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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2001

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)

<TABLE>
<S> <C>

MARYLAND (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	68-0329422 (I.R.S. EMPLOYER IDENTIFICATION NO.)
591 REDWOOD HIGHWAY, SUITE 3100 MILL VALLEY, CALIFORNIA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	94941 (ZIP CODE)

</TABLE>

(415) 389-7373
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether the Registrant (1) has filed all documents and 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 [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

<TABLE>
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Class B Preferred Stock ($.01 par value)....................	902,068 as of May 11, 2001
Common Stock ($.01 par value)...............................	8,923,509 as of May 11, 2001

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REDWOOD TRUST, INC

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

REDWOOD TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

ASSETS

<TABLE>
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<S>	MARCH 31, 2001 (UNAUDITED) <C>	DECEMBER 31, 2000 <C>
Net Investment In Residential Credit Enhancement Interests:		
Mortgage securities available-for-sale	$ 49,621	$ 48,495
Mortgage securities available-for-sale, pledged	51,228	32,269
	100,849	80,764
Residential Retained Loan Portfolio:		
Mortgage loans held-for-investment	1,067,295	1,124,339
Mortgage loans held-for-sale	372	531
Mortgage loans held-for-sale, pledged	4,152	6,127
	1,071,819	1,130,997
Investment Portfolio:		
Mortgage securities trading	58,647	57,450
Mortgage securities trading, pledged	926,575	702,162
Mortgage securities available-for-sale	14,188	5,163
Mortgage securities available-for-sale, pledged	1,202	--
	1,000,612	764,775
Commercial Retained Loan Portfolio:		
Mortgage loans held-for-investment	24,059	5,177
Mortgage loans held-for-investment, pledged	13,275	17,717
Mortgage loans held-for-sale	782	14,325
Mortgage loans held-for-sale, pledged	31,961	19,950
	70,077	57,169
Cash and cash equivalents	14,477	15,483
Restricted cash	5,161	5,240
Interest rate agreements	77	66
Accrued interest receivable	15,263	15,797
Principal receivable	5,437	7,986
Investment in RWT Holdings, Inc	--	1,899
Other assets	2,137	1,939
Total Assets	$2,285,909	$2,082,115
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Short-term debt	$ 992,597	$ 756,222
Long-term debt, net	1,056,212	1,095,835
Accrued interest payable	4,743	5,657
Accrued expenses and other liabilities	5,555	4,180
Dividends payable	5,129	4,557
Total Liabilities	2,064,236	1,866,451
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.01 per share; Class B 9.74% Cumulative Convertible 902,068 shares authorized, issued		

and outstanding ($28,645 aggregate liquidation preference)	26,517	26,517
Common stock, par value $0.01 per share; 49,097,932 shares authorized; 8,896,838 and 8,809,500 issued and outstanding	89	88
Additional paid-in capital	243,650	242,522
Accumulated other comprehensive income	2,559	(89)
Cumulative earnings	34,435	27,074
Cumulative distributions to stockholders	(85,577)	(80,448)
Total Stockholders' Equity	221,673	215,664
Total Liabilities and Stockholders' Equity	$2,285,909	$2,082,115

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

<TABLE>
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	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2000
<S>	<C>	<C>
Interest Income		
Net Investment In Residential Credit Enhancement Interests:		
Mortgage securities available-for-sale	$ 2,642	$ 1,615
Residential Retained Loan Portfolio:		
Mortgage loans held-for-investment	19,742	17,218
Mortgage loans held-for-sale	144	6,520
	19,886	23,738
Investment Portfolio:		
Mortgage securities trading	16,939	17,060
Mortgage securities available-for-sale	109	--
	17,048	17,060
Commercial Retained Loan Portfolio:		
Mortgage loans held-for-investment	607	--
Mortgage loans held-for-sale	1,326	211
	1,933	211
Cash and cash equivalents	312	314
Total interest income	41,821	42,938
Interest Expense		
Short-term debt	(13,444)	(19,164)
Long-term debt	(17,838)	(15,359)
Total interest expense	(31,282)	(34,523)
Net interest rate agreements expense	(131)	(408)
Provision for credit losses on residential mortgage loans held-for-investment	(184)	(119)
Net Interest Income After Provision For Credit Losses	10,224	7,888
Net unrealized and realized market value gains (losses)		
Loans and securities	3,132	(1,077)
Interest rate agreements	(491)	(147)
Total net unrealized and realized market value gains (losses)	2,641	(1,224)
Operating expenses	(3,136)	(2,147)
Other income	--	15
Equity in losses of RWT Holdings, Inc.	--	(568)
Net income before preferred dividend and change in accounting principle	9,729	3,964
Less dividends on Class B preferred stock	(681)	(681)
Net income before change in accounting principle	9,048	3,283
Cumulative effect of adopting EITF 99-20 (See Note 2)	(2,368)	--
Net Income Available to Common Stockholders	$ 6,680	$ 3,283

