizons.

As we approach the end of 2021, we are proceeding cautiously. We see several macro and market risks ahead, including COVID-19 variants, rising inflation, central bank tapering (now officially signaled by the Federal Reserve) and Federal debt ceiling extension uncertainty, among others. More fundamentally, recent trends in unemployment claims data suggest that the economy is still in a recovery phase and the current economic situation is far from stable, notwithstanding consistent upward pressure on home prices and rents that has otherwise been favorable to our business results. Our interest rate, capital and broader risk management posture reflects this cautious view: while we have generated strong earnings thus far in 2021, we have done so with record levels of cash on hand – including $557 million at September 30, 2021.

We are also focused on making a positive impact for our people, our customers, our communities, and the overall society within which we operate. We believe this focus on a business model vision and a set of core values can produce long-term and sustainable benefits for all our stakeholders. Going forward, we expect to continue operating to fulfill our broadly-conceived mission, focusing on the significant addressable markets in front of us, embracing the cusp of innovation, running a business grounded in fundamentals and sound analysis, and nurturing a diverse talent bench engaged and aligned with our values.

Third Quarter Overview

The following table presents key financial metrics for the three and nine months ended September 30, 2021.

Table 1 – Key Financial Metrics

(In Thousands, except per Share Data)	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
Net income per diluted common share	$ 0.65	$ 2.03
Annualized GAAP return on equity	26.7 %	29.6 %
Dividends per share	$ 0.21	$ 0.55
Book value per share	$ 12.00	$ 12.00
Economic return on book value (1)	6.5 %	26.6 %

(1) Economic return on book value is based on the periodic change in GAAP book value per common share plus dividends declared per common share during the period.

- Our third quarter 2021 results reflect ongoing strength of our operating platforms with higher volumes and strong margins driving increased revenues, improved returns in our investment portfolio from more efficient financing, and a tax benefit realized during the quarter. These results, along with an increase in the value of our securities portfolio attributable to continued positive fundamental trends, contributed to a 4.7% increase in our book value per share during the quarter.
- In September 2021, we announced a 17% increase in our quarterly dividend to $0.21 per share for the third quarter of 2021.
- Our book value increased $0.54 per share to $12.00 per share during the third quarter of 2021, as basic earnings per share significantly exceeded our third quarter dividend of $0.21 per share.
- Our business purpose lending platform funded $639 million of business purpose mortgage loans in the third quarter, including $394 million of single-family rental loans and $245 million of residential bridge loans.
- During the third quarter of 2021, we locked a record $4.74 billion of jumbo loans with over 125 discrete sellers, jumbo loan purchase commitments were $3.29 billion, and we purchased $3.18 billion of residential jumbo loans.
- During the third quarter of 2021, we securitized $1.03 billion of loans through three securitizations across Residential and Business Purpose Lending, and distributed $2.43 billion of jumbo loans through whole loan sales.
- During the third quarter of 2021, we completed a securitization backed entirely by residential home equity investment contracts ("HEIs"), issuing approximately $146 million of securities through a transaction co-sponsored with Point Digital.
- During the third quarter of 2021, we funded six venture investments through our RWT Horizons venture investment initiative.
- During the third quarter of 2021, we added over $350 million of financing capacity to support growth of our operating platforms and completed a new $100 million non-marginable term financing collateralized by retained securities in our investment portfolio.
- At September 30, 2021, our unrestricted cash was $557 million, and our estimated available capital was $350 million.

RESULTS OF OPERATIONS

Within this *Results of Operations* section, we provide commentary that compares results year-over-year for 2021 and 2020. Most tables include a "change" column that shows the amount by which the results from 2021 are greater or less than the results from the respective period in 2020. Unless otherwise specified, references in this section to increases or decreases during the "three-month periods" refer to the change in results for the third quarter of 2021, compared to the third quarter of 2020, and increases or decreases in the "nine-month periods" refer to the change in results for the nine months of 2021, compared to the first nine months of 2020.

Consolidated Results of Operations

The following table presents the components of our net income for the three and nine months ended September 30, 2021 and 2020.

Table 2 – Net Income (Loss)

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In Thousands, except per Share Data)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Net Interest Income	$ 41,968	$ 21,571	$ 20,397	$ 98,351	$ 100,261	$ (1,910)
Non-interest Income						
Mortgage banking activities, net	63,163	59,395	3,768	200,189	24,511	175,678
Investment fair value changes, net	26,077	107,047	(80,970)	120,644	(611,557)	732,201
Other income	2,388	(114)	2,502	8,357	3,979	4,378
Realized gains, net	6,703	602	6,101	17,803	30,419	(12,616)
Total non-interest income (loss), net	98,331	166,930	(68,599)	346,993	(552,648)	899,641
General and administrative expenses	(47,692)	(27,630)	(20,062)	(131,837)	(84,832)	(47,005)
Loan acquisition costs	(4,621)	(2,158)	(2,463)	(11,928)	(7,716)	(4,212)
Other expenses	(4,023)	(7,788)	3,765	(12,104)	(104,286)	92,182
Net income (loss) before income taxes	83,963	150,925	(66,962)	289,475	(649,221)	938,696
Benefit from (provision for) income taxes	4,323	(9,113)	13,436	(13,907)	13,079	(26,986)
Net Income (Loss)	$ 88,286	$ 141,812	$ (53,526)	$ 275,568	$ (636,142)	$ 911,710
Diluted earnings (loss) per common share	$ 0.65	$ 1.02	$ (0.37)	$ 2.03	$ (5.60)	$ 7.63

Net Interest Income

The increase in net interest income during the three-month periods was primarily due to higher average asset balances during the third quarter of 2021, as well as a higher net interest margin, driven by the combination of a lower average cost of funds and higher discount accretion on our available-for-sale securities. For the nine-month periods, the decrease in net interest expense was primarily related to higher average asset balances during the first half of 2020, as we repositioned our portfolio during the second quarter of 2020, selling a significant amount of assets.

Additional detail on net interest income is provided in the *"Net Interest Income"* section that follows.

Mortgage Banking Activities, Net

The increase in income from mortgage banking activities during the three- and nine-month periods was primarily due to an increase in loan acquisition and origination volumes at both our residential and business purpose mortgage banking businesses during 2021, due to pandemic-related disruptions in 2020, which adversely impacted our origination volumes in 2020.

A more detailed analysis of the changes in this line item is included in the "*Results of Operations by Segment*" section that follows.

Investment Fair Value Changes, Net

Investment fair value changes, net, is primarily comprised of the change in fair values of our portfolio investments accounted for under the fair value option and, prior to the second quarter of 2020, interest rate hedges associated with these investments. During the three and nine months ended September 30, 2021, positive investment fair value changes reflected continuing improvement in credit performance and spread tightening across our investment portfolio, particularly in our third-party re-performing loan ("RPL") and retained CAFL SFR securities. Additional detail on our investment fair value changes during 2021 is included in the "*Results of Operations by Segment*" section that follows.

During the three months ended September 30, 2020, investment fair value changes reflected increases in the fair value of our investment assets from improved credit performance and spread tightening. During the nine months ended September 30, 2020, the negative investment fair value changes reflected significant declines in the value of our investments in the first quarter of 2020 resulting from market dislocations caused by the pandemic.

Other Income

The increase in other income for the three- and nine-month periods was primarily the result of an increase in income from our MSR investments, which generally benefited from a stabilization in prepayment speeds during 2021.

Realized Gains, Net

During the three and nine months ended September 30, 2021, we realized gains of $7 million and $18 million, respectively, primarily resulting from the call of two and six seasoned Sequoia securitizations, respectively. During the three and nine months ended September 30, 2020, we realized gains of $1 million and $30 million, respectively, primarily resulting from the sale of AFS securities, and for the nine-month period, a $25 million gain from the repurchase of $125 million of convertible debt during the second quarter of 2020.

General and Administrative Expenses

The increase in general and administrative expenses for the three- and nine-month periods primarily resulted from increased accruals of variable compensation expense associated with improved financial results in 2021 as compared to 2020, as well as long-term incentive award expense from awards granted in the second half of 2020.

Loan Acquisition Costs

The increase in loan acquisition costs for the three- and nine-month periods was primarily due to higher loan origination volumes throughout 2021 as compared to 2020.

Other Expenses

The decrease in other expenses for the nine-month periods was primarily due to $89 million of goodwill impairment expense at our Business Purpose Lending segment recorded in the first quarter of 2020 that was taken as a result of the onset of pandemic- and liquidity-related disruptions.

Provision for Income Taxes

Our provision for income taxes is almost entirely related to activity at our taxable REIT subsidiaries, which primarily includes our mortgage banking activities and MSR investments, as well as certain other investment and hedging activities. For the three-month periods, our income tax provision decreased as we realized a $19 million benefit from the release of valuation allowance on a portion of our deferred tax assets. This decrease was partially offset by an increase in GAAP income recorded at our TRS and state taxes during 2021. For the nine-month periods, the tax provision in 2021 is reflective of the positive income earned at our taxable subsidiaries, partially offset by the benefit from the release of valuation allowance and higher state taxes, as compared to a tax benefit in 2020 reflective of a net loss incurred in that period.

For additional detail on income taxes, see the "*Taxable Income and Tax Provision*" section that follows.

Net Interest Income

The following table presents the components of net interest income for the three and nine months ended September 30, 2021 and 2020.

Table 3 – Net Interest Income

	Three Months Ended September 30,					
	2021			2020		
(Dollars in Thousands)	Interest Income/ (Expense)	Average Balance [1]	Yield	Interest Income/ (Expense)	Average Balance [1]	Yield
Interest Income						
Residential loans, held-for-sale	$ 15,377	$ 1,936,882	3.2 %	$ 434	$ 53,297	3.3 %
Residential loans - HFI at Redwood[2]	—	—	— %	77	—	— %
Residential loans - HFI at Legacy Sequoia[2]	1,042	248,791	1.7 %	1,795	285,077	2.5 %
Residential loans - HFI at Sequoia[2]	18,867	2,104,357	3.6 %	20,919	1,910,771	4.4 %
Residential loans - HFI at Freddie Mac SLST[2]	18,707	2,043,813	3.7 %	21,696	2,153,447	4.0 %
Business purpose loans at Redwood	18,192	1,019,393	7.1 %	19,456	1,149,171	6.8 %
Single-family rental loans - HFI at CAFL	48,723	3,455,645	5.6 %	36,181	2,663,541	5.4 %
Bridge loans - HFI at CAFL	214	12,015	7.1 %	—	—	— %
Multifamily loans - HFI at Freddie Mac K-Series	4,846	483,930	4.0 %	4,918	489,736	4.0 %
Trading securities	5,710	147,925	15.4 %	6,539	140,892	18.6 %
Available-for-sale securities	8,532	120,183	28.4 %	3,596	135,942	10.6 %
Other interest income	5,512	769,308	2.9 %	6,371	859,808	3.0 %
Total interest income	145,722	12,342,242	4.7 %	121,982	9,841,682	5.0 %
Interest Expense						
Short-term debt facilities	(10,808)	1,982,726	(2.2)%	(3,558)	313,190	(4.5)%
Short-term debt - servicer advance financing	(1,018)	149,450	(2.7)%	(1,587)	218,885	(2.9)%
ABS issued - Legacy Sequoia[2]	(641)	245,910	(1.0)%	(1,058)	280,954	(1.5)%
ABS issued - Sequoia[2]	(15,368)	1,872,636	(3.3)%	(17,828)	1,708,687	(4.2)%
ABS issued - Freddie Mac SLST[2]	(15,774)	1,765,465	(3.6)%	(16,819)	1,892,967	(3.6)%
ABS issued - Freddie Mac K-Series	(4,460)	453,031	(3.9)%	(4,426)	464,693	(3.8)%
ABS issued - CAFL	(37,489)	3,118,792	(4.8)%	(26,383)	2,509,828	(4.2)%
Long-term debt facilities	(8,715)	881,669	(4.0)%	(19,198)	1,094,608	(7.0)%
Long-term debt - FHLBC	—	—	— %	(1)	1,000	(0.4)%
Long-term debt - corporate	(9,481)	651,468	(5.8)%	(9,553)	648,923	(5.9)%
Total interest expense	(103,754)	11,121,147	(3.7)%	(100,411)	9,133,735	(4.4)%
Net Interest Income	$ 41,968			$ 21,571		

	Nine Months Ended September 30,					
	2021			2020		
(Dollars in Thousands)	Interest Income/ (Expense)	Average Balance [1]	Yield	Interest Income/ (Expense)	Average Balance [1]	Yield
Interest Income						
Residential loans, held-for-sale	$ 35,308	$ 1,568,966	3.0 %	$ 17,220	$ 599,609	3.8 %
Residential loans - HFI at Redwood[2]	—	—	— %	21,003	659,998	4.2 %
Residential loans - HFI at Legacy Sequoia[2]	3,559	262,007	1.8 %	7,673	327,460	3.1 %
Residential loans - HFI at Sequoia[2]	48,842	1,644,256	4.0 %	68,566	1,957,484	4.7 %
Residential loans - HFI at Freddie Mac SLST[2]	58,372	2,110,555	3.7 %	64,869	2,203,677	3.9 %
Business purpose loans	48,982	945,899	6.9 %	62,541	1,266,493	6.6 %
Single-family rental loans - HFI at CAFL	152,444	3,349,828	6.1 %	99,169	2,411,312	5.5 %
Bridge loans - HFI at CAFL	214	4,049	7.0 %	—	—	— %
Multifamily loans - HFI at Freddie Mac K-Series	14,492	488,804	4.0 %	49,960	1,711,123	3.9 %
Trading securities	17,133	140,241	16.3 %	26,789	336,151	10.6 %
Available-for-sale securities	16,051	128,564	16.6 %	11,682	139,487	11.2 %
Other interest income	17,325	790,499	2.9 %	20,537	763,898	3.6 %
Total interest income	412,722	11,433,668	4.8 %	450,009	12,376,692	4.8 %
Interest Expense						
Short-term debt facilities	(27,380)	1,609,295	(2.3)%	(40,158)	1,415,975	(3.8)%
Short-term debt - servicer advance financing	(3,414)	166,605	(2.7)%	(4,961)	199,517	(3.3)%
ABS issued - Legacy Sequoia[2]	(2,271)	258,915	(1.2)%	(5,099)	322,829	(2.1)%
ABS issued - Sequoia[2]	(38,848)	1,419,153	(3.6)%	(58,455)	1,757,851	(4.4)%
ABS issued - Freddie Mac SLST[2]	(49,756)	1,859,559	(3.6)%	(48,840)	1,861,309	(3.5)%
ABS issued - Freddie Mac K-Series	(13,294)	459,648	(3.9)%	(47,154)	1,614,333	(3.9)%
ABS issued - CAFL	(118,543)	3,041,714	(5.2)%	(72,768)	2,247,583	(4.3)%
Long-term debt facilities	(32,518)	776,846	(5.6)%	(29,789)	641,094	(6.2)%
Long-term debt - FHLBC	(2)	374	(0.7)%	(10,411)	786,790	(1.8)%
Long-term debt - corporate	(28,345)	650,828	(5.8)%	(32,113)	708,708	(6.0)%
Total interest expense	(314,371)	10,242,937	(4.1)%	(349,748)	11,555,989	(4.0)%
Net Interest Income	$ 98,351			$ 100,261		

(1) Average balances for residential loans held-for-sale, residential loans held-for-investment, business purpose loans, multifamily loans held-for-investment, and trading securities are calculated based upon carrying values, which represent estimated fair values. Average balances for available-for-sale securities and debt are calculated based upon amortized historical cost, except for ABS issued, which is based upon fair value.

(2) Interest income from residential loans held-for-investment ("HFI") at Redwood exclude loans HFI at consolidated Sequoia or Freddie Mac SLST entities. Interest income from residential loans - HFI at Legacy Sequoia and the interest expense from ABS issued - Legacy Sequoia represent activity from our consolidated Legacy Sequoia entities. Interest income from residential loans - HFI at Sequoia and the interest expense from ABS issued - Sequoia represent activity from our consolidated Sequoia entities. Interest income from residential loans - HFI at Freddie Mac SLST and the interest expense from ABS issued - Freddie Mac SLST represent activity from our consolidated Freddie Mac SLST entities.

Results of Operations by Segment

We report on our business using three distinct segments: Residential Lending, Business Purpose Lending, and Third-Party Investments. For additional information on our segments, refer to *Note 23* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q. The following table presents the segment contribution from our three segments reconciled to our consolidated net income for the three and nine months ended September 30, 2021 and 2020.