	==========	==========
Earnings per Share:		
Basic Earnings Per Share:		
Net income before change in accounting principle........	$ 1.02	$ 0.37
Cumulative effect of adopting EITF 99-20................	$ (0.26)	$ --
Net income..	$ 0.76	$ 0.37
Diluted Earnings Per Share:		
Net income before change in accounting principle........	$ 1.00	$ 0.37
Cumulative effect of adopting EITF 99-20................	$ (0.26)	$ --
Net income..	$ 0.74	$ 0.37
Weighted average shares of common stock and common stock equivalents:		
Basic...	8,838,964	8,785,017
Diluted...	9,065,221	8,844,606

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

<TABLE>
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	CLASS B PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME	CUMULATIVE EARNINGS
	SHARES	AMOUNT	SHARES	AMOUNT			
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 2000......	902,068	26,517	8,809,500	88	242,522	(89)	27,074
Comprehensive income:							
Net income before preferred dividend....................							7,361
Reclassification adjustment due to adoption of EITF 99-20.......................	--	--	--	--	--	2,368	--
Net unrealized loss on assets available-for-sale..........	--	--	--	--	--	280	--
Total comprehensive income....	--	--	--	--	--	--	--
Issuance of common stock........	--	--	87,338	1	1,128	--	--
Dividends declared:							
Preferred.....................	--	--	--	--	--	--	--
Common........................	--	--	--	--	--	--	--
Balance, March 31, 2001.........	902,068	26,517	8,896,838	89	243,650	2,559	34,435
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	CUMULATIVE DISTRIBUTIONS TO STOCKHOLDERS	TOTAL
<S>	<C>	<C>
Balance, December 31, 2000......	(80,448)	215,664
Comprehensive income:		
Net income before preferred dividend....................		7,361
Reclassification adjustment due to adoption of EITF 99-20.......................	--	2,368
Net unrealized loss on assets available-for-sale..........	--	280
Total comprehensive income....	--	10,009
Issuance of common stock........	--	1,129
Dividends declared:		
Preferred.....................	(681)	(681)
Common........................	(4,448)	(4,448)
Balance, March 31, 2001.........	(85,577)	221,673
	=======	=======

</TABLE>

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)

<TABLE>
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	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2000
<S>	<C>	<C>
Cash Flows From Operating Activities:		
Net income available to common stockholders before preferred dividend	$ 7,361	$ 3,964
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,291	1,131
Provision for credit losses	184	119
Non-cash stock compensation	143	--
Equity in losses of RWT Holdings, Inc.	--	568
Net unrealized and realized market value (gains) losses	(2,641)	1,224
Cumulative effect of adopting EITF 99-20	2,368	--
Purchases of mortgage loans held-for-sale	--	(25,734)
Proceeds from sales of mortgage loans held-for-sale	238	405,616
Principal payments on mortgage loans held-for-sale	1,934	14,287
Purchases of mortgage securities trading	(296,907)	(165,264)
Proceeds from sales of mortgage securities trading	7,963	49,372
Principal payments on mortgage securities trading	65,726	56,789
Net (purchases) sales of interest rate agreements	(658)	117
Decrease (increase) in accrued interest receivable	534	(1,676)
Decrease (increase) in principal receivable	2,549	(838)
Decrease (increase) in other assets	913	(1,896)
(Decrease) increase in accrued interest payable	(914)	253
Increase (decrease) in accrued expenses and other liabilities	1,375	451
Net cash (used in) provided by operating activities	(208,542)	338,483
Cash Flows From Investing Activities:		
Net assets acquired in purchase of RWT Holdings, Inc. common stock	(19)	--
Purchases of mortgage loans held-for-investment	--	(384,328)
Proceeds from sales of mortgage loans held-for-investment	1,660	--
Principal payments on mortgage loans held-for-investment	60,779	35,876
Purchases of mortgage securities available-for-sale	(33,814)	(9,151)
Proceeds from sales of mortgage securities available-for-sale	3,034	--
Principal payments on mortgage securities available-for-sale	1,022	306
Net decrease in restricted cash	79	2,939
Loans to RWT Holdings, Inc., net of repayments	--	5,100
Increase in receivable from RWT Holdings, Inc	--	(101)
Net cash provided by (used in) investing activities	32,741	(349,359)
Cash Flows From Financing Activities:		
Net borrowings (repayments) on short-term debt	218,175	(331,160)
Proceeds from issuance of long-term debt	16,948	375,844
Repayments on long-term debt	(56,756)	(38,318)
Net proceeds from issuance of common stock	986	45
Dividends paid	(4,557)	(2,877)
Net cash provided by financing activities	174,795	3,534
Net decrease in cash and cash equivalents	(1,006)	(7,342)
Cash and cash equivalents at beginning of period	15,483	19,881
Cash and cash equivalents at end of period	$ 14,477	$ 12,539
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 32,330	$ 34,270

</TABLE>

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

NOTE 1. THE COMPANY

Redwood Trust, Inc. ("Redwood Trust") was incorporated in Maryland on April 11, 1994 and commenced operations on August 19, 1994. During 1997, Redwood Trust formed Sequoia Mortgage Funding Corporation ("Sequoia"), a special-purpose finance subsidiary. Redwood Trust acquired an equity interest in RWT Holdings, Inc. ("Holdings"), a taxable affiliate of Redwood Trust, during the first quarter of 1998. On January 1, 2001, Redwood Trust acquired 100% of the voting common stock of Holdings and exchanged its preferred stock interest for additional voting common stock in Holdings. As a result of this transaction, Redwood Trust owns 100% of the voting common stock of Holdings and Holdings became a wholly-owned subsidiary of Redwood Trust on January 1, 2001. Subsequently, Holdings elected to become a taxable REIT subsidiary of Redwood Trust. For financial reporting purposes, references to the "Company" mean Redwood Trust, Sequoia, and Holdings.

Redwood Trust, together with its affiliates, is a real estate finance company specializing in owning, financing, and credit enhancing high-quality jumbo residential mortgage loans nationwide. Redwood Trust also finances real estate through its investment portfolio (mortgage securities) and its commercial loan portfolio. Redwood Trust's primary source of revenue is monthly payments made by homeowners on their mortgages, and its primary expense is the cost of borrowed funds. As Redwood Trust is structured as a Real Estate Investment Trust ("REIT"), the majority of net earnings are distributed to shareholders as dividends.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements as of March 31, 2001 and 2000 are unaudited. The unaudited interim consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cashflows as of March 31, 2001 and 2000. These consolidated financial statements and notes thereto, are unaudited and should be read in conjunction with the Company's audited financial statements included in the Company's Form 10-K for the year ended December 31, 2000. The results for the three months ended March 31, 2001 are not necessarily indicative of the expected results for the year ended December 31, 2001.

The March 31, 2001 consolidated financial statements include the accounts of Redwood Trust, Sequoia and Holdings. The December 31, 2000 consolidated financial statements include the accounts of Redwood Trust and Sequoia, and Redwood Trust's equity interest in Holdings. Substantially all of the assets of Sequoia, consisting primarily of residential whole loans shown as part of the Residential Retained Loan Portfolio, are subordinated to support long-term debt in the form of collateralized mortgage bonds ("Long-Term Debt") and are not available for the satisfaction of general claims of the Company. The Company's exposure to loss on the assets which are collateral for Long-Term Debt is limited to its net equity investment in Sequoia, as the Long-Term Debt is non-recourse to the Company. All significant intercompany balances and transactions with Sequoia and Holdings have been eliminated in the consolidation of the Company at March 31, 2001. Certain amounts for prior periods have been reclassified to conform to the March 31, 2001 presentation.

During March 1998, the Company acquired an equity interest in Holdings. Prior to January 1, 2001, the Company owned all of the preferred stock and had a non-voting, 99% economic interest in Holdings. The Company accounted for its investment in Holdings under the equity method. Under this method, original equity investments in Holdings were recorded at cost and adjusted by the Company's share of earnings or losses and decreased by dividends received. On January 1, 2001, the Company acquired 100% of the voting

common stock of Holdings for $300,000 in cash consideration from two officers of Holdings, and Holdings became a wholly-owned consolidated subsidiary of the Company. This transaction did not have a material effect on the consolidated financial statements of the Company.