Table 4 – Segment Results Summary

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In Thousands)	**2021**	**2020**	**Change**	**2021**	**2020**	**Change**
Segment Contribution from:						
Residential Lending	$ 38,796	$ 8,526	$ 30,270	$ 122,435	$ (152,270)	$ 274,705
Business Purpose Lending	32,066	53,418	(21,352)	86,321	(123,895)	210,216
Third-Party Investments	30,466	101,054	(70,588)	133,994	(318,146)	452,140
Corporate/Other	(13,042)	(21,186)	8,144	(67,182)	(41,831)	(25,351)
Net Income (Loss)	$ 88,286	$ 141,812	$ (53,526)	$ 275,568	$ (636,142)	$ 911,710

The following sections provide a discussion of the results of operations at each of our three business segments for the three and nine months ended September 30, 2021.

The decrease in net expense from Corporate/Other for the three-month periods was primarily due to the reversal of $19 million of valuation allowance on our deferred tax assets in the third quarter of 2021. This decrease was partially offset by higher accruals of variable compensation expense associated with improved financial results in 2021. The increase in net expense for the nine-month periods was primarily due to a $25 million gain associated with the repurchase of $125 million of convertible debt in the second quarter of 2020.

Residential Lending Segment

Overview

Our Residential Lending segment generated $39 million of net income during the third quarter of 2021, driven primarily by $40 million of mortgage banking income and $12 million of net interest income from investments. Mortgage banking income increased from the second quarter of 2021, as loan purchase commitments of $3.3 billion in the third quarter were 20% higher than the second quarter and margins improved from the second quarter. Net interest income from investments increased approximately $5 million in the third quarter of 2021 from the second quarter of 2021, due to increased discount amortization on our available-for-sale securities.

Our Residential Lending segment generated $31 million of net income during the second quarter of 2021, driven primarily by $27 million of mortgage banking income and $6 million of net interest income from investments. Mortgage banking income decreased from the first quarter of 2021, as loan purchase commitments of $2.7 billion in the second quarter were 22% lower than the first quarter and margins normalized towards the high end of our historic target range.

Our Residential Lending segment generated $53 million of net income during the first quarter of 2021, driven primarily by $64 million of mortgage banking income and $6 million of net interest income from investments. Mortgage banking income increased significantly during the quarter, as loan purchase commitments increased 41% from the fourth quarter of 2020 to $3.51 billion, and gross margins nearly doubled.

Mortgage Banking

The following table provides the activity of residential loans held in inventory for sale at our mortgage banking business during the three and nine months ended September 30, 2021.

Table 5 – Loan Inventory for Residential Mortgage Banking Operations — Activity

(In Thousands)	**Three Months Ended September 30, 2021**	**Nine Months Ended September 30, 2021**
Balance at beginning of period	$ 1,063,722	$ 176,641
Acquisitions	3,176,004	9,758,766
Sales	(2,426,858)	(6,958,670)
Transfers between portfolios (1)	(464,189)	(1,669,683)
Principal repayments	(15,280)	(26,155)
Changes in fair value, net	10,630	63,130
Balance at End of Period	$ 1,344,029	$ 1,344,029

(1) Represents the fair value of the net transfers of loans from held-for-sale to held-for-investment within our Residential Lending investment portfolio, associated with securitizations we sponsored that we consolidate under GAAP.

The following table presents our mortgage banking income and loan purchase commitments during the three and nine months ended September 30, 2021.

Table 6 – Mortgage Banking Income and Residential Loan Purchase Commitments

(In Thousands)	**Three Months Ended September 30, 2021**	**Nine Months Ended September 30, 2021**
Mortgage banking income	$ 40,121	$ 131,281
Loan purchase commitments entered into	$ 3,288,102	$ 9,541,499

Mortgage banking income is comprised of net interest income from loans held-for-sale in inventory and mortgage banking activities. Income from mortgage banking activities is comprised of mark-to-market adjustments on loans from the time they are purchased to when they are sold, mark-to-market adjustments on new and outstanding loan purchase commitments, gains/losses from associated hedges, and other miscellaneous income/expenses (see *Note 19* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q for further detail).

During the three months ended September 30, 2021, our residential mortgage loan conduit locked $4.74 billion of loans ($3.29 billion adjusted for expected pipeline fallout - i.e, loan purchase commitments), including $4.21 billion of Select loans and $0.53 billion of Choice loans, and purchased $3.18 billion of loans. Approximately 59% of loans locked in the third quarter were purchase-money loans and 41% were refinancings. During the three months ended September 30, 2021, we distributed $2.43 billion of loans through whole loan sales, and completed one securitization backed by $449 million of loans (unpaid principal balance).

At September 30, 2021, we had $1.34 billion of loans in inventory on our balance sheet, our loan pipeline included $2.77 billion of loans identified for purchase (locked loans, unadjusted for fallout), and we had entered into forward sale agreements for $662 million of loans.

Our gross margin (mortgage banking income earned in the period divided by loan purchase commitments entered into during the period) for the three months ended September 30, 2021 was 122 basis points, up from 98 basis points in the second quarter of 2021.

We utilize a combination of capital and our residential loan warehouse facilities to manage our inventory of residential loans held-for-sale. At September 30, 2021, we had residential warehouse facilities outstanding with seven different counterparties, with $2.70 billion of total capacity and $1.36 billion of available capacity. These included non-marginable (i.e., not subject to margin calls based on the market value of the underlying collateral that is non-delinquent) facilities with $1.18 billion of total capacity and marginable facilities with $1.53 billion of total capacity.

Investment Portfolio

The following table presents details of our Residential Lending investment portfolio at September 30, 2021 and December 31, 2020.

Table 7 – Residential Lending Investments

(In Thousands)	September 30, 2021	December 31, 2020
Residential loans at Redwood (1)	$ 151,050	$ —
Residential securities at Redwood (2)	145,430	155,501
Residential securities at consolidated Sequoia entities (3)	236,451	217,965
Other investments	12,389	8,815
Total Segment Investments	$ 545,320	$ 382,281

(1) Balance consists of loans called from Sequoia securitizations. Excludes Sequoia loans held at VIEs that we consolidated for GAAP purposes.

(2) Excludes $5 million of trading securities that are designated as hedges for our mortgage banking operations and are not considered part of our investment portfolio.

(3) Represents our retained economic investment in the consolidated Sequoia securitization VIEs. For GAAP purposes, we consolidated $2.48 billion of loans and $2.24 billion of ABS issued associated with these investments at September 30, 2021.

During the third quarter of 2021, we purchased $66 million of loans from Sequoia securitizations we called, and we retained $2 million of securities from one Sequoia securitization we completed during the quarter. During the second quarter of 2021, we purchased $83 million of loans from Sequoia securitizations we called, and we retained $8 million of securities from three Sequoia securitizations we completed during the quarter. During the first quarter of 2021, we sold $4 million of securities from our residential lending investment portfolio and retained $8 million of securities from two Sequoia securitizations we completed during the quarter. See the *"Investments Detail"* section that follows for additional details on our investments and their associated borrowings.

During the third quarter of 2021, net interest income from our residential lending investment portfolio was $12 million, which increased $5 million from the second quarter of 2021, and other income was $1 million in the third quarter of 2021, consistent with the second quarter of 2021. The increase in net interest income was primarily due to higher discount accretion income on our available-for-sale securities, driven by expectations for certain of our retained Sequoia securities to be called over the next several quarters, affecting our cash flow forecasts and effective yields for those investments.

The following table presents the components of investment fair value changes for our Residential Lending segment by investment type for the three and nine months ended September 30, 2021.

Table 8 – Investment Fair Value Changes, Net from Residential Lending

(In Thousands)	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
Investment Fair Value Changes, Net		
Changes in fair value of:		
Residential loans at Redwood	$ 816	$ 2,423
Trading securities	(1,825)	(6,553)
Net investments in Sequoia entities (1)	3,314	13,118
Risk-sharing and other investments	(20)	(63)
Recoveries (impairments) on AFS securities	—	33
Investment Fair Value Changes, Net	$ 2,285	$ 8,958

(1) Includes changes in fair value of the loans held-for-investment and the ABS issued at the entities, which netted together represent the change in value of our investments (subordinate securities) at the consolidated VIEs.

Strengthening credit performance helped drive spreads tighter during the three-and nine-month periods for most of our subordinate securities, which resulted in net positive fair value changes for our residential lending investments. Additionally, during the first nine months of 2021, most of our investment securities experienced elevated prepayments, which generally benefited our subordinate securities, but negatively impacted our interest-only and certificated servicing securities, causing a net negative fair value change for our trading securities.

Business Purpose Lending Segment

Overview

Our Business Purpose Lending segment generated $32 million of net income during the third quarter of 2021, driven primarily by $32 million of mortgage banking income and $18 million of net interest income from investments. Our business purpose investments saw an increase in interest income in the third quarter from a higher average balance of investments and lower cost of funds, compared to the second quarter of 2021, and increased positive fair value changes due to continued strength in credit performance and spread tightening.

Our Business Purpose Lending segment generated $33 million of net income during the second quarter of 2021, driven primarily by $35 million of mortgage banking income and $15 million of net interest income from investments. Business purpose mortgage banking income in the second quarter of 2021 benefited from a 37% increase in origination volume from the first quarter of 2021 and modest spread tightening on securitization execution during the second quarter. Our business purpose investments saw an increase in interest income in the second quarter from a higher average balance of investments compared to the first quarter of 2021 and increased positive fair value changes due to continued spread tightening.

Our Business Purpose Lending segment generated $21 million of net income during the first quarter of 2021, driven primarily by $22 million of mortgage banking income and $13 million of net interest income from investments. Business purpose mortgage banking income normalized in the first quarter of 2021, relative to the third and fourth quarters of 2020, as more modest spread tightening on securitization execution during the quarter had a reduced impact to the valuation of our loans held in inventory at the beginning of the quarter. Net interest income from BPL investments increased from the fourth quarter of 2020 due to higher yield maintenance income on our SFR securities resulting from faster prepayments, and reduced debt costs on our bridge loan portfolio resulting from a decrease in leverage on these assets.

Mortgage Banking

The following table provides business purpose loans funding activity at Redwood during the three and nine months ended September 30, 2021.

Table 9 – Business Purpose Loans — Funding Activity

	Three Months Ended September 30, 2021			Nine Months Ended September 30, 2021		
(In Thousands)	**Single-Family Rental**	**Bridge** (1)	**Total**	**Single-Family Rental**	**Bridge** (1)	**Total**
Fair value at beginning of period	$ 418,442	$ —	$ 418,442	$ 245,394	$ —	$ 245,394
Fundings	395,083	244,652	639,735	960,398	593,041	1,553,439
Sales	—	(253)	(253)	—	(2,484)	(2,484)
Transfers between portfolios (2)	(332,670)	(246,096)	(578,766)	(754,453)	(593,774)	(1,348,227)
Principal repayments	(36,970)	—	(36,970)	(47,090)	—	(47,090)
Changes in fair value, net	22,461	1,697	24,158	62,097	3,217	65,314
Fair Value at End of Period	$ 466,346	$ —	$ 466,346	$ 466,346	$ —	$ 466,346

(1) We originate bridge loans at our TRS and then transfer them to our REIT. Origination fees and any fair value changes on these loans prior to transfer are recognized within Mortgage banking activities, net on our consolidated statements of income (loss). Once the loans are transferred to our REIT, they are classified as held-for-investment, with subsequent fair value changes generally recorded through Investment fair value changes, net on our consolidated statements of income (loss). For bridge loans held at our REIT that are transferred into our CAFL bridge securitization, we record any changes in fair value from the date of origination or purchase to the time of securitization as Mortgage banking activities, net on our consolidated statements of income (loss). Once loans are transferred into this securitization, any changes in fair value are recorded through Investment fair value changes, net on our consolidated statements of income (loss). For the carrying value and activity of our bridge loans held-for-investment, see the *Investments* section that follows.

(2) For single-family rental loans, amounts represent the fair value of transfers of loans from held-for-sale to held-for-investment, including when loans are securitized (and consolidated for GAAP purposes). For bridge loans, represents the transfer of loans originated at our TRS to our REIT as described in preceding footnote.

Business purpose mortgage banking income was $23 million, $35 million and $32 million in the first, second and third quarters of 2021, respectively. Mortgage banking income is comprised of net interest income from single-family rental loans held-for-sale in inventory and mortgage banking activities income from single family rental and bridge loans (see *Note 19* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q for further detail on mortgage banking activities).

Business purpose funding volumes increased steadily through the first nine months of 2021. These growing volumes, along with improved SFR securitization execution in the second and third quarters of 2021, drove strong mortgage banking income results for those periods. Approximately 66% of total origination volumes in the third quarter were from repeat borrowers.

We utilize a combination of capital and loan warehouse facilities to manage our inventory of single-family rental loans that we hold for sale. At September 30, 2021, we had business purpose warehouse facilities outstanding with four different counterparties, with $1.30 billion of total capacity (used for both SFR and bridge loans) and $663 million of available capacity (inclusive of capacity on non-recourse facilities). All of these facilities are non-marginable (i.e., not subject to margin calls based on the market value of the underlying collateral that is non-delinquent).

Investment Portfolio

The following table presents details of our Business Purpose Lending investment portfolio at September 30, 2021 and December 31, 2020.

Table 10 – Business Purpose Lending Investments

(In Thousands)	September 30, 2021	December 31, 2020
Bridge loans	$ 824,799	$ 641,765
Single-family rental securities at consolidated CAFL entities [(1)]	287,813	238,630
Other investments	6,767	21,627
Total Segment Investments	$ 1,119,379	$ 902,022

(1) Represents our economic investment in securities issued by consolidated CAFL securitization VIEs. For GAAP purposes, we consolidated $3.40 billion of loans and $3.13 billion of ABS issued associated with these investments at September 30, 2021.

In September 2021, we completed a CAFL securitization backed by $272 million (principal balance) of bridge loans. See the "*Investments Detail"* section that follows for additional details on our investments and their associated borrowings.

The following table presents the components of investment fair value changes for our Business Purpose Lending segment by investment type for the three and nine months ended September 30, 2021.

Table 11 – Investment Fair Value Changes, Net from Business Purpose Lending

(In Thousands)	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
Investment Fair Value Changes, Net		
Changes in fair value of:		
Bridge loans held-for-investment	$ 900	$ 4,142
REO	108	536
Net investments in CAFL SFR entities [(1)]	2,943	6,354
Other	(481)	(481)
Investment Fair Value Changes, Net	$ 3,470	$ 10,551

(1) Includes changes in fair value of the loans held-for-investment and the ABS issued at the entities, which netted together represent the change in value of our investments (subordinate securities) at the consolidated VIEs.

Spreads tightened throughout 2021 for our CAFL subordinate securities, with positive fair value changes for these assets more than offsetting the decline in the value of our CAFL interest-only securities from a reduction in their basis through the receipt of regular cash flows. We also had positive resolutions on several previously delinquent bridge loans during 2021, resulting in positive fair value changes for recoveries in excess of carrying values.

Third-Party Investments Segment

Overview

Our Third-Party Investments segment generated $30 million of net income during the third quarter of 2021, driven primarily by $21 million of positive investment fair value changes and $12 million of net interest income. Our Third-Party Investments segment generated $54 million of net income during the second quarter of 2021, driven primarily by $42 million of positive investment fair value changes and $12 million of net interest income, and generated $50 million of net income during the first quarter of 2021, driven primarily by $40 million of positive investment fair value changes and $12 million of net interest income. Positive investment fair value changes in 2021 reflected continuing improvement in credit performance and spread tightening, particularly for our RPL and multifamily securities.

Investment Portfolio

The following table presents details of the investments in our Third-Party Investments segment at September 30, 2021 and December 31, 2020.

Table 12 – Third-Party Investments

(In Thousands)	September 30, 2021	December 31, 2020
Residential securities at Redwood	$ 160,300	$ 134,090
Residential securities at consolidated Freddie Mac SLST entities[1]	451,252	428,179
Multifamily securities at Redwood	42,618	49,255
Multifamily securities at consolidated Freddie Mac K-Series entity [2]	31,389	28,255
Other investments [3]	379,102	317,282
Total Segment Investments	$ 1,064,661	$ 957,061

(1) Represents our economic investment in securities issued by consolidated Freddie Mac SLST securitization entities. For GAAP purposes, we consolidated $2.00 billion of loans and $1.55 billion of ABS issued associated with these investments at September 30, 2021.

(2) Represents our economic investment in securities issued by a consolidated Freddie Mac K-Series securitization entity. For GAAP purposes, we consolidated $483 million of loans and $451 million of ABS issued associated with this investment at September 30, 2021.

(3) At September 30, 2021, Other investments presented in this table includes $188 million of servicing investments owned in our consolidated Servicing Investment entities. At September 30, 2021, our economic investment in these entities was $60 million (for GAAP purposes, we consolidated $188 million of servicing investments, $152 million of non-recourse short-term securitization debt, as well as other assets and liabilities for these entities). Additionally, at September 30, 2021, Other investments presented in this table includes $167 million of HEIs owned in our consolidated Point HEI entity. At September 30, 2021, our economic investment in this entity was $10 million (for GAAP purposes, we consolidated $167 million of HEIs and $145 million of ABS issued, as well as other assets and liabilities for this entity).

During the third quarter of 2021, in conjunction with co-sponsoring a securitization of HEIs, we purchased$122 million of additional HEIs from other contributors to the securitization, then transferred $170 million of HEIs to the Point HEI securitization entity and issued $146 million of ABS. We retained subordinate certificates from the entity valued at $10 million as of September 30, 2021, representing our economic interest in the entity.

Additionally, during the third quarter of 2021, we purchased $11 million of other third-party investments. During the second quarter, we purchased $3 million of third-party investments and sold $11 million of third-party investments. During the first quarter, we purchased $16 million of third-party investments and sold $34 million of third-party investments.

See the "*Investments Detail"* section that follows for additional details on these investments and their associated borrowings.

The following table presents the components of investment fair value changes for our Third-Party Investments segment by investment type for the three and nine months ended September 30, 2021.

Table 13 – Investment Fair Value Changes, Net from Third-Party Investments

(In Thousands)	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
Investment Fair Value Changes, Net		
Changes in fair value of:		
Residential securities	$ 3,371	$ 31,620
Net investments in Freddie Mac SLST entities (1)	13,849	54,282
Net investment in Freddie Mac K-Series entity (1)	554	11,330
Net investment in Point HEI entity (1)	47	47
Servicer advance investments	(2,079)	(3,179)
Excess MSRs	(803)	(5,233)
HEIs at Redwood	5,622	13,017
Other	8	65
Recoveries (impairments) on AFS securities	—	354
Investment Fair Value Changes, Net	$ 20,569	$ 102,303

(1) Includes changes in fair value of the loans held-for-investment, securitized Point HEIs, and the ABS issued at the entities, which netted together represent the change in value of our investments (subordinate securities) at the consolidated VIEs.

Continued strengthening of credit and elevated prepayment speeds helped drive credit spreads tighter on our third-party assets in 2021, in particular for our investments in re-performing loan assets (primarily represented by our net investment in Freddie Mac SLST entities in the table above). HEI valuations benefited from our securitization of HEIs in the third quarter of 2021. The decline in value of our Servicer advance investments and excess MSRs is primarily attributable to a reduction in their basis through the receipt of regular cash flows.

Investments Detail

This section presents additional details on our investment assets and their activity during the three and nine months ended September 30, 2021.

Real Estate Securities Portfolio

The following table presents activity of our real estate securities on balance sheet by collateral type for the three and nine months ended September 30, 2021.

Table 14 – Activity of Real Estate Securities at Redwood by Collateral Type

Three Months Ended September 30, 2021	**Residential**			**Multifamily**	
(In Thousands)	**Senior**	**Mezzanine**	**Subordinate**	**Mezzanine**	**Total**
Beginning fair value	$ 25,267	$ —	$ 287,140	$ 42,479	$ 354,886
Transfers	—	—	—	—	—
Acquisitions	—	—	6,750	4,000	10,750
Sales	—	—	(755)	—	(755)
Gains on sales and calls, net	—	—	6,389	—	6,389
Effect of principal payments (1)	—	—	(13,204)	(3,261)	(16,465)
Change in fair value, net	(2,773)	—	1,854	(600)	(1,519)
Ending Fair Value	$ 22,494	$ —	$ 288,174	$ 42,618	$ 353,286

Nine Months Ended September 30, 2021	**Residential**			**Multifamily**	
(In Thousands)	**Senior**	**Mezzanine**	**Subordinate**	**Mezzanine**	**Total**
Beginning fair value	$ 28,464	$ 5,663	$ 260,743	$ 49,255	$ 344,125
Acquisitions	8,737	—	21,050	8,930	38,717
Sales	—	(5,724)	(31,765)	—	(37,489)
Gains on sales and calls, net	—	60	16,931	—	16,991
Effect of principal payments (1)	—	(26)	(30,751)	(14,064)	(44,841)
Change in fair value, net	(14,707)	27	51,966	(1,503)	35,783
Ending Fair Value	$ 22,494	$ —	$ 288,174	$ 42,618	$ 353,286

(1) The effect of principal payments reflects the change in fair value due to principal payments, which is calculated as the cash principal received on a given security during the period multiplied by the prior quarter ending price or acquisition price for that security.

At September 30, 2021, our securities at Redwood (exclusive of securities owned in consolidated entities) consisted of fixed-rate assets (86%), adjustable-rate assets (11%), and hybrid assets that reset within the next year (3%).

The following table sets forth activity in our entire real estate securities portfolio by segment for the three and nine months ended September 30, 2021. This table includes both our securities held on balance sheet and our economic interest in securities we own in securitizations we consolidate in accordance with GAAP.

Table 15 – Activity of Real Estate Securities at Redwood and in Consolidated Entities by Segment

Three Months Ended September 30, 2021 (In Thousands)	Residential(1)		BPL	Third-Party Investments			
	Sequoia Securities on Balance Sheet	Consolidated Sequoia Securities	Consolidated CAFL Securities	Consolidated SLST Securities	Consolidated Multifamily Securities	Other Third-Party Securities(1)	Total
Beginning fair value	$ 160,847	$ 232,005	$ 268,131	$ 450,173	$ 30,834	$ 194,039	$ 1,336,029
Acquisitions	—	1,965	16,646	—	—	10,750	29,361
Sales	—	—	—	—	—	(755)	(755)
Gains on sales and calls, net	6,389	—	—	—	—	—	6,389
Effect of principal payments (2)	(12,212)	(832)	—	(12,769)	—	(4,253)	(30,066)
Change in fair value, net	(7,770)	3,313	2,943	13,849	554	6,251	19,140
Ending Fair Value	147,254	236,451	287,720	451,253	31,388	206,032	1,360,098

Nine Months Ended September 30, 2021 (In Thousands)	Residential		BPL	Third-Party Investments			
	Sequoia Securities on Balance Sheet	Consolidated Sequoia Securities	Consolidated CAFL Securities	Consolidated SLST Securities	Consolidated Multifamily Securities	Other Third-Party Securities	Total
Beginning fair value	$ 157,456	$ 217,965	$ 238,630	$ 428,178	$ 28,255	$ 186,669	$ 1,257,153
Acquisitions	9,375	7,746	53,846	—	—	29,342	100,309
Sales	(3,664)	—	—	—	(8,197)	(33,825)	(45,686)
Gains on sales and calls, net	15,484	—	—	—	—	1,507	16,991
Effect of principal payments (2)	(28,928)	(2,377)	(11,110)	(31,207)	—	(15,913)	(89,535)
Change in fair value, net	(2,469)	13,117	6,354	54,282	11,330	38,252	120,866
Ending Fair Value	147,254	236,451	287,720	451,253	31,388	206,032	1,360,098

(1) At September 30, 2021, $3 million of securities used as hedges for our residential mortgage banking operations are included within the "Other third-party securities" column of this table. These same securities are presented as a component of securities within our residential lending segment on our segment balance sheet.

(2) The effect of principal payments reflects the change in fair value due to principal payments, which is calculated as the cash principal received on a given security during the period multiplied by the prior quarter ending price or acquisition price for that security.

The following table summarizes the credit characteristics of our entire real estate securities portfolio by collateral type at September 30, 2021. This table includes both our securities held on balance sheet and our economic interest in securities we own in securitizations we consolidate in accordance with GAAP.

Table 16 – Real Estate Securities Credit Statistics

				Weighted Average Values for Non-IO Securities			
September 30, 2021 **(Dollars in Thousands)**	**Market Value - IO Securities**	**Market Value - Non-IO Securities**	**Principal Balance - Non-IO Securities**	**Coupon**	**90+ Delinquency**	**3-Month Prepayment Rate**	**Investment Thickness[1]**
Sequoia securities on balance sheet	$ 18,380	$ 128,874	$ 153,388	3.7 %	0.66 %	42 %	7 %
Consolidated Sequoia securities	9,329	227,122	243,524	4.6 %	2.84 %	51 %	31 %
Total Sequoia Securities	27,709	355,996	396,912	4.3 %	2.05 %	48 %	22 %
Consolidated Freddie Mac SLST securities	17,714	433,539	547,393	3.1 %	10.98 %	14 %	28 %
RPL securities on balance sheet	998	64,845	143,877	3.6 %	5.11 %	16 %	7 %
Total RPL Securities	18,712	498,384	691,270	3.2 %	10.21 %	14 %	25 %
Consolidated Freddie Mac K-Series securities	—	31,388	36,468	4.1 %	— %	— %	20 %
Multifamily securities on balance sheet	2,039	40,579	41,241	3.2 %	0.02 %	15 %	8 %
Total Multifamily Securities	2,039	71,967	77,709	3.6 %	0.01 %	8 %	13 %
Consolidated CAFL securities	49,828	237,892	354,319	5.1 %	1.87 %	15 %	13 %
Other third-party securities	3,164	94,407	116,725	4.5 %	2.03 %	34 %	5 %
Total Securities	$ 101,452	$ 1,258,646	$ 1,636,935				

(1) Investment thickness represents the average size of the subordinate securities we own as investments in securitizations, relative to the average overall size of the securitizations. For example, if our investment thickness (of first-loss securities) with respect to a particular securitization is 10%, we have exposure to the first 10% of credit losses resulting from loans underlying that securitization. We generally own first loss positions in Sequoia, RPL and CAFL securities. We own both first loss and mezzanine positions (positions credit enhanced by subordinate securities) in multifamily and other third-party securities.

We directly finance our holdings of real estate securities with a combination of capital and collateralized debt in the form of repurchase (or "repo") financing. At September 30, 2021, we had short-term debt incurred through repurchase facilities of $80 million with three different counterparties, which was secured by $108 million of real estate securities (including securities owned in consolidated securitization entities).

At September 30, 2021, real estate securities with a fair value of $504 million (including securities owned in consolidated Sequoia and CAFL securitization entities), were financed with long-term, non-mark-to-market recourse debt through our subordinate securities financing facilities. Additionally, at September 30, 2021, we had $451 million of re-performing loan securities financed with $161 million of non-recourse securitization debt. The remaining $297 million of our securities, including certain securities we own that were issued by consolidated securitization entities, were financed with capital.

Bridge Loans Held-for-Investment

The following table provides the activity of bridge loans held-for-investment during the three and nine months ended September 30, 2021.

Table 17 – Bridge Loans Held-for-Investment - Activity

(In Thousands)	**Three Months Ended September 30, 2021**	**Nine Months Ended September 30, 2021**
Fair value at beginning of period	$ 726,569	$ 641,765
Sales	—	(7,000)
Transfers between portfolios [1]	246,096	593,775
Transfers to REO	(4,785)	(7,074)
Principal repayments	(145,975)	(402,701)
Changes in fair value, net	2,894	6,034
Fair Value at End of Period	$ 824,799	$ 824,799

(1) We originate bridge loans at our TRS and then transfer them to our REIT. Origination fees and any fair value changes on these loans prior to transfer are recognized within Mortgage banking activities, net on our consolidated statements of income (loss). Once the loans are transferred to our REIT, they are classified as held-for-investment, with subsequent fair value changes generally recorded through Investment fair value changes, net on our consolidated statements of income (loss). For bridge loans held at our REIT that are transferred into our CAFL bridge securitization, we record any changes in fair value from the date of origination or purchase to the time of securitization as Mortgage banking activities, net on our consolidated statements of income (loss). Once loans are transferred into this securitization, any changes in fair value are recorded through Investment fair value changes, net on our consolidated statements of income (loss). For the carrying value and activity of our bridge loans held-for-investment, see the *Investments* section that follows.

Our $825 million of bridge loans held-for-investment at September 30, 2021 were comprised of first-lien, interest-only loans with a weighted average coupon of 7.48% and original maturities of six to 24 months. At origination, the weighted average FICO score of borrowers backing these loans was 741 and the weighted average LTV ratio of these loans was 68%. At September 30, 2021, of the 1,092 loans in this portfolio, 34 of these loans with an aggregate fair value of $23 million and an aggregate unpaid principal balance of $26 million were in foreclosure, of which 35 loans with an aggregate fair value of $27 million and an unpaid principal balance of $30 million were greater than 90 days delinquent.

We finance our bridge loans with a combination of recourse, non-marginable warehouse facilities and non-recourse, non-marginable warehouse facilities. At September 30, 2021, we had $83 million of debt incurred through short-term warehouse facilities with one different counterparty, which was secured by $127 million of loans, and $279 million of debt incurred through long-term facilities with three different counterparties, which was secured by $374 million of loans. Additionally, in the third quarter of 2021, we completed a securitization of CoreVest bridge loans. The ABS issued by this securitization were backed by assets including $276 million of bridge loans and $28 million of restricted cash at September 30, 2021. The securitization is structured with $300 million of total funding capacity and a feature to allow reinvestment of loan payoffs for the first 30 months of the transaction (through March 2024).

Other Investments

The following table sets forth our other investments activity by segment for the three and nine months ended September 30, 2021.

Table 18 – Other Investments by Segment - Activity

Three Months Ended September 30, 2021 (In Thousands)	**Residential**	**BPL**	**Third-Party Investments**[(1)]	**Corporate/Other**	**Total**
Balance at beginning of period	$ 8,721	$ 13,168	$ 267,850	$ 18,992	$ 308,731
New/additional investments	4,782	—	125,373	5,050	135,205
Reductions in investments	—	(6,959)	(17,116)	—	(24,075)
Changes in fair value, net	(1,047)	482	2,995	66	2,496
Other	(67)	76	—	—	9
Balance at End of Period	$ 12,389	$ 6,767	$ 379,102	$ 24,108	$ 422,366

Nine Months Ended September 30, 2021 (In Thousands)	**Residential**	**BPL**	**Third-Party Investments**	**Corporate/Other**	**Total**
Balance at beginning of period	$ 8,815	$ 21,627	$ 317,283	$ 451	$ 348,176
New/additional investments	7,065	—	125,373	23,550	155,988
Reductions in investments	—	(16,012)	(68,470)	—	(84,482)
Changes in fair value, net	(3,299)	1,076	4,916	106	2,799
Other	(192)	76	—	1	(115)
Balance at End of Period	$ 12,389	$ 6,767	$ 379,102	$ 24,108	$ 422,366

(1) At September 30, 2021 (our "Balance at End of Period"), Third-party investments presented in this table includes $188 million of servicing investments owned in our consolidated Servicing Investment entities. At September 30, 2021, our economic investment in these entities was $60 million (for GAAP purposes, we consolidated $188 million of servicing investments, $152 million of non-recourse short-term securitization debt, as well as other assets and liabilities for these entities). Additionally, At September 30, 2021, Third-party investments presented in this table includes $167 million of HEIs owned in our consolidated Point HEI entity. At September 30, 2021, our economic investment in this entity was $10 million (for GAAP purposes, we consolidated $167 million of HEIs and $145 million of ABS issued, as well as other assets and liabilities for this entity).

During the third quarter of 2021, in conjunction with co-sponsoring a securitization of HEIs, we purchased$122 million of additional HEIs from other contributors to the securitization (included within "Third-Party Investments" in the table above), then transferred $170 million of HEIs to the Point HEI securitization entity and issued $146 million of ABS. We retained subordinate certificates from the entity valued at $10 million as of September 30, 2021, representing our economic interest in the entity.

During the first nine months of 2021, in addition to the HEIs acquired in the third quarter described above, other new/ additional investments included MSRs retained from whole loan sales at our Residential Segment and strategic investments through our RWT Horizons venture investment strategy within Corporate/Other.

During the first nine months of 2021, reductions in investments for Third-Party Investments was primarily attributable to the recovery of servicing advances within our consolidated servicing VIEs. Our economic investment in these entities was $60 million at September 30, 2021 and $68 million at December 31, 2020.

Income Taxes

Taxable Income, REIT Status and Dividend Characterization

As a REIT, under the Internal Revenue Code, Redwood is required to distribute to shareholders at least 90% of its annual REIT taxable income, excluding net capital gains, and meet certain other requirements that relate to, among other matters, the assets it holds, the income it generates, and the composition of its stockholders. To the extent Redwood retains REIT taxable income, including net capital gains, it is taxed at corporate tax rates. Redwood also earns taxable income at its taxable REIT subsidiaries (TRS), which it is not required to distribute under the Internal Revenue Code.

In September 2021, our Board of Directors declared a regular dividend of $0.21 per share for the third quarter of 2021, which was paid on September 30, 2021 to shareholders of record on September 23, 2021. As of September 30, 2021, our year-to-date dividend distributions of $0.55 per share exceeded our minimum distribution requirements and we believe that we have met all requirements for qualification as a REIT for federal income tax purposes. Many requirements for qualification as a REIT are complex and require analysis of particular facts and circumstances. Often there is only limited judicial or administrative interpretive guidance and as such there can be no assurance that the Internal Revenue Service or courts would agree with our various tax positions. If we were to fail to meet all the requirements for qualification as a REIT and the requirements for statutory relief, we would be subject to federal corporate income tax on our taxable income and we would not be able to elect to be taxed as a REIT for four years thereafter. Such an outcome could have a material adverse impact on our consolidated financial statements.