USE OF ESTIMATES

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the reported period. Actual results could differ from those estimates. The primary estimates inherent in the accompanying consolidated financial statements are discussed below.

Fair Value. Management estimates the fair value of its financial instruments using available market information and other appropriate valuation methodologies. The fair value of a financial instrument, as defined by Statement of Financial Accounting Standards ("SFAS") No. 107, Disclosures about Fair Value of Financial Instruments, is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Management's estimates are inherently subjective in nature and involve matters of uncertainty and judgement to interpret relevant market and other data. Accordingly, amounts realized in actual sales may differ from the fair values presented in Notes 3, 7 and 10.

Reserve for Credit Losses. A reserve for credit losses for the residential retained loan portfolio is maintained at a level deemed appropriate by management to provide for known losses, as well as potential losses inherent in these mortgage loans. The reserve is based upon management's assessment of various factors affecting its residential mortgage loans, including current and projected economic conditions, delinquency status, and credit protection. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The reserve is increased by provisions, which are charged to income from operations. When a loan or portions of a loan are determined to be uncollectible, the portion deemed uncollectible is charged against the reserve and subsequent recoveries, if any, are credited to the reserve. The Company's actual credit losses may differ from those estimates used to establish the reserve. Reserves may also be established if and when deemed necessary for the commercial retained loan portfolio. Summary information regarding the Reserve for Credit Losses is presented in Note 4.

Individual mortgage loans are considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is impaired, impairment is measured based upon the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the underlying collateral. At March 31, 2001 and December 31, 2000, there were no impaired mortgage loans.

ADOPTION OF SFAS NO. 133

The Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, effective July 1, 1998 and has elected to not seek hedge accounting for any of it's interest rate agreements.

ADOPTION OF EITF 99-20

During 1999, the Emerging Issues Task Force ("EITF") issued EITF 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets.

EITF 99-20 establishes new income and impairment recognition standards for interests in certain securitized assets. Under the provisions of EITF 99-20, the holder of beneficial interests should recognize the excess of all estimated cash flows attributable to the beneficial interest estimated at the acquisition date over the initial investment (the accretable yield) as interest income over the life of the beneficial interest using the effective yield method. If the estimated cash flows change, then the holder of the beneficial interest should recalculate the accretable yield and adjust the periodic accretion recognized as income prospectively. If the fair value of a beneficial interest has declined below its carrying amount, an other-than-temporary decline is considered to exist if there has been a decline in estimated future cash flows and the difference between the carrying value and fair value of the beneficial interest is recorded as an impairment loss through the income statement.

The Company adopted the provisions of EITF 99-20 effective January 1, 2001. At that date, the Company held certain beneficial interests in which the fair value had declined below their carrying value and current projections of cash flows were less than cash flows anticipated at acquisition. Accordingly, the Company recorded a $2.4 million charge through the Statement of Operations as a cumulative effect of a change in accounting principle for certain mark-to-market adjustments on these beneficial interests that had previously been recorded as unrealized losses through Accumulative Other Comprehensive Income as a component of Stockholders' Equity. Since this was a reclassification of declines in market values that had already been recognized in the Company's balance sheet and stockholders' equity accounts, there was no change in book value upon adoption. Any subsequent income statement adjustments under the provisions of EITF 99-20 will be recognized as mark-to-market adjustments under "Realized and unrealized gain or loss on assets."

MORTGAGE ASSETS

The Company's mortgage assets consist of mortgage loans and mortgage securities ("Mortgage Assets"). Mortgage loans and securities pledged as collateral under borrowing arrangements in which the secured party has the right by contract or custom to sell or repledge the collateral have been classified as "pledged" in the accompanying Consolidated Balance Sheets. Interest is recognized as revenue when earned according to the terms of the loans and securities and when, in the opinion of management, it is collectible. Discounts and premiums relating to Mortgage Assets are amortized into interest income over the lives of the Mortgage Assets using the effective yield method. Gains or losses on the sale of Mortgage Assets are based on the specific identification method.