While our minimum REIT dividend requirement is generally 90% of our annual REIT taxable income, we carried a $37 million federal net operating loss carry forward (NOL) into 2021 at our REIT that affords us the ability to retain REIT taxable income up to the NOL amount, tax free, rather than distributing it as dividends. Federal income tax rules require the dividends paid deduction to be applied to reduce REIT taxable income before the applicability of NOLs is considered; therefore, REIT taxable income must exceed our dividend distribution for us to utilize a portion of our NOL and any remaining NOL amount will carry forward into future years.

We currently expect all or nearly all of our 2021 dividend distributions to be taxable as ordinary income for federal income tax purposes. Any remaining amount is currently expected to be characterized as a return of capital, which in general is nontaxable (provided it does not exceed a shareholder's tax basis in Redwood shares) and reduces a shareholder's basis in Redwood shares (but not below zero). To the extent such distributions exceed a shareholder's basis in Redwood shares, such excess amount would be taxable as capital gain. Under the federal income tax rules applicable to REITs, none of Redwood’s 2021 dividend distributions are currently expected to be characterized as long-term capital gain dividends. The income or loss generated at our TRS will not directly affect the tax characterization of our 2021 dividends; however, any dividends paid from our TRS to our REIT would allow a portion of our REIT’s dividends to be classified as qualified dividends.

Tax Provision under GAAP

For the three and nine months ended September 30, 2021, we recorded a tax benefit of $4 million and a tax provision of $14 million, respectively. For the three and nine months ended September 30, 2020, we recorded a tax provision of $9 million and a tax benefit of $13 million, respectively. Our tax provision is primarily derived from the activities at our TRS as we do not book a material tax provision associated with income generated at our REIT. For the nine-month periods, the switch to a tax provision from a tax benefit year-over-year was primarily the result of GAAP income being recorded at our TRS during this period in 2021 versus GAAP losses being recorded at our TRS during this period in 2020. For the three-month periods, the switch to a tax benefit from a tax provision year-over-year was due to the release of valuation allowance on a portion of our deferred tax assets, partially offset by an increase in state taxes. While our TRS effective tax rate in the prior year approximated the federal statutory corporate tax rate (due to state NOL carryforwards), for 2021 and 2022 we expect it to increase (exclusive of the valuation allowance release) due to California’s temporary suspension of net operating loss carryforwards.

Realization of our deferred tax assets ("DTAs") is dependent on many factors, including generating sufficient taxable income prior to the expiration of NOL carryforwards and generating sufficient capital gains in future periods prior to the expiration of capital loss carryforwards. We determine the extent to which realization of our DTAs is not assured and establish a valuation allowance accordingly. At December 31, 2020, we reported net federal ordinary and capital DTAs with a full valuation allowance of $17 million recorded against our net federal ordinary DTAs based on our determination that their realization was not assured. However, no valuation allowance was recorded against our net federal capital DTAs as we currently expect to utilize these DTAs due to our ability to recognize capital losses and carry them back to prior years. At December 31, 2020, we reported a valuation allowance of $134 million recorded against our net state DTAs.

For the three months ended September 30, 2021, we reassessed the valuation allowance noting the increase in positive evidence related to our ability to utilize certain deferred tax assets. The positive evidence includes significant revenue growth and expectations regarding future profitability at our TRS. After assessing both the positive evidence and negative evidence, we determined it was more likely than not that we will realize all of our federal deferred tax assets. Therefore, we reversed our federal valuation allowance of $17 million as a discrete benefit in the third quarter of 2021. In addition to the federal valuation allowance release, we determined it was more likely than not that we will realize a portion of our state deferred assets and, as such, reversed $3 million of state valuation allowance as a discrete item in the third quarter of 2021. Consistent with prior periods, we continued to maintain a valuation allowance against the majority of our net state DTAs as realization of our state DTAs is dependent on generating sufficient taxable income in the same jurisdictions in which the DTAs exist and we project most of our state DTAs will expire prior to their utilization.

LIQUIDITY AND CAPITAL RESOURCES

Summary

In addition to the proceeds from equity and debt capital-raising transactions, our principal sources of cash consist of borrowings under mortgage loan warehouse facilities, securities repurchase agreements, payments of principal and interest we receive from our investment portfolios, proceeds from the sale of portfolio assets, and cash generated from our operating activities. Our most significant uses of cash are to purchase and originate mortgage loans for our mortgage banking operations, to purchase investment securities and make other investments, to repay principal and interest on our debt, to meet margin calls associated with our debt and other obligations, to make dividend payments on our capital stock, and to fund our operations.

At September 30, 2021, our total capital was $2.03 billion and included $1.38 billion of equity capital and $652 million of convertible notes and long-term debt on our consolidated balance sheet, including $199 million of convertible debt due in 2023, $150 million of convertible debt due in 2024, $172 million of exchangeable debt due in 2025, and $140 million of trust-preferred securities due in 2037.

As of September 30, 2021, our unrestricted cash was $557 million, and we estimate we had approximately $350 million of available capital. While we believe our available cash is sufficient to fund our operations, we may raise equity or debt capital from time to time to increase our unrestricted cash and liquidity, to repay existing debt, to make long-term portfolio investments, to fund strategic acquisitions and investments, or for other purposes. To the extent we seek to raise additional capital, our approach will continue to be based on what we believe to be in the best interests of the company.

In the discussion that follows and throughout this document, we distinguish between marginable and non-marginable debt. When we refer to non-marginable debt and marginable debt, we are referring to whether or not such debt is subject to market value-based margin calls on underlying collateral that is non-delinquent. If a mortgage loan is financed under a marginable warehouse facility, to the extent the market value of the loan declines (which market value is generally determined by the counterparty under the facility), we will be subject to a margin call, meaning we will be required to either immediately reacquire the loan or meet a margin requirement to pledge additional collateral, such as cash or additional residential loans, in an amount at least equal to the decline in value. Non-marginable debt may be subject to a margin call due to delinquency of the mortgage or security being financed, or a decline in the value of the underlying asset securing the collateral. For example, we could be subject to a margin call on non-marginable debt if an appraisal or broker price opinion indicates a decline in the value of the property securing the mortgage loan that is financed by us under a loan warehouse facility.

We also distinguish between recourse and non-recourse debt. When we refer to non-recourse debt, we mean debt that is payable solely from the assets pledged to secure such debt, and under which debt no creditor or lender has direct or indirect recourse to us, or any other entity or person (except for customary exceptions for fraud, acts of insolvency, or other "bad acts"), if such assets are inadequate or unavailable to pay off such debt.

We are subject to risks relating to our liquidity and capital resources, including risks relating to incurring debt under residential loan warehouse facilities, securities repurchase facilities, and other short- and long-term debt facilities and other risks relating to our use of derivatives. A further discussion of these risks is set forth below under the heading "*Risks Relating to Debt Incurred under Short-and Long-Term Borrowing Facilities*."

Cash Flows and Liquidity for the Nine Months Ended September 30, 2021

Cash flows from our mortgage banking activities and our investments can be volatile from quarter to quarter depending on many factors, including the profitability of mortgage banking activities, the timing and amount of securities acquisitions, sales and repayments, as well as changes in interest rates, prepayments, and credit losses. Therefore, cash flows generated in the current period are not necessarily reflective of the long-term cash flows we will receive from these investments or activities.

Cash Flows from Operating Activities

Cash flows from operating activities were negative $3.78 billion during the nine months ended September 30, 2021. This amount includes the net cash utilized during the period from the purchase and sale of residential mortgage loans and the origination and sale of our business purpose loans associated with our mortgage banking activities. Purchases of loans are financed to a large extent with short-term and long-term debt, for which changes in cash are included as a component of financing activities. Excluding cash flows from the purchase, origination, sale, and principal payments of loans classified as held-for-sale, cash flows from operating activities were positive $84 million and positive $94 million during the first nine months of 2021 and 2020, respectively.

Cash Flows from Investing Activities

During the nine months ended September 30, 2021, our net cash provided by investing activities was $1.36 billion and primarily resulted from proceeds from principal payments on loans held-for-investment. Although we generally intend to hold our loans and investment securities as long-term investments, we may sell certain of these assets in order to manage our liquidity needs and interest rate risk, to meet other operating objectives, and to adapt to market conditions.

Because many of our investment securities and loans are financed through various borrowing agreements, a significant portion of the proceeds from any sales or principal payments of these assets are generally used to repay balances under these financing sources. Similarly, all or a significant portion of cash flows from principal payments of loans at consolidated securitization entities would generally be used to repay ABS issued by those entities.

As presented in the "*Supplemental Noncash Information*" subsection of our consolidated statements of cash flows, during the nine months ended September 30, 2021, we transferred loans between held-for-sale and held-for-investment classification and retained securities from securitizations we sponsored, which represent significant non-cash transactions that were not included in cash flows from investing activities.

Cash Flows from Financing Activities

During the nine months ended September 30, 2021, our net cash provided by financing activities was $2.52 billion. This primarily resulted from $1.40 billion of proceeds from net short-term debt borrowings used to finance higher levels of loan inventory for our mortgage banking businesses, particularly for residential loans held-for-sale, as that business has seen a sustained increase in acquisition volumes. Additionally, $1.27 billion of net proceeds were generated from ABS issued. These cash inflows were partially offset by $107 million of net repayments of long-term debt.

During the nine months ended September 30, 2021, we declared dividends of $0.55 per common share. On September 13, 2021, the Board of Directors declared a regular dividend of $0.21 per share for the third quarter of 2021, which was paid on September 30, 2021 to shareholders of record on September 23, 2021.

In accordance with the terms of our outstanding deferred stock units, cash-settled deferred stock units, and restricted stock units, which are generally long-term compensation awards, each time we declare and pay a dividend on our common stock, we are required to make a dividend equivalent cash payment in that same per share amount on each outstanding deferred stock unit, cash-settled deferred stock unit, and restricted stock unit.

Repurchase Authorization

In February 2018, our Board of Directors approved an authorization for the repurchase of our common stock, increasing the total amount authorized for repurchases of common stock to $100 million, and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. This authorization increased the previous share repurchase authorization approved in February 2016 and has no expiration date. This repurchase authorization does not obligate us to acquire any specific number of shares or securities. Under this authorization, shares or securities may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. During the nine months ended September 30, 2021, we did not repurchase any shares. At September 30, 2021, $78 million of the current authorization remained available for the repurchase of shares of our common stock and we also continued to be authorized to repurchase outstanding debt securities. Like other investments we may make, any repurchases of our common stock or debt securities under this authorization would reduce our available capital and unrestricted cash described above.

Loan Warehouse Facilities

We maintain loan warehouse facilities to finance our residential jumbo loan inventory, SFR loan inventory and for our bridge loan investments. These facilities can be classified as short-term or long-term depending on their specific terms and provisions. At September 30, 2021, we had residential warehouse facilities outstanding with seven different counterparties, with $2.70 billion of total capacity and $1.36 billion of available capacity. These included non-marginable facilities with $1.18 billion of total capacity and marginable facilities with $1.53 billion of total capacity. At September 30, 2021, we had business purpose warehouse facilities outstanding with four different counterparties, with $1.30 billion of total capacity and $663 million of available capacity. All $1.30 billion of these facilities are non-marginable.

Short-Term Debt

In the ordinary course of our business, we utilize several different types of borrowing facilities and use cash borrowings under these facilities to, among other things, fund the acquisition of loans (including those we acquire and originate in anticipation of securitization), finance investments in securities, BPL bridge loans and other investments, and otherwise fund our business and operations. At September 30, 2021, we had $1.75 billion of short-term debt outstanding. During the first nine months of 2021, the highest balance of our short-term debt outstanding was $2.66 billion.

For further detail on our short-term debt, see *Note 13* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Long-Term Debt

The following discusses significant activity related to our long-term debt during the first nine months of 2021. For further detail on our long-term debt, see *Note 15* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Recourse Subordinate Securities Financing

In the third quarter of 2021, a subsidiary of Redwood entered into a repurchase agreement providing non-marginable recourse debt financing of certain securities retained from our consolidated CAFL securitizations. The financing is guaranteed by Redwood, with an interest rate of approximately 4.75% through June 2024. The financing facility may be terminated, at our option, in June 2023, and has a final maturity in June 2026, provided that the interest rate on amounts outstanding under the facility increases between June 2024 and June 2026.

Non-Recourse BPL Financing Facilities

In the third quarter of 2021, we reclassified one of our non-recourse facilities from long-term to short-term debt as the maturity of this facility was less than one year at September 30, 2021.

In the second quarter of 2021, we repaid one of our non-recourse BPL financing facilities that had a balance of $242 million at March 31, 2021, and entered into a new non-recourse facility to finance business purpose bridge loans with a total borrowing capacity of $250 million.

Recourse BPL Financing Facilities

In the second quarter of 2021, we reclassified one of our recourse facilities with a borrowing capacity of $450 million from short-term to long-term debt as we amended the terms of this facility, including an extension of its maturity.

Asset-Backed Securities Issued

During the three and nine months ended September 30, 2021, we issued $1.19 billion and $2.82 billion of ABS through our consolidated securitization entities, respectively. This included $583 million and $1.01 billion of CAFL ABS issued during the three and nine months ended September 30, 2021, respectively, and $462 million and $1.66 billion of Sequoia ABS issued during the three and nine months ended September 30, 2021, respectively. Additionally, during the three months ended September 30, 2021, we issued $146 million of Point ABS. For further detail on our Asset-backed Securities Issued, see *Note 14* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Other Commitments and Contingencies

For additional information on commitments and contingencies that could impact our liquidity and capital resources, see *Note 16* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q, which supplements the disclosures included in *Note 16* to the Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2020.

Risks Relating to Debt Incurred Under Short- and Long-Term Borrowing Facilities

As described above under the heading "*Results of Operations*," in the ordinary course of our business, we use debt financing obtained through several different types of borrowing facilities to, among other things, finance the acquisition and origination of residential and business purpose mortgage loans (including those we acquire and originate in anticipation of sale or securitization), and finance investments in securities and other investments. We may also use short- and long-term borrowings to fund other aspects of our business and operations, including the repurchase of shares of our common stock. Recourse debt incurred under these facilities is generally either the direct obligation of Redwood Trust, Inc., or the direct obligation of subsidiaries of Redwood Trust, Inc. and guaranteed by Redwood Trust, Inc. Risks relating to debt incurred under these facilities are described in Part I, Item 2 of our Annual Report on Form 10-K for the year ended December 31, 2020, under the caption "*Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities,*" and under the caption "*Our use of financial leverage exposes us to increased risks, including liquidity risks from margin calls and potential breaches of the financial covenants under our borrowing facilities, which could result in our being required to immediately repay all outstanding amounts borrowed under these facilities and these facilities being unavailable to use for future financing needs, as well as triggering cross-defaults under other debt agreements*" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020. Many of the risks described above materialized during the first quarter of 2020 as a result of pandemic- and liquidity-related disruptions and their impacts on the economy and financial markets, as described under the heading "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" within our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

Our sources of debt financing include secured borrowings under residential and business purpose mortgage loan warehouse facilities (including recourse and non-recourse warehouse facilities), short-term securities repurchase facilities, a $10 million committed line of short-term secured credit from a bank, short-term servicer advance financing, a secured, revolving debt facility collateralized by mortgage servicing rights, and subordinate securities financing facilities.

Aggregate borrowing limits are stated under certain of these facilities, and certain other facilities have no stated borrowing limit, but many of the facilities are uncommitted, which means that any request we make to borrow funds under these uncommitted facilities may be declined for any reason, even if at the time of the borrowing request we have then-outstanding borrowings that are less than the borrowing limits under these facilities. In general, financing under these facilities is obtained by transferring or pledging mortgage loans or securities to the counterparty in exchange for cash proceeds (in an amount less than 100% of the principal amount of the transferred or pledged assets).

Under many of our mortgage loan warehouse facilities, our short-term securities repurchase facilities, and our secured, revolving debt facility collateralized by mortgage service rights, while transferred or pledged assets are financed under the facility, to the extent the value of the assets, or the collateral underlying those assets, declines, we are generally required to either immediately reacquire the assets or meet a margin requirement to transfer or pledge additional assets or cash in an amount at least equal to the decline in value. During the second quarter of 2020, we amended several of our mortgage loan warehouse facilities to revise these margin call provisions to remove obligations to make margin calls for changes in the market value of transferred or pledged assets, which determinations of market value were generally within the sole discretion of the lending counterparty. Under these revised agreements, if the estimated value of a property securing a financed mortgage loan declines, based on, for example, an appraisal or broker-price opinion, then the creditor may demand that we transfer additional collateral to the creditor (in the form of cash, U.S. Treasury obligations (in certain cases), or additional residential mortgage loans) with a value equal to the amount of the decline. Of our active financing arrangements with outstanding balances at September 30, 2021, only our short-term securities repurchase facilities (with $80 million of borrowings outstanding at September 30, 2021), and four of our residential mortgage loan warehouse facilities (with $618 million of borrowings outstanding at September 30, 2021) retain market-value based margin call provisions.

Margin call provisions under these facilities are further described in Part I, Item 2 of our Annual Report on Form 10-K for the year ended December 31, 2020 under the caption "*Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities - Margin Call Provisions Associated with Short-Term Debt and Other Debt Financing*." Financial covenants included in these facilities are further described Part I, Item 2 of our Annual Report on Form 10-K for the year ended December 31, 2020 under the caption "*Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities - Financial Covenants Associated with Short-Term Debt and Other Debt Financing*."

Because many of these borrowing facilities are uncommitted, at any given time we may not be able to obtain additional financing under them when we need it, exposing us to, among other things, liquidity risks of the types described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 under the heading "*Risk Factors*," and in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2020 under the heading "*Market Risks*." In addition, with respect to mortgage loans that at any given time are already being financed through these warehouse facilities, we are exposed to market, credit, liquidity, and other risks of the types described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 under the heading "*Risk Factors*," and in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2020 under the heading "*Market Risks*," if and when those loans or securities become ineligible to be financed, decline in value, or have been financed for the maximum term permitted under the applicable facility.

At September 30, 2021, and through the date of this Quarterly Report on Form 10-Q, we were in compliance with the financial covenants associated with our short-term debt and other debt financing facilities. In particular, with respect to: (i) financial covenants that require us to maintain a minimum dollar amount of stockholders' equity or tangible net worth at Redwood, at September 30, 2021 our level of stockholders' equity and tangible net worth resulted in our being in compliance with these covenants by more than $200 million; and (ii) financial covenants that require us to maintain recourse indebtedness below a specified ratio at Redwood, at September 30, 2021 our level of recourse indebtedness resulted in our being in compliance with these covenants at a level such that we could incur at least $600 million in additional recourse indebtedness.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

In the normal course of business, we enter into transactions that may require future cash payments. As required by GAAP, some of these obligations are recorded on the balance sheet, while others are off-balance sheet or recorded on the balance sheet in amounts different from the full contract or notional amount of the transaction.

For additional information on our contractual obligations, see the *Off-Balance Sheet Arrangements and Contractual Obligations* section in the MD&A included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2020.

For additional information on our commitments and contingencies as of September 30, 2021, see *Note 16* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. A discussion of critical accounting policies is included in *Note 3 — Summary of Significant Accounting Policies* included in Part I, Item 1 of this Quarterly Report on Form 10-Q and in Part I, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2020. Management discusses the ongoing development and selection of these critical accounting policies with the audit committee of the board of directors.

We expect quarter-to-quarter GAAP earnings volatility from our business activities. This volatility can occur for a variety of reasons, including the timing and amount of purchases, sales, calls, and repayment of consolidated assets, changes in the fair values of consolidated assets and liabilities, increases or decreases in earnings from mortgage banking activities, and certain non-recurring events. In addition, the amount or timing of our reported earnings may be impacted by technical accounting issues and estimates. Our critical accounting policies and the possible effects of changes in estimates on our consolidated financial statements are included in the "*Critical Accounting Policies and Estimates*" section of Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2020.

In addition to the regular volatility we may experience on a quarterly basis, the ongoing impact of the pandemic on the United States economy, homeowners, renters of housing, the housing market, the mortgage finance markets and the broader financial markets, has caused additional volatility impacting many of our estimates. It is difficult to fully assess the impact of the pandemic at this time, including because of the uncertainty around the severity and duration of the pandemic domestically and internationally, as well as the uncertainty around the efficacy of Federal, State and local governments' efforts to contain the spread of the pandemic and respond to its direct and indirect impacts on many aspects of Americans' lives and economic activity. Continued volatility resulting from the pandemic could impact our critical estimates and lead to significant period-to-period earnings volatility.

Market Risks

We seek to manage risks inherent in our business — including but not limited to credit risk, interest rate risk, prepayment risk, liquidity risk, and fair value risk — in a prudent manner designed to enhance our earnings and dividends and preserve our capital. In general, we seek to assume risks that can be quantified from historical experience, to actively manage such risks, and to maintain capital levels consistent with these risks. Information concerning the risks we are managing, how these risks are changing over time, and potential GAAP earnings and taxable income volatility we may experience as a result of these risks is discussed in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Other Risks

In addition to the market and other risks described above, our business and results of operations are subject to a variety of types of risks and uncertainties, including, among other things, those described under the caption "*Risk Factors*" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

NEW ACCOUNTING STANDARDS

A discussion of new accounting standards and the possible effects of these standards on our consolidated financial statements is included in *Note 3 — Summary of Significant Accounting Policies* included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information concerning market risk is incorporated herein by reference to Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, as supplemented by the information under "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Market Risks*" within Item 2 above. Other than the developments described thereunder, including changes in the fair values of our assets, there have been no other material changes in our quantitative or qualitative exposure to market risk since December 31, 2020.

Item 4. Controls and Procedures

We have adopted and maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed on our reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms and that the information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) of the Exchange Act, we have carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

There have been no changes in our internal control over financial reporting during the third quarter of 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information on our legal proceedings, see *Note 16* to the Financial Statements within this Quarterly Report on Form 10-Q under the heading "Loss Contingencies - Litigation, Claims and Demands," which supplements the disclosures included in *Note 16* to the Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2020 under the heading “Loss Contingencies - Litigation, Claims and Demands.”

Item 1A. Risk Factors

Our risk factors are discussed under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended September 30, 2021, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

In February 2018, our Board of Directors approved an authorization for the repurchase of our common stock, increasing the total amount authorized for repurchases of common stock to $100 million, and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. This authorization increased the previous share repurchase authorization approved in February 2016 and has no expiration date. This repurchase authorization does not obligate us to acquire any specific number of shares or securities. Under this authorization, shares or securities may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. During the three months ended September 30, 2021, we did not repurchase any shares. At September 30, 2021, $78 million of this current authorization remained available for the repurchase of shares of our common stock and we also continued to be authorized to repurchase outstanding debt securities.

The following table contains information on the shares of our common stock that we purchased or otherwise acquired during the three months ended September 30, 2021.

(In Thousands, except per Share Data)	Total Number of Shares Purchased or Acquired	Average Price per Share Paid	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased under the Plans or Programs
July 1, 2021 - July 31, 2021	—	$ —	—	$ —
August 1, 2021 - August 31, 2021	—	$ —	—	$ —
September 1, 2021 - September 30, 2021	—	$ —	—	$ 78,369
Total	—	$ —	—	$ 78,369

Item 3. Defaults Upon Senior Securities

None.

Item 4. Not Applicable

Item 5. Other Information

Effective November 3, 2021, our Board of Directors adopted Amended and Restated Bylaws of the Company in order to, among other things:

- Reflect changes to the Maryland General Corporation Law or Maryland law practice;
- Clarify timing of delivery with respect to electronically delivered notices of annual meetings of stockholders;
- Clarify that it is permitted for the Board to hold, or allow stockholder participation at, meetings of stockholders by remote communications technology to the extent permitted under Maryland law;
- Clarify that a stockholder be a stockholder of record, as of the record date set for determining stockholders entitled to vote at the annual meeting, for any such stockholder proponent to make nominations or proposals;
- Update the information that a stockholder proponent must provide, including information about a director nominee proposed by such stockholder proponent, information such proponent must provide relating to certain persons acting in concert with such stockholder, and certain written undertakings required from a proposed nominee;
- Require a stockholder proponent to appear in person or by proxy at the meeting set for such proponent's proposal in order for the proposal to be considered at such meeting;
- Update the record date determination applicable to a meeting of stockholders that has been postponed or adjourned;
- Address recent developments in public company governance;
- Clarify certain corporate roles, responsibilities and procedures; and
- Clarify and conform language, style and practice.

The preceding summary of the amendment and restatement of the Bylaws of the Company is qualified in its entirety by reference to, and should be read in connection with, the complete copy of the Amended and Restated Bylaws attached hereto as Exhibit 3.2.1 and incorporated by reference herein.

Item 6. Exhibits

Exhibit Number	Exhibit
3.1	Articles of Amendment and Restatement of the Registrant, effective July 6, 1994 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1, filed on August 6, 2008)
3.1.1	Articles Supplementary of the Registrant, effective August 10, 1994 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.1, filed on August 6, 2008)
3.1.2	Articles Supplementary of the Registrant, effective August 11, 1995 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.2, filed on August 6, 2008)
3.1.3	Articles Supplementary of the Registrant, effective August 9, 1996 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.3, filed on August 6, 2008)
3.1.4	Certificate of Amendment of the Registrant, effective June 30, 1998 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.4, filed on August 6, 2008)
3.1.5	Articles Supplementary of the Registrant, effective April 7, 2003 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.5, filed on August 6, 2008)
3.1.6	Articles of Amendment of the Registrant, effective June 12, 2008 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.6, filed on August 6, 2008)
3.1.7	Articles of Amendment of the Registrant, effective May 19, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2009)
3.1.8	Articles of Amendment of the Registrant, effective May 24, 2011 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 20, 2011)
3.1.9	Articles of Amendment of the Registrant, effective May 18, 2012 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2012)
3.1.10	Articles of Amendment of the Registrant, effective May 16, 2013 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2013)
3.1.11	Articles of Amendment of the Registrant, effective May 16, 2019 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 17, 2019)
3.1.12	Articles of Amendment of the Registrant, effective June 15, 2020 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on June 15, 2020)
3.2.1	Amended and Restated Bylaws of the Registrant, as adopted on November 3, 2021 (filed herewith)
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2021, is filed in inline XBRL-formatted interactive data files: (i) Consolidated Balance Sheets at September 30, 2021 and December 31, 2020; (ii) Consolidated Statements of Income (Loss) for the three and nine months ended September 30, 2021 and 2020; (iii) Statements of Consolidated Comprehensive Income (Loss) for the three and nine months ended September 30, 2021 and 2020; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2021 and 2020; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2021 and 2020; and (vi) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Indicates exhibits that include management contracts or compensatory plan arrangements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REDWOOD TRUST, INC.

Date:	November 4, 2021	By:	/s/ Christopher J. Abate Christopher J. Abate Chief Executive Officer (Principal Executive Officer)
Date:	November 4, 2021	By:	/s/ Brooke E. Carillo Brooke E. Carillo Chief Financial Officer (Principal Financial Officer)
Date:	November 4, 2021	By:	/s/ Collin L. Cochrane Collin L. Cochrane Chief Accounting Officer (Principal Accounting Officer)

Exhibit 3.2.1

REDWOOD TRUST, INC.

AMENDED AND RESTATED BYLAWS

(As adopted November 3, 2021)

Article I

OFFICES

Section 1. Principal Office. The principal office of the Corporation in the State of Maryland shall be located at such place as the Board of Directors may designate.

Section 2. Additional Offices. The Corporation may have additional offices, including a principal executive office, at such places as the Board of Directors may from time to time determine or the business of the Corporation may require.

Article II

MEETINGS OF STOCKHOLDERS

(1) Place. All meetings of stockholders shall be held at the principal executive office of the Corporation or at such other place as shall be set by the Board of Directors and stated in the notice of the meeting.

(2) Annual Meeting. An annual meeting of the stockholders for the election of directors and the transaction of any business within the powers of the Corporation shall be held on a date and at the time set by the Board of Directors.

(3) Special Meetings.

(a) General. The Chair of the Board, the Chief Executive Officer, the President, a majority of the Board of Directors or a majority of the Independent Directors (as defined in Section 2 of Article III hereof) may call a special meeting of the stockholders. Subject to subsection (b) of this Section 3, a special meeting of stockholders shall also be called by the Secretary of the Corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

(b) Stockholder Requested Special Meetings. (1) Any stockholder of record seeking to have stockholders request a special meeting shall, by sending written notice to the Secretary (the “Record Date Request Notice”) by registered mail, return receipt requested, request the Board of Directors to fix a record date to determine the stockholders entitled to request a special meeting (the “Request Record Date”). The Record Date Request Notice shall set forth the purpose of the meeting and the matters proposed to be acted on at it, shall be signed by one or more stockholders of record as of the date of signature (or their agent(s) duly authorized in a writing accompanying such Record Date Request Notice), shall bear the date of signature of each such stockholder (or such agent) and shall set forth all information relating to each such stockholder that must be disclosed in solicitations of proxies for election of directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Upon receiving the Record Date Request Notice, the Board of Directors may fix a Request Record Date. The Request Record Date shall not precede and shall not be more than ten days after the close of business on the date on which the resolution fixing the Request Record Date is adopted by the Board of Directors. If the Board of Directors, within ten days after the date on which a valid Record Date Request Notice is received, fails to adopt a resolution fixing the Request Record Date, the Request Record Date shall be the close of business on the tenth day after the first date on which the Record Date Request Notice is received by the Secretary.

(4) In order for any stockholder to request a special meeting, one or more written requests for a special meeting signed by stockholders of record (or their agents duly authorized in a writing accompanying the request) as of the Request Record Date entitled to cast not less than a majority (the "Special Meeting Percentage") of all of the votes entitled to be cast at such meeting (the "Special Meeting Request") shall be delivered to the Secretary. In addition, the Special Meeting Request (a) shall set forth the purpose of the meeting and the matters proposed to be acted on at it (which shall be limited to those lawful matters set forth in the Record Date Request Notice received by the Secretary), (b) shall bear the date of signature of each such stockholder (or such agent) signing the Special Meeting Request, (c) shall set forth the name and address, as they appear in the Corporation's books, of each stockholder signing such request (or on whose behalf the Special Meeting Request is signed), the class, series and number of all shares of stock of the Corporation which are owned by each such stockholder, and the nominee holder for, and number of, shares owned by such stockholder beneficially but not of record, (d) shall be sent to the Secretary by registered mail, return receipt requested, and (e) shall be received by the Secretary within 60 days after the Request Record Date. Any requesting stockholder (or agent duly authorized in a writing accompanying the revocation or the Special Meeting Request) may revoke such stockholder's request for a special meeting at any time by written revocation delivered to the Secretary.

(5) The Secretary shall inform the requesting stockholders of the reasonably estimated cost of preparing and mailing the notice of meeting (including the Corporation's proxy materials). The Secretary shall not be required to call a special meeting upon stockholder request and such meeting shall not be held unless, in addition to the documents required by paragraph (2) of this Section 3(b), the Secretary receives payment of such reasonably estimated cost prior to the preparation and mailing of any notice of the meeting.

(6) Except as provided in the next sentence, any special meeting shall be held at such place, date and time as may be designated by the Chair of the Board, the Chief Executive Officer, the President, the Board of Directors or the Independent Directors, whoever has called the meeting. In the case of any special meeting called by the Secretary upon the request of stockholders (a "Stockholder Requested Meeting"), such meeting shall be held at such place, date and time as may be designated by the Board of Directors; provided, however, that the

date of any Stockholder Requested Meeting shall be not more than 90 days after the record date for such meeting (the "Meeting Record Date"); and provided further that if the Board of Directors fails to designate, within ten days after the date that a valid Special Meeting Request is actually received by the Secretary (the "Delivery Date"), a date and time for a Stockholder Requested Meeting, then such meeting shall be held at 2:00 p.m. local time on the 90th day after the Meeting Record Date or, if such 90th day is not a Business Day (as defined below), on the first preceding Business Day; and provided further that in the event that the Board of Directors fails to designate a place for a Stockholder Requested Meeting within ten days after the Delivery Date, then such meeting shall be held at the principal executive office of the Corporation. In fixing a date for any special meeting, the Chair of the Board, the Chief Executive Officer, the President, the Board of Directors or the Independent Directors may consider such factors as such person(s) deem relevant within the good faith exercise of business judgment, including, without limitation, the nature of the matters to be considered, the facts and circumstances surrounding any request for the meeting and any plan of the Board of Directors to call an annual meeting or a special meeting. In the case of any Stockholder Requested Meeting, if the Board of Directors fails to fix a Meeting Record Date that is a date within 30 days after the Delivery Date, then the close of business on the 30th day after the Delivery Date shall be the Meeting Record Date. The Board of Directors may revoke the notice for any Stockholder Requested Meeting in the event that the requesting stockholders fail to comply with the provisions of paragraph (3) of this Section 3(b).

(7) If written revocations of the Special Meeting Request have been delivered to the Secretary and the result is that stockholders of record (or their agents duly authorized in writing), as of the Request Record Date, entitled to cast less than the Special Meeting Percentage have delivered, and not revoked, requests for a special meeting to the Secretary, the Secretary shall: (i) if the notice of meeting has not already been mailed, refrain from mailing the notice of the meeting and send to all requesting stockholders who have not revoked such requests written notice of any revocation of a request for the special meeting, or (ii) if the notice of meeting has been mailed and if the Secretary first sends to all requesting stockholders who have not revoked requests for a special meeting written notice of any revocation of a request for the special meeting and written notice of the Secretary's intention to revoke the notice of the meeting, revoke the notice of the meeting at any time before ten days before the commencement of the meeting. Any request for a special meeting received after a revocation by the Secretary of a notice of a meeting shall be considered a request for a new special meeting.