Mortgage Loans: Held-for-Investment

Mortgage loans classified as held-for-investment are carried at their unpaid principal balance, adjusted for net unamortized premiums or discounts, and net of the related allowance for credit losses. All of the Sequoia assets that are pledged or subordinated to support the Long-Term Debt are classified as held-for-investment. Commercial loans that the Company has secured financing through the term of the loan or otherwise has the intent and the ability to hold to maturity, are classified as held-for-investment.

Mortgage Loans: Held-for-Sale

Mortgage loans held-for-sale (residential and commercial) are carried at the lower of original cost or aggregate market value ("LOCOM"). Realized and unrealized gains and losses on these loans are recognized in "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations. Real estate owned ("REO") assets of the Company are also presented as "Mortgage loans held-for-sale."

Some of the commercial mortgage loans held by the Company are committed for sale by the Company to Holdings, or a subsidiary of Holdings, under Master Forward Commitment Agreements at December 31,

2000. As forward commitment agreements were entered into on the same date that the Company committed to purchase the loans, the price under the forward commitment is the same as the price that the Company paid for the mortgage loans, as established by the external market. Fair value is therefore equal to the commitment price, which is the carrying value of the mortgage loans. Accordingly, no gain or loss is recognized on the subsequent sales of these mortgage loans to Holdings or subsidiaries of Holdings.

Mortgage Securities: Trading

Mortgage securities classified as trading are accounted for in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Accordingly, such securities are recorded at their estimated fair market value. Unrealized and realized gains and losses on these securities are recognized as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

Mortgage Securities: Available-for-Sale

Mortgage securities classified as available-for-sale are carried at their estimated fair value. Current period unrealized gains and losses are excluded from net income and reported as a component of Other Comprehensive Income in Stockholders' Equity with cumulative unrealized gains and losses classified as Accumulated Other Comprehensive Income in Stockholders' Equity.

Unrealized losses on mortgage securities classified as available-for-sale that are considered other-than-temporary, are recognized in income and the carrying value of the mortgage security is adjusted. Under the provisions of EITF 99-20, other-than-temporary unrealized losses are based on various factors affecting the expected cash flow from the mortgage securities, including an other-than-temporary deterioration of the credit quality of the underlying mortgages and/or the credit protection available to the related mortgage pool or an other-than-temporary change in the prepayment characteristics of the underlying collateral.

Interest income on mortgage securities available-for-sale is calculated using the effective yield method based on projected cash flows over the life of the security. Yields on each security vary as a function of credit results, prepayment rates, and interest rates, and may also vary depending on the mix of first, second and third loss positions the Company holds. As the Company purchases these securities, a portion of the discount for each security is designated as a credit reserve, with the remaining portion of the discount designated to be amortized into income over the life of the security using the effective yield method. If future credit losses exceed the Company's original expectations, the Company may take a charge to write down the basis in the security. If future credit losses are less than the Company's original estimate, the yield over the remaining life of the security may be adjusted.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less.

RESTRICTED CASH

Restricted cash of the Company includes principal and interest payments on mortgage loans held as collateral for the Company's Long-Term Debt, cash pledged as collateral on certain interest rate agreements, and cash held back from borrowers until certain loan agreement requirements have been met. The corresponding liability for cash held back from borrowers is reflected as a component of "Accrued expenses and other liabilities" on the Consolidated Balance Sheets.

INTEREST RATE AGREEMENTS

The Company maintains an overall interest-rate risk-management strategy that may incorporate the use of derivative interest rate agreements for a variety of reasons, including minimizing significant fluctuations in earnings that may be caused by interest-rate volatility. Interest rate agreements the Company may use as part of its interest-rate risk management strategy include interest rate options, swaps, options on swaps, futures contracts, options on futures contracts, forward sales of fixed-rate Agency mortgage securities ("MBS"), and options on forward purchases or sales of MBS (collectively "Interest Rate Agreements"). On the date an Interest Rate Agreement is entered into, the Company designates the interest rate agreement as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge), or (3) held for trading ("trading" instruments). Since the Company's adoption of SFAS No. 133 in 1998, the Company has elected not to seek hedge accounting for its Interest Rate Agreements. Accordingly, such instruments are recorded at their estimated fair market value with changes in their fair value reported in current-period earnings in "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

Net premiums on interest rate options are amortized as a component of net interest income over the effective period of the interest rate option using the effective interest method. The income and/or expense related to interest rate options and swaps are recognized on an accrual basis.