(8) The Chair of the Board, the Chief Executive Officer, the President, the Board of Directors or the Independent Directors may appoint regionally or nationally recognized independent inspectors of elections to act as the agent of the Corporation for the purpose of promptly performing a ministerial review of the validity of any purported Special Meeting Request received by the Secretary. For the purpose of permitting the inspectors to perform such review, no such purported request shall be deemed to have been delivered to the Secretary until the earlier of (i) five Business Days after receipt by the Secretary of such purported request and (ii) such date as the independent inspectors certify to the Corporation that the valid requests received by the Secretary represent, as of the Request Record Date,

stockholders of record entitled to cast not less than a majority of the votes that would be entitled to be cast at such meeting. Nothing contained in this paragraph (6) shall in any way be construed to suggest or imply that the Corporation or any stockholder shall not be entitled to contest the validity of any request, whether during or after such five Business Day period, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

(9) For purposes of these Bylaws, "Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the State of California are authorized or obligated by law or executive order to close.

Section 4. Notice. Not less than ten nor more than 90 days before each meeting of stockholders, the Secretary shall give to each stockholder entitled to vote at such meeting and to each stockholder not entitled to vote who is entitled to notice of the meeting notice stating the time and place of the meeting and, in the case of a special meeting or as otherwise may be required by applicable law, the purpose for which the meeting is called, either by mail, by presenting it to such stockholder personally, by leaving it at the stockholder's residence or usual place of business, by electronic transmission (except to any stockholder who has requested notice not be sent by electronic transmission) or by any other means permitted by Maryland law. If mailed, such notice shall be deemed to be given when deposited in the United States mail addressed to the stockholder at the stockholder's address as it appears on the records of the Corporation, with postage thereon prepaid. If transmitted electronically, such notice shall be deemed to be given when transmitted to the stockholder by an electronic transmission to any address or number of the stockholder at which the stockholder receives electronic transmissions. Failure to give notice of any meeting to one or more stockholders, or any irregularity in such notice, shall not affect the validity of any meeting fixed in accordance with this Article II, or the validity of any proceedings at any such meeting. A single notice shall be effective as to all stockholders who share an address, except to the extent that a stockholder at such address objects to such single notice.

Subject to Section 11(a) of this Article II, any business of the Corporation may be transacted at an annual meeting of stockholders without being specifically designated in the notice, except such business as is required by applicable law to be stated in such notice. No business shall be transacted at a special meeting of stockholders except as specifically designated in the notice. The Corporation may postpone or cancel a meeting of stockholders by making a "public announcement" (as defined in Section 11(c)(3) of this Article II) of such postponement or cancellation prior to the meeting.

Section 5. Organization and Conduct. Every meeting of stockholders shall be conducted by an individual appointed by the Board of Directors to be chair of the meeting or, in the absence of such appointment, by the Chair of the Board or, in the case of a vacancy in the office or absence of the Chair of the Board, by one of the following officers present at the meeting: the Chief Executive Officer, the President, the Chief Financial Officer, the Vice Presidents in their order of rank and seniority, or, in the absence of such officers, a chair chosen by the stockholders by the vote of a majority of the votes cast by stockholders present in person or by proxy. The Secretary, or, in the Secretary's absence, an Assistant Secretary, or in the absence of both the Secretary and Assistant Secretaries, a person appointed by the Board of Directors or, in the absence of such appointment, a person appointed by the chair of the meeting, shall act as Secretary.

In the event that the Secretary presides at a meeting of the stockholders, an Assistant Secretary, or in the absence of Assistant Secretaries, an individual appointed by the Board of Directors or the chair of the meeting, shall record the minutes of the meeting. The order of business and all other matters of procedure at any meeting of stockholders shall be determined by the chair of the meeting. The chair of the meeting may prescribe such rules, regulations and procedures and take such action as, in the discretion of such chair and without any action by the stockholders, are appropriate for the proper conduct of the meeting, including, without limitation, (a) restricting admission to the time set for the commencement of the meeting; (b) limiting attendance at the meeting to stockholders of record of the Corporation, their duly authorized proxies and other such individuals as the chair of the meeting may determine; (c) limiting participation at the meeting on any matter to stockholders of record of the Corporation entitled to vote on such matter, their duly authorized proxies and other such individuals as the chair of the meeting may determine; (d) limiting the time allotted for questions or comments by participants; (e) determining when the polls should be opened and closed; (f) maintaining order and security at the meeting; (g) removing any stockholder or any other individual who refuses to comply with meeting procedures, rules or guidelines as set forth by the chair of the meeting; (h) concluding a meeting or recessing or adjourning the meeting (whether or not a quorum is present) to a later date and time and at a place announced at the meeting and (i) complying with any state and local laws and regulations concerning safety and security. Unless otherwise determined by the chair of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

Section 6. Quorum. At any meeting of stockholders, the presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at such meeting on any matter shall constitute a quorum; but this section shall not affect any requirement under applicable law or the charter of the Corporation (the "Charter") for the vote necessary for the adoption of any measure. If, however, such quorum shall not be present at any meeting of the stockholders, as provided in Section 5 of this Article II, the chair of the meeting shall have the power to adjourn the meeting from time to time to a date not more than 120 days after the original record date without notice other than announcement at the meeting. The date, time and place of the meeting, as reconvened, shall be either (i) announced at the meeting or (ii) provided at a future time through means announced at the meeting. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified.

At a meeting which has been duly called and convened, the stockholders present either in person or by proxy may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 7. Voting. A majority of the votes cast at a meeting of stockholders duly called and at which a quorum is present shall be sufficient to approve any matter which may properly come before the meeting, unless more than a majority of the votes cast is required by applicable law or by the Charter; provided, however, that directors shall be elected in the manner set forth in the following paragraphs (a) through (e):

(a) Each nominee for election as a director by the stockholders of the Corporation shall be elected by a majority of the votes cast with respect to such nominee at a meeting of the stockholders for the election of directors at which a quorum is present (an “Election Meeting”); provided, however, that if the Board of Directors determines that the number of nominees for election as a director exceeds the number of directors to be elected at an Election Meeting (a “Contested Election”), whether or not the election ceases to be a Contested Election after such determination, each nominee for election as a director at such Election Meeting shall be elected by a plurality of the votes cast at such Election Meeting.

(b) For purposes of this Section 7, a “majority of the votes cast” means that the number of votes cast “for” a nominee for election as a director exceeds the number of votes cast “against” that nominee (with “abstentions” and “broker non-votes” not counted as votes cast either “for” or “against” such director’s election).

(c) In an election other than a Contested Election, stockholders will be given the choice to cast votes “for” or “against” the election of each nominee or to “abstain” from such vote. In a Contested Election, stockholders will be given the choice to cast votes “for” the election of each nominee or to “withhold” votes with respect to each nominee.

(d) In the event an Election Meeting involves the election of directors by separate votes by class or classes or series, the determination as to whether an election constitutes a Contested Election shall be made on a class by class or series by series basis, as applicable.

(e) The Board of Directors has established procedures under which any incumbent director who is nominated for election but not elected shall tender such director’s resignation to the Board of Directors.

Unless otherwise provided by applicable law or by the Charter, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of stockholders. Each share may be voted for as many individuals as there are directors to be elected and for whose election the share is entitled to be voted. There shall be no cumulative voting. Voting on any question or in any election may be viva voce unless the chair of the meeting shall order that voting be by ballot or otherwise.

Section 8. Proxies. A stockholder may cast the votes entitled to be cast by the holder of the shares of stock owned of record by the stockholder in person or by proxy executed by the stockholder or by the stockholder’s duly authorized agent in any manner permitted by law. Such proxy or evidence of authorization of such proxy shall be filed with the Secretary of the

Corporation before or at the meeting. No proxy shall be valid more than eleven months after its date unless otherwise provided in the proxy.

Section 9. Voting of Stock by Certain Holders. Stock of the Corporation registered in the name of a corporation, partnership, trust or other entity, if entitled to be voted, may be voted by the president or a vice president, a general partner or trustee thereof, as the case may be, or a proxy appointed by any of the foregoing individuals, unless some other person who has been appointed to vote such stock pursuant to a bylaw or a resolution of the governing body of such corporation or other entity or agreement of the partners of a partnership presents a certified copy of such bylaw, resolution or agreement, in which case such person may vote such stock. Any director or other fiduciary may vote stock registered in such director's or other fiduciary's name in their capacity as such fiduciary, either in person or by proxy.

Shares of stock of the Corporation directly or indirectly owned by it shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares entitled to be voted at any given time, unless they are held by it in a fiduciary capacity, in which case they may be voted and shall be counted in determining the total number of outstanding shares at any given time.

The Board of Directors may adopt by resolution a procedure by which a stockholder may certify in writing to the Corporation that any shares of stock registered in the name of the stockholder are held for the account of a specified person other than the stockholder. The resolution shall set forth the class of stockholders who may make the certification; the purpose for which the certification may be made; the form of certification and the information to be contained in it; if the certification is with respect to a record date or closing of the stock transfer books, the time after the record date or closing of the stock transfer books within which the certification must be received by the Corporation; and any other provisions with respect to the procedure which the Board of Directors considers necessary or desirable. On receipt of such certification, the person specified in the certification shall be regarded as, for the purposes set forth in the certification, the stockholder of record of the specified stock in place of the stockholder who makes the certification.

Section 10. Inspectors. The Board of Directors or the chair of the meeting may appoint, before or at the meeting, one or more inspectors for the meeting and any successor thereto. The inspectors, if any, shall (i) determine the number of shares of stock represented at the meeting, in person or by proxy and the validity and effect of proxies, (ii) receive and tabulate all votes, ballots or consents, (iii) report such tabulation to the chair of the meeting, (iv) hear and determine all challenges and questions arising in connection with the right to vote, and (v) do such acts as are proper to conduct the election or vote with fairness to all stockholders. Each such report shall be in writing and signed by the inspector or by a majority of them if there is more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be prima facie evidence thereof.

Section 11. <u>Advance Notice of Stockholder Nominees for Director and Other Stockholder Proposals</u>.

(a) <u>Annual Meetings of Stockholders</u>. (1) Nominations of individuals for election to the Board of Directors and the proposal of other business to be considered by the stockholders may be made at an annual meeting of stockholders (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any stockholder of the Corporation who was a stockholder of record at the record date set by the Board of Directors for the purpose of determining stockholders entitled to vote at the annual meeting, at the time of giving of notice by the stockholder as provided for in this Section 11(a) and at the time of the annual meeting (and any postponement or adjournment thereof), who is entitled to vote at the meeting in the election of each individual so nominated or on any such other business and who has complied with this Section 11(a).

(2) For any nomination or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of paragraph (a)(1) of this Section 11, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and any such other business must otherwise be a proper matter for action by the stockholders. To be timely, a stockholder's notice shall set forth all information required under this Section 11 and shall be delivered to the Secretary at the principal executive office of the Corporation not earlier than the 150th day nor later than 5:00 p.m., Pacific Time, on the 120th day prior to the first anniversary of the date of the proxy statement (as defined in Section 11(c)(3) of this Article II) for the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced or delayed by more than 30 days from the first anniversary of the date of the preceding year's annual meeting, in order for notice by the stockholder to be timely, such notice must be so delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Pacific Time, on the later of the 120th day prior to the date of such annual meeting, as originally convened, or the tenth day following the day on which public announcement of the date of such meeting is first made. The public announcement of a postponement or adjournment of an annual meeting shall not commence a new time period for the giving of a stockholder's notice as described above.

(3) Such stockholder's notice shall set forth:

(i) as to each individual whom the stockholder proposes to nominate for election or reelection as a director (each, a "Proposed Nominee"), all information relating to the Proposed Nominee that would be required to be disclosed in connection with the solicitation of proxies for the election of the Proposed Nominee as a director in an election contest (even if an election contest is not involved), or would otherwise be required in connection with such solicitation, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act;

(ii) as to any other business that the stockholder proposes to bring before the meeting, a description of such business, the stockholder's reasons for proposing such business at the meeting and any material interest in such business of such stockholder or any Stockholder Associated Person (as defined below), individually or in the aggregate, including any anticipated benefit to the stockholder or the Stockholder Associated Person therefrom;

(iii) as to the stockholder giving the notice, any Proposed Nominee and any Stockholder Associated Person,

(A) the name, age, business address and residential address of such stockholder, Proposed Nominee or Stockholder Associated Person,

(B) the class, series and number of all shares of stock or other securities of the Corporation or any affiliate thereof (collectively, the "Company Securities"), if any, which are owned (beneficially or of record) by such stockholder, Proposed Nominee or Stockholder Associated Person, the date on which each such Company Security was acquired and the investment intent of such acquisition, and any short interest (including any opportunity to profit or share in any benefit from any decrease in the price of such stock or other security) in any Company Securities of any such person,

(C) the nominee holder for, and number of, any Company Securities owned beneficially but not of record by such stockholder, Proposed Nominee or Stockholder Associated Person, and

(D) whether and the extent to which such stockholder, Proposed Nominee or Stockholder Associated Person, directly or indirectly (through brokers, nominees or otherwise), is subject to or during the last six months has engaged in any hedging, derivative or other transaction or series of transactions or entered into any other agreement, arrangement or understanding (including any short interest, any borrowing or lending of securities or any proxy or voting agreement), the effect or intent of which is to (I) manage risk or benefit of changes in the price of (x) Company Securities or (y) any security of any entity that was a component company of the National Association of Real Estate Investment Trusts, Inc. Mortgage REIT index (a "NAREIT Company") for such stockholder, Proposed Nominee or Stockholder Associated Person or (II) increase or decrease the voting power of such stockholder, Proposed Nominee or Stockholder Associated Person in the Corporation or any affiliate thereof (or, as applicable, in any NAREIT Company) disproportionately to such person's economic interest in the Company Securities (or, as applicable, in any NAREIT Company); and

(E) any substantial interest, direct or indirect (including, without limitation, any existing or prospective commercial, business or contractual relationship with the Corporation), by security holdings or otherwise, of such stockholder, Proposed Nominee or Stockholder Associated Person, in the Corporation or any affiliate thereof, other than an interest arising from the ownership of Company Securities where such stockholder, Proposed Nominee or Stockholder Associated Person receives no extra or special benefit not shared on a *pro rata* basis by all other holders of the same class or series;

(iv) as to the stockholder giving the notice, any Stockholder Associated Person with an interest or ownership referred to in clauses (ii) or (iii) of this paragraph (3) of this Section 11(a) and any Proposed Nominee,

(A) the name and address of such stockholder, as they appear on the Corporation's stock ledger, and the current name and address, if different, of each such Stockholder Associated Person and any Proposed Nominee and

(B) the investment strategy or objective, if any, of such stockholder and each such Stockholder Associated Person who is not an individual and a copy of the prospectus, offering memorandum or similar document, if any, provided to investors or potential investors in such stockholder and each such Stockholder Associated Person;

(v) the name and address of any person who contacted or was contacted by the stockholder giving the notice or any Stockholder Associated Person about the Proposed Nominee or other business proposal; and

(vi) to the extent known by the stockholder giving the notice, the name and address of any other stockholder supporting the nominee for election or reelection as a director or the proposal of other business.

(4) Such stockholder's notice shall, with respect to any Proposed Nominee, be accompanied by a written undertaking executed by the Proposed Nominee (i) that such Proposed Nominee (a) is not, and will not become, a party to any agreement, arrangement or understanding with any person or entity other than the Corporation in connection with service or action as a director that has not been disclosed to the Corporation and (b) will serve as a director of the Corporation if elected; and (ii) attaching a completed Proposed Nominee questionnaire (which questionnaire shall be provided by the Corporation, upon request by the stockholder providing the notice, and shall include all information relating to the Proposed Nominee that would be required to be disclosed in connection with the solicitation of proxies for the election of the Proposed Nominee as a director in an election contest (even if an election contest is not involved), or would otherwise be required in connection with such solicitation, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act, or would be required pursuant to the rules of any national securities exchange on which any securities of the Corporation are listed or over-the-counter market on which any securities of the Corporation are traded).

(5) Notwithstanding anything in this subsection (a) of this Section 11 to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased, and there is no public announcement of such action at least 130 days prior to the first anniversary of the date of the proxy statement (as defined in Section 11(c)(3) of this Article II) for the preceding year's annual meeting, a stockholder's notice required by this Section 11(a) shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive office of the

Corporation not later than 5:00 p.m., Pacific Time, on the tenth day following the day on which such public announcement is first made by the Corporation.

(6) For purposes of this Section 11, "Stockholder Associated Person" of any stockholder shall mean (i) any person acting in concert with such stockholder, (ii) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by such stockholder (other than a stockholder that is a depositary) and (iii) any person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such stockholder or such Stockholder Associated Person.

(b) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting and, except as contemplated by and in accordance with the next two sentences of this Section 11(b), no stockholder may nominate an individual for election to the Board of Directors or make a proposal of other business to be considered at a special meeting. Nominations of individuals for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected only by or at the direction of the Board of Directors or, provided that the special meeting has been called in accordance with Section 3(a) of this Article II for the purpose of electing directors, by any stockholder of the Corporation who is a stockholder of record at the record date set by the Board of Directors for the purpose of determining stockholders entitled to vote at the special meeting, at the time of giving of notice provided for in this Section 11 and at the time of the special meeting (and any postponement or adjournment thereof), who is entitled to vote at the meeting in the election of each individual so nominated and who has complied with the notice procedures set forth in this Section 11. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more individuals to the Board of Directors, any stockholder may nominate an individual or individuals (as the case may be) for election as a director as specified in the Corporation's notice of meeting, if the stockholder's notice, containing the information required by paragraphs (a)(3) and (4) of this Section 11, is delivered to the Secretary at the principal executive office of the Corporation not earlier than the 150th day prior to such special meeting and not later than 5:00 p.m., Pacific Time, on the later of the 120th day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. The public announcement of a postponement or adjournment of a special meeting shall not commence a new time period for the giving of a stockholder's notice as described above.

(c) General. (1) If information submitted pursuant to this Section 11 by any stockholder proposing a nominee for election as a director or any proposal for other business at a meeting of stockholders shall be inaccurate in any material respect, such information may be deemed not to have been provided in accordance with this Section 11. Any such stockholder shall notify the Corporation of any inaccuracy or change (within two Business Days of becoming aware of such inaccuracy or change) in any such information. Upon written request by the Secretary or the Board of Directors, any such stockholder shall provide, within five Business Days of delivery of such request (or such other period as may be specified in such request), (A) written verification, satisfactory, in the discretion of the Board of Directors or any authorized officer of the Corporation, to demonstrate the accuracy of any information submitted by the stockholder pursuant to this Section 11, and (B) a written update of any information (including, if requested by the Corporation, written confirmation by such stockholder that it continues to intend to bring such nomination or other business proposal before the meeting) submitted by the stockholder pursuant to this Section 11 as of an earlier date. If a stockholder fails to provide such written verification or written update within such period, the information as to which written verification or a written update was requested may be deemed not to have been provided in accordance with this Section 11.

(2) Only such individuals who are nominated in accordance with this Section 11 shall be eligible for election by stockholders as directors, and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with this Section 11. The chair of the meeting shall have the power to determine whether a nomination or any other business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with this Section 11.

(3) For purposes of this Section 11, "the date of the proxy statement" shall have the same meaning as "the date of the company's proxy statement released to shareholders" as used in Rule 14a-8(e) promulgated under the Exchange Act, as interpreted by the Securities and Exchange Commission from time to time. "Public announcement" shall mean disclosure (A) in a press release reported by the Dow Jones News Service, Associated Press, Business Wire, PR Newswire or other widely circulated news or wire service or (B) in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to the Exchange Act.

(4) Notwithstanding the foregoing provisions of this Section 11, a stockholder shall also comply with all applicable requirements of state law and of the Exchange Act with respect to the matters set forth in this Section 11. Nothing in this Section 11 shall be deemed to affect any right of a stockholder to request inclusion of a proposal in, or the right of the Corporation to omit a proposal from, any proxy statement filed by the Corporation with the Securities and Exchange Commission pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act. Nothing in this Section 11 shall require disclosure of revocable proxies received by the stockholder or Stockholder Associated Person pursuant to a solicitation of proxies after the filing of an effective Schedule 14A by such stockholder or Stockholder Associated Person under Section 14(a) of the Exchange Act.

(5) Notwithstanding anything in these Bylaws to the contrary, except as otherwise determined by the chair of the meeting, if the stockholder giving notice as provided for in this Section 11 does not appear in person or by proxy at such annual or special meeting to present each nominee for election as a director or the proposed business, as applicable, such matter shall not be considered at the meeting.

Section 12. Telephone and Remote Communication Meetings. The Board of Directors or chair of the meeting may permit stockholders to participate in a meeting by means of a telephone or video conference or other communications equipment in any manner permitted by Maryland law. In addition, the Board of Directors may determine that a meeting not be held at any place, but instead may be held solely by means of remote communications in any manner permitted by Maryland law. Participation in a meeting by these means constitutes presence in person at the meeting.

Article III

DIRECTORS

Section 1. General Powers. The business and affairs of the Corporation shall be managed under the direction of the Board of Directors. All the powers of the Corporation are vested in and shall be exercised by or under the authority of the Board of Directors except as otherwise prescribed by applicable law, by the Charter or by these Bylaws.

Section 2. Number, Election and Term. At any regular meeting or at any special meeting called for that purpose, a majority of the entire Board of Directors may establish, increase or decrease the number of directors, provided that the number thereof shall never be less than the minimum number required by the Maryland General Corporation Law (the “MGCL”), nor more than 15, and further provided that the tenure of office of a director shall not be affected by any decrease in the number of directors.

At all times, except in the case of a vacancy, a majority of the Board of Directors shall be Independent Directors (as hereinafter defined). For the purposes of these Bylaws, “Independent Director” shall mean a director of the Corporation who is not an officer or employee of the Corporation or any subsidiary of the Corporation. Directors need not be stockholders in the Corporation.

Section 3. Vacancies. If for any reason any or all the directors cease to be directors, such event shall not terminate the Corporation or affect these Bylaws or the powers of the remaining directors hereunder. Pursuant to the Corporation’s election to be subject to Section 3-804(c) of the MGCL, except as may be provided by the Board of Directors in setting the terms of any class or series of preferred stock, any vacancy on the Board of Directors may be filled only by a majority of the remaining directors, even if the remaining directors do not constitute a quorum; provided, however, that Independent Directors shall nominate replacements for vacancies among the Independent Directors, which replacements must be elected by a majority of the directors, including a majority of the Independent Directors. Any director elected to fill a vacancy shall serve for the remainder of the full term in which the vacancy occurred and until a successor is elected and qualifies.

Section 4. Resignations. Any director or member of a committee may resign at any time. Such resignation shall be made in writing and shall take effect at the time of receipt by the Chair of the Board, the Chief Executive Officer, the President or the Secretary or at such later time specified therein. Acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in the resignation.

Section 5. Committees of the Board of Directors. The Board of Directors may appoint from among its members an Executive Committee, an Audit Committee, a Governance and Nominating Committee, a Compensation Committee and other committees composed of one or more directors and delegate to these committees any of the powers of the Board of Directors, except as prohibited by law.

Unless provided otherwise by the Board of Directors, each committee may fix rules of procedure for its business. A majority of the members of a committee shall constitute a quorum for the transaction of business and the act of a majority of those present at a meeting at which a quorum is present shall be the act of the committee. The members of a committee present at any meeting, whether or not they constitute a quorum, may appoint a director to act in the place of an absent member; provided, however, that in the event of the absence or disqualification of any Independent Director, such appointee shall be an Independent Director. Any action required or permitted to be taken at any meeting of a committee of the Board of Directors may be taken without a meeting, if a consent in writing or by electronic transmission to such action is given by each member of the committee and is filed with the minutes of proceedings of such committee. The members of a committee may conduct any meeting thereof by telephone or video conference in accordance with the provisions of Section 6 of this Article.

Subject to the provisions hereof, the Board of Directors shall have the power at any time to change the membership of any committee, to fill all vacancies, to designate alternative members to replace any absent or disqualified member, or to dissolve any such committee.

Section 6. Meetings of the Board of Directors. Meetings of the Board of Directors, regular or special, may be held at any place in or out of the State of Maryland as the Board of Directors may from time to time determine or as shall be specified in the notice of such meeting.

Members of the Board of Directors may participate in a meeting by means of a telephone or video conference or other communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by such means constitutes presence in person at a meeting.

The first meeting of each newly elected Board of Directors shall be held as soon as practicable after the annual meeting of the stockholders at which the directors were elected. The meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors, except that no notice shall be necessary if such meeting is held immediately after the adjournment, and at the site, of the annual meeting of stockholders.

Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by the Board of Directors. Special meetings of the Board of Directors may be called at any time by two (2) or more directors or by a majority of the members of the executive committee, if one be constituted, in writing with or without a meeting of such committee, or by the Chair of the Board, the Chief Executive Officer or the President.

Special meetings may be held at such place or places in or out of the State of Maryland as may be designated from time to time by the Board of Directors; in the absence of such designation, such meetings shall be held at such places as may be designated in the notice of meeting.

Any meeting of the Board of Directors, regular or special, may adjourn from time to time to reconvene at the same or some other place, and no notice need be given of any such adjourned meeting other than by announcement at the meeting.

Section 7. Notice. Notice of any special meeting of the Board of Directors shall be delivered personally or by telephone, electronic mail, facsimile transmission, United States mail or courier to each director at such director's business or residence address. Notice by personal delivery, telephone, electronic mail or facsimile transmission shall be given at least 24 hours prior to the meeting. Notice by United States mail shall be given at least three days prior to the meeting. Notice by courier shall be given at least two days prior to the meeting. Telephone notice shall be deemed to be given when the director or such director's agent is personally given such notice in a telephone call to which the director or such director's agent is a party. Electronic mail notice shall be deemed to be given upon transmission of the message to the electronic mail address given to the Corporation by the director. Facsimile transmission notice shall be deemed to be given upon completion of the transmission of the message to the number given to the Corporation by the director and receipt of a completed answer-back indicating receipt. Notice by United States mail shall be deemed to be given when deposited in the United States mail properly addressed, with postage thereon prepaid. Notice by courier shall be deemed to be given when deposited with or delivered to a courier properly addressed. Neither the business to be transacted at, nor the purpose of, any annual, regular or special meeting of the Board of Directors need be stated in the notice, unless specifically required by applicable law or these Bylaws.

Section 8. Consent by Directors Without a Meeting. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if a consent in writing or by electronic transmission to such action is given by each director and is filed with the minutes of proceedings of the Board of Directors.

Section 9. Quorum and Voting. At all meetings of the Board of Directors, a majority of the Board of Directors shall constitute a quorum for the transaction of business, and the action of a majority of the directors present at any meeting at which a quorum is present shall be the action of the Board of Directors unless the concurrence of a greater proportion is required for such action by applicable law, the Charter or these Bylaws. If, pursuant to applicable law, the Charter or these Bylaws, the vote of a majority of a particular group of directors is required for action, a quorum must also include a majority of such group. The directors present at a meeting which has been duly called and convened may continue to transact business until adjournment, notwithstanding the withdrawal of enough directors to leave less than a quorum. If enough directors have withdrawn from a meeting to leave less than a quorum but the meeting is not adjourned, the action of the majority of that number of directors necessary to constitute a quorum at such meeting shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by applicable law, the Charter or these Bylaws. If a quorum shall not be present at any meeting of directors, the directors present thereat may, by a majority vote, adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 10. Organization. The Chair of the Board shall preside at each meeting of the Board of Directors. In the absence or inability of the Chair of the Board to preside at a meeting, the Chief Executive Officer or, in the Chief Executive Officer's absence or inability to act, another director chosen by a majority of the directors present shall act as chair of the meeting and preside thereat. The Secretary (or, in the Secretary's absence or inability to act, any person appointed by the chair of the meeting) shall act as Secretary of the meeting and keep the minutes thereof.

Section 11. Compensation of Directors. Independent Directors shall receive compensation for their services, and expenses of attendance for attendance at each regular or special meeting of the Board of Directors, or of any committee thereof or both, as may be determined from time to time by the Board of Directors. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

Section 12. Investment Policies and Restrictions. The Board of Directors, including a majority of the Independent Directors, shall approve the investment policies of the Corporation. The investment policies and compliance therewith shall be reviewed by the Independent Directors to determine whether any changes or updates are appropriate in light of the business and affairs of the Corporation.

Section 13. Presumption of Assent. A director of the Corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless such director's dissent or abstention shall be entered in the minutes of the meeting or unless such director shall file the director's written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to any director who votes in favor of such action.

Section 14. Advisory Directors. The Board of Directors may by resolution appoint advisory directors to the Board, who may also serve as directors emeriti, and shall have such authority and receive such compensation and reimbursement as the Board of Directors shall provide. Advisory directors or directors emeriti shall not have the authority to participate by vote in the transaction of business.

Section 15. Ratification. The Board of Directors or the stockholders may ratify any act, omission, failure to act or determination made not to act (an "Act") by the Corporation or its officers to the extent that the Board of Directors or the stockholders could have originally authorized the Act and, if so ratified, such Act shall have the same force and effect as if originally duly authorized, and such ratification shall be binding upon the Corporation and its stockholders. Any Act questioned in any proceeding on the ground of lack of authority, defective or irregular execution, adverse interest of a director, officer or stockholder, non-disclosure, miscomputation, the application of improper principles or practices of accounting or otherwise, may be ratified, before or after judgment, by the Board of Directors or by the stockholders, and such ratification shall constitute a bar to any claim or execution of any judgment in respect of such questioned Act.

Section 16. Emergency Provisions. Notwithstanding any other provision in the charter or these Bylaws, this Section 16 shall apply during the existence of any catastrophe, or other similar emergency condition, as a result of which a quorum of the Board of Directors under Article III of these Bylaws cannot readily be obtained (an "Emergency"). During any Emergency, unless otherwise provided by the Board of Directors, (i) a meeting of the Board of Directors or a committee thereof may be called by any director or officer by any means feasible under the circumstances; (ii) notice of any meeting of the Board of Directors during such an Emergency may be given less than 24 hours prior to the meeting to as many directors and by such means as it may be feasible at the time, including publication, television or radio, and (iii) the number of directors necessary to constitute a quorum shall be one-third of the entire Board of Directors.

Article IV

OFFICERS

Section 1. Officers. The officers of the Corporation shall be the Chair of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, one or more Vice Presidents, the Treasurer, the Secretary, and such other individuals holding such other titles, as the Board of Directors from time to time shall expressly designate as officers of the Corporation. Officers shall be elected by the Board of Directors to serve during the pleasure of the Board and until their respective successors are elected and qualified, except as otherwise provided in any employment agreement between the Corporation and any officer. The Chair of the Board shall always be a member of the Board of Directors.

Section 2. Subordinate Officers, Committees and Agents. The Board of Directors may from time to time elect such other officers and appoint such committees, employees or other agents as the business of the Corporation may require, including one or more Assistant Secretaries, and one or more Assistant Treasurers, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws, or as the Board of Directors may from time to time determine. The Board of Directors may delegate to any officer or committee the power to elect subordinate officers and to retain or appoint employees or other agents.

Section 3. Chair of the Board. The Board of Directors may designate from among its members a Chair of the Board, who shall not, solely by reason of these Bylaws, be an officer of the Corporation. The Board of Directors may designate the Chair of the Board as an executive or non-executive chair. The Chair of the Board shall preside at all meetings of the Board of Directors at which the Chair of the Board is present. The Chair of Board shall perform such other duties as may be assigned to the Chair of the Board by these Bylaws or the Board of Directors.

Section 4. Chief Executive Officer. The Board of Directors shall designate a Chief Executive Officer. The Chief Executive Officer shall have general responsibility for implementation of the policies of the Corporation, as determined by the Board of Directors, and for the management of the business and affairs of the Corporation. The Chief Executive Officer may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of Chief Executive Officer and such other duties as may be prescribed by the Board of Directors from time to time.

Section 5. President. The Board of Directors shall designate a President. In the absence of a Chief Executive Officer, the President shall in general supervise and control all of the business and affairs of the Corporation. In the absence of a designation of a Chief Operating Officer by the Board of Directors, the President shall be the chief operating officer. The President may execute any deed, mortgage, bond, contract or other instrument, except in cases where the execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation or shall be required by law to be otherwise executed; and in general shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

Section 6. Chief Financial Officer. The Board of Directors shall designate a Chief Financial Officer. The Chief Financial Officer shall perform all duties incident to the office of Chief Financial Officer and shall perform such other duties as from time to time may be assigned to the Chief Financial Officer by the Chief Executive Officer, the President, or the Board of Directors.

Section 7. Vice Presidents. The Board of Directors shall designate one or more Vice President(s). The Vice President or Vice Presidents, in order of their seniority or in any other order determined by the Board of Directors, shall perform such duties as from time to time may be assigned to such person(s) by the Chief Executive Officer, the President, or the Board of Directors.

Section 8. Secretary. The Board of Directors shall designate a Secretary. The Secretary shall keep the minutes of the stockholders' and of the Board of Directors' meetings in one or more books provided for that purpose, see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law, be custodian of the corporate records and of the seal of the Corporation and keep a register of the post office address of each stockholder which shall be furnished to the Secretary by such stockholder, have general charge of the stock transfer books of the Corporation and, in general, perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to the Secretary by the Chief Executive Officer, the President, or the Board of Directors.

Section 9. Treasurer. The Board of Directors shall designate a Treasurer. The Treasurer shall have charge and custody of and be responsible for all funds and securities of the Corporation, receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with these Bylaws and in general perform all of the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to the Treasurer by the Chief Executive Officer, the President, the Chief Financial Officer, or the Board of Directors.

Section 10. Other Officers. The other officers of the Corporation shall perform such duties as the Chief Executive Officer may from time to time assign to them.

Section 11. Removal. Any officer or agent of the Corporation may be removed, with or without cause, by the Board of Directors if in its judgment the best interests of the Corporation would be served thereby. Any other employee of the Corporation may be removed or dismissed at any time by the Chief Executive Officer. The removal of an officer does not prejudice any of such officer's contract rights.

Section 12. Resignation. Any officer or agent may resign at any time by giving written notice to the Board of Directors, or to the Chief Executive Officer or Secretary of the Corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 13. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause, shall be filled by the Board of Directors or by the officer or remaining members of the committee to which the power to fill such office has been delegated pursuant to Section 2 of this Article, as the case may be, and if the office is one for which these Bylaws prescribe a term, shall be filled for the unexpired portion of the term.

Section 14. Compensation. The salaries or other compensation, if any, of the officers elected by the Board of Directors shall be fixed from time to time by the Board of Directors or by such officer as may be designated by resolution of the Board of Directors or a duly authorized committee thereof. The salaries or other compensation of any other officers, employees and other agents shall be fixed from time to time by the Board of Directors, or by the officer or committee to which such matters have been delegated pursuant to Section 2 of this Article. No officer shall be prevented from receiving such salary or other compensation by reason of the fact that such officer is also a director of the Corporation.

Article V

STOCK

Section 1. Certificates; Required Information. Except as may be otherwise provided by the Board of Directors, stockholders of the Corporation are not entitled to certificates representing the shares of stock held by them. In the event that the Corporation issues shares of stock represented by certificates, such certificates shall be in such form as prescribed by the Board of Directors or a duly authorized officer, shall contain the statements and information required by the MGCL and shall be signed by the officers of the Corporation in the manner permitted by the MGCL. In the event that the Corporation issues shares of stock without certificates, to the extent then required by the MGCL, the Corporation shall provide to the record holders of such shares a written statement of the information required by the MGCL to be included on stock certificates. There shall be no differences in the rights and obligations of stockholders based on whether or not their shares are represented by certificates.

Section 2. Lost Certificates. Any officer of the Corporation may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, destroyed, stolen or mutilated, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, destroyed, stolen or mutilated; provided, however, if such shares have ceased to be certificated, no new certificate shall be issued unless requested in writing by such stockholder and the Board of Directors has determined such certificates may be issued. Unless otherwise determined by an officer of the Corporation, the owner of such lost, destroyed, stolen or mutilated certificate or certificates, or such owner's legal representative, shall be required, as a condition precedent to the issuance of a new certificate or certificates, to give the Corporation a bond in such sums as it may direct as indemnity against any claim that may be made against the Corporation.

Section 3. Transfer Agents and Registrars. At such time as the Corporation lists its securities on a national securities exchange or the Nasdaq National Market, or such earlier time as the Board of Directors may elect, the Board of Directors shall appoint one or more banks or trust companies in such city or cities as the Board of Directors may deem advisable, from time to time, to act as transfer agents and/or registrars of the shares of stock of the Corporation; and, upon such appointments being made, no certificate representing shares shall be valid until countersigned by one of such transfer agents and registered by one of such registrars.

Section 4. Transfer of Stock. No transfers of shares of stock of the Corporation shall be made if (i) void ab initio pursuant to the Charter, or (ii) the Board of Directors, pursuant to the Charter, shall have refused to transfer such shares; provided, however, that nothing contained in these Bylaws shall impair the settlement of transactions entered into on the facilities of the New York Stock Exchange or any other national securities exchange or automated inter-dealer quotation system. Permitted transfers of shares of stock of the Corporation shall be made on the stock records of the Corporation only upon the instruction of the registered holder thereof, or by such holder's attorney thereunto authorized by power of attorney duly executed and filed with the Secretary or with a transfer agent or transfer clerk, and upon surrender of the certificate or certificates, if issued, for such shares properly endorsed or accompanied by a duly executed stock transfer power and the payment of all taxes thereon. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, as to any transfers not prohibited by the Charter or by action of the Board of Directors thereunder, the Corporation shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 5. Fixing of Record Dates. The Board of Directors may fix, in advance, a date as the record date for the purpose of determining stockholders entitled to notice of, or to vote at, any meeting of stockholders, or stockholders entitled to receive payment of any dividend or the allotment of any rights, or in order to make a determination of stockholders for any other proper purpose. Such date, in any case, may not be prior to the close of business on the day the record date is fixed nor more than 90 days, or in case of a meeting of stockholders, less than ten days, prior to the date on which the particular action requiring such determination of stockholders is to be taken.

When a record date for the determination of stockholders entitled to notice of or to vote at any meeting of stockholders has been set as provided in this section, such record date shall continue to apply to the meeting if postponed or adjourned, except if the meeting is postponed or adjourned to a date more than 120 days after the record date originally fixed for the meeting, in which case a new record date for such meeting shall be determined as set forth herein.

Section 6. Registered Stockholders. The Corporation shall be entitled to treat the holder of record of any share of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Maryland.

Section 7. Regulations; Book-Entry System. The Board of Directors may make such additional rules and regulations, not inconsistent with the Bylaws or the Charter, as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation. The Corporation may participate in one or more systems under which certificates for shares of stock are replaced by electronic book-entry pursuant to such rules, terms and conditions as the Board of Directors may approve and subject to applicable law, notwithstanding any provisions to the contrary set forth in this Article.

Article VI

SEAL

The Board of Directors may provide a suitable seal for the Corporation, which may be either facsimile or any other form of seal and shall remain in the custody of the Secretary. If the Board of Directors so provides, it shall be affixed to all certificates of the Corporation’s stock and to other instruments requiring a seal. If the Corporation is required to place its corporate seal to a document, it is sufficient to meet the requirement of any law, rule, or regulation relating to a corporate seal to place the word “(seal)” adjacent to the signature of the person authorized to sign the document on behalf of the Corporation.

Article VII

CONTRACTS, LOANS, CHECKS AND DEPOSITS

Section 1. Contracts. The Board of Directors may authorize any officer or agent to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Corporation and such authority may be general or confined to specific instances. Any agreement, deed, mortgage, lease or other document shall be valid and binding upon the Corporation when duly authorized or ratified by action of the Board of Directors and executed by an authorized person.

Section 2. Checks and Drafts. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or agent of the Corporation in such manner as shall from time to time be determined by the Board of Directors.

Section 3. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may designate.

Article VIII

FISCAL YEAR

The fiscal year of the Corporation shall be the twelve calendar months period ending December 31 in each year, unless otherwise provided by the Board of Directors.

Article IX

INDEMNIFICATION AND ADVANCE OF EXPENSES

Section 1. General. To the maximum extent permitted by Maryland law in effect from time to time, the Corporation shall indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, shall pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (a) any individual who is a present or former director or officer of the Corporation and who is made, or threatened to be made, a party to the proceeding by reason of such individual’s service in that capacity or (b) any individual who, while a director or officer of the Corporation and at the request of the Corporation, serves or has served as a director, officer, partner or trustee of any other corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made, or threatened to be made, a party to the proceeding by reason of such individual’s service in such capacity. The Corporation may, with the approval of its Board of Directors, provide such indemnification and advance for expenses to a person who served a predecessor of the Corporation in any of the capacities described in (a) or (b) above and to any employee or agent of the Corporation or a predecessor of the Corporation.

Section 2. Procedure. Any indemnification, or payment of expenses in advance of the final disposition of any proceeding, to which a director or officer may be entitled pursuant to applicable law or the Charter or this Bylaw (as defined in Section 4 of this Article IX) shall be made promptly, and in any event within 60 days, upon the written request of the director or officer entitled to seek indemnification or advance of expenses (the "Indemnified Party"). The right to indemnification and advance of expenses hereunder shall be enforceable by the Indemnified Party in any court of competent jurisdiction, if (i) the Corporation denies such request, in whole or in part, or (ii) no disposition thereof is made within 60 days. The Indemnified Party's costs and expenses incurred in connection with successfully establishing the right to indemnification, in whole or in part, in any such action shall be reimbursed by the Corporation. It shall be a defense to any action for advance for expenses that the Corporation has not received either (i) an undertaking as required by law to repay such advances in the event it shall ultimately be determined that the standard of conduct has not been met or (ii) a written affirmation by the Indemnified Party of such Indemnified Party's good faith belief that the standard of conduct necessary for indemnification by the Corporation has been met.

Section 3. Exclusivity, Etc. The indemnification and advance of expenses provided by the Charter and this Bylaw shall not be deemed exclusive of any other rights to which a person seeking indemnification or advance of expenses may be entitled under any law, or any agreement, vote of stockholders or disinterested directors or other provision that is consistent with law, both as to action in such person's official capacity and as to action in another capacity while holding office or while employed by or acting as agent for the Corporation, shall continue in respect of all events occurring while a person was a director or officer after such person has ceased to be a director or officer, and shall inure to the benefit of the estate, heirs, executors and administrators of such person. All rights to indemnification and advance of expenses under the Charter and this Bylaw shall be deemed to be a contract between the Corporation and each director or officer of the Corporation who serves or served in such capacity at any time while this Bylaw is in effect. Nothing herein shall prevent the amendment of this Bylaw, provided that no such amendment shall diminish the rights of any person hereunder with respect to events occurring or claims made before its adoption or as to claims made after its adoption in respect of events occurring before its adoption. Any repeal or modification of this Bylaw shall not in any way diminish any rights to indemnification or advance of expenses of such director or officer or the obligations of the Corporation arising hereunder with respect to events occurring, or claims made, while this Bylaw or any provision hereof is in force. The Corporation shall not be liable for any payment under this Bylaw in connection with a claim made by a director or officer to the extent such director or officer has otherwise actually received payment under insurance policy, agreement, vote or otherwise, of the amounts otherwise indemnifiable hereunder.

Section 4. Severability; Definitions. The invalidity or unenforceability of any provision of this Article IX shall not affect the validity or enforceability of any other provision hereof. The phrase “this Bylaw” in this Article IX means this Article IX in its entirety.

Article X

SUNDRY PROVISIONS

Section 1. Books and Records. The Corporation shall keep correct and complete books and records of its accounts and transactions and minutes of the proceedings of its stockholders and Board of Directors and of any executive or other committee when exercising any of the powers of the Board of Directors. The books and records of the Corporation may be in written form or in any other form which can be converted within a reasonable time into written form for visual inspection. Minutes shall be recorded in written form but may be maintained in the form of a reproduction. The original or a certified copy of the Bylaws shall be kept at the principal office of the Corporation.

Section 2. Voting Upon Shares in Other Corporations. Stock of other corporations or associations, registered in the name of the Corporation, may be voted by the Chief Executive Officer, the President or a proxy appointed by either of them. The Board of Directors, however, may by resolution appoint some other person to vote such shares, in which case such person shall be entitled to vote such shares upon the production of a certified copy of such resolution.

Section 3. Annual Statement of Affairs. The Chief Executive Officer, President, Chief Financial Officer, or principal accounting officer shall prepare annually a full and correct statement of the affairs of the Corporation, to include a balance sheet and a financial statement of operations for the preceding fiscal year. The statement of affairs shall be submitted at the annual meeting of the stockholders and, within 20 days after the meeting, placed on file at the Corporation’s principal office.

Section 4. Mail. Except as herein expressly provided, any notice or other document which is required by these Bylaws to be mailed shall be deposited in the United States mails, postage prepaid.

Section 5. Reliance. Each director and officer of the Corporation shall, in the performance of such person’s duties with respect to the Corporation, be entitled to rely on any information, opinion, report or statement, including any financial statement or other financial data, prepared or presented by an officer or employee of the Corporation whom the director or officer reasonably believes to be reliable and competent in the matters presented, by a lawyer, certified public accountant or other person, as to a matter which the director or officer reasonably believes to be within the person’s professional or expert competence, or, with respect to a director, by a committee of the Board of Directors on which the director does not serve, as to a matter within its designated authority, if the director reasonably believes the committee to merit confidence.

Section 6. Certain Rights of Directors, Officers, Employees and Agents. The directors shall have no responsibility to devote their full time to the affairs of the Corporation. Any director or officer, employee or agent of the Corporation, in their personal capacity or in a capacity as an affiliate, employee or agent of any other person, or otherwise, may have business interests and engage in business activities similar to or in addition to those of or relating to the Corporation.

Section 7. Loss of Deposits. No director shall be liable for any loss which may occur by reason of the failure of any bank, trust company, savings and loan association or other institution with whom moneys or stock of the Corporation have been deposited.

Section 8. Maryland Control Share Acquisition Act. Notwithstanding any other provision of the Charter or these Bylaws, Title 3, Subtitle 7 of the MGCL, or any successor statute, shall not apply to the voting rights of any shares of stock of the Corporation acquired and held by any person pursuant to a grant by the Board of Directors of a waiver to such person of the stock ownership limitation contained in the Charter. This section may be repealed, in whole or in part, at any time, whether before or after an acquisition of control shares and, upon such repeal, may, to the extent provided by any successor bylaw, apply to any prior or subsequent control share acquisition.

Section 9. Waiver of Notice. Whenever any notice is required to be given pursuant to the Charter or these Bylaws or pursuant to applicable law, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Neither the business to be transacted at nor the purpose of any meeting need be set forth in the waiver of notice, unless specifically required by statute. The attendance of any person at any meeting shall constitute a waiver of notice of such meeting, except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Article XI

AMENDMENTS

These Bylaws may be amended or replaced, or new Bylaws may be adopted, either (1) by the vote of the stockholders entitled to cast at least a majority of the votes which all stockholders are entitled to cast thereon at any duly organized annual or special meeting of stockholders, or (2), with respect to those matters which are not by statute reserved exclusively to the stockholders, by vote of a majority of the Board of Directors, including a majority of the Independent Directors of the Corporation, in office at any regular or special meeting of the Board of Directors. It shall not be necessary to set forth such proposed amendment, repeal or new Bylaws, or a summary thereof, in any notice of such meeting, whether annual, regular or special.

ARTICLE XII

EXCLUSIVE FORUM FOR CERTAIN LITIGATION

Unless the Corporation consents in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that Court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, shall, to the fullest extent permitted by law, be the sole and exclusive forum for (a) any Internal Corporate Claim, as such term is defined in Section 1-101(p) of the MGCL, or any successor provision thereof, (b) any derivative action or proceeding brought on behalf of the Corporation, (c) any action asserting a claim of breach of any duty owed by any director, officer or employee of the Corporation to the Corporation or to the stockholders of the Corporation, (d) any action asserting a claim against the Corporation or any director, officer or employee of the Corporation arising pursuant to any provision of the MGCL or the Charter or these Bylaws, or (e) any other action asserting a claim against the Corporation or any director, officer or employee of the Corporation that is governed by the internal affairs doctrine. If any action the subject matter of which is within the scope of the preceding sentence is filed in a court other than a court located within the State of Maryland (a "Foreign Action") in the name of any stockholder, such stockholder shall be deemed to have consented to (a) the personal jurisdiction of the state and federal courts located within the State of Maryland in connection with any action brought in any such court to enforce the preceding sentence and (b) having service of process made upon such stockholder in any such action by service upon such stockholder's counsel in the Foreign Action as agent for such stockholder. None of the foregoing actions, claims or proceedings may be brought in any court sitting outside the State of Maryland, unless the Corporation consents in writing to such court.

EXHIBIT 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Christopher J. Abate, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Redwood Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over the financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

/s/ Christopher J. Abate
Christopher J. Abate
Chief Executive Officer

EXHIBIT 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brooke E. Carillo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Redwood Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over the financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2021

/s/ Brooke E. Carillo

Brooke E. Carillo
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION

Pursuant to 18 U.S.C. §1350, the undersigned officer of Redwood Trust, Inc. (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the three months ended September 30, 2021 (the “Quarterly Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 4, 2021	/s/ Christopher J. Abate
	Christopher J. Abate
	Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of the Quarterly Report or as a separate disclosure document.

CERTIFICATION

Pursuant to 18 U.S.C. §1350, the undersigned officer of Redwood Trust, Inc. (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the three months ended September 30, 2021 (the “Quarterly Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 4, 2021	/s/ Brooke E. Carillo
	Brooke E. Carillo
	Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of the Quarterly Report or as a separate disclosure document.