DEBT

Short-Term Debt and Long-Term Debt are carried at their unpaid principal balances, net of any unamortized discount or premium and any unamortized deferred bond issuance costs. The amortization of any discount or premium is recognized as an adjustment to interest expense using the effective interest method based on the maturity schedule of the related borrowings. Bond issuance costs incurred in connection with the issuance of Long-Term Debt are deferred and amortized over the estimated lives of the Long-Term Debt using the interest method adjusted for the effects of prepayments.

INCOME TAXES

The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") under the Internal Revenue Code (the "Code") and the corresponding provisions of State law. In order to qualify as a REIT, the Company must annually distribute at least 90% of its taxable income to stockholders and meet certain other requirements. If these requirements are met, the Company generally will not be subject to Federal or State income taxation at the corporate level with respect to the taxable income it distributes to its stockholders. Because the Company believes it meets the REIT requirements and also intends to distribute all of its taxable income, no provision has been made for income taxes in the accompanying consolidated financial statements.

Under the Code, a dividend declared by a REIT in October, November or December of a calendar year and payable to shareholders of record as of a specified date in such year, will be deemed to have been paid by the Company and received by the shareholders on the last day of that calendar year, provided the dividend is actually paid before February 1st of the following calendar year, and provided that the REIT has any remaining undistributed taxable income on the record date. Therefore, the dividends declared in the fourth quarter 2000, which were paid in January 2001, are considered taxable income to stockholders in 2000, the year declared. All 2000 dividends were ordinary income to the Company's preferred and common stockholders.

Taxable earnings of Holdings are subject to state and federal income taxes at the applicable statutory rates. Holdings provides for deferred income taxes if any, to reflect the estimated future tax effects under the provisions of SFAS No. 109, Accounting for Income Taxes. Under this pronouncement, deferred income taxes, if any, reflect the estimated future tax effects of temporary differences between the amount of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations.

NET INCOME PER SHARE

Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income available to common stockholders by the weighted average number of common shares and common equivalent shares outstanding during the period. The common equivalent shares are calculated using the treasury stock method, which assumes that all dilutive common stock equivalents are exercised and the funds generated by the exercise are used to buy back outstanding common stock at the average market price during the reporting period.

The following tables provide reconciliations of the numerators and denominators of the basic and diluted net income per share computations.

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2000
	(IN THOUSANDS, EXCEPT SHARE DATA)	
<S>	<C>	<C>
NUMERATOR:		
Numerator for basic and diluted earnings per share --		
Net income before preferred dividend and change in accounting principle	$ 9,729	$ 3,964
Cash dividends on Class B preferred stock	(681)	(681)
Net income before change in accounting principle	9,048	3,283
Cumulative effect of adopting EITF 99-20	(2,368)	--
Basic and Diluted EPS -- Net income available to common stockholders	$ 6,680	$ 3,283
DENOMINATOR:		
Denominator for basic earnings per share		
Weighted average number of common shares outstanding during the period	8,838,964	8,785,017
Net effect of dilutive stock options	226,257	59,589
Denominator for diluted earnings per share	9,065,221	8,844,606
BASIC EARNINGS PER SHARE:		
Net income before change in accounting principle	$ 1.02	$ 0.37
Cumulative effect of adopting EITF 99-20	(0.26)	--
Net income per share	$ 0.76	$ 0.37
DILUTED EARNINGS PER SHARE:		
Net income before change in accounting principle	$ 1.00	$ 0.37
Cumulative effect of adopting EITF 99-20	(0.26)	--
Net income per share	$ 0.74	$ 0.37

========== ==========

</TABLE>

At March 31, 2001, the number of common equivalent shares issued by the Company that were anti-dilutive totaled 743,143 and were not included in the calculation of diluted earnings per share.

COMPREHENSIVE INCOME

Current period unrealized gains and losses on assets available-for-sale are reported as a component of Comprehensive Income on the Consolidated Statements of Stockholders' Equity with cumulative unrealized gains and losses classified as Accumulated Other Comprehensive Income in Stockholders' Equity. At March 31, 2001 and December 31, 2000, the only component of Accumulated Other Comprehensive Income was net unrealized gains and losses on assets available-for-sale.

RECENT ACCOUNTING PRONOUNCEMENTS

During March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation -- an interpretation of APB Opinion No. 25 ("FIN 44"). FIN 44 clarifies the application of APB Opinion No. 25 by expanding upon a number of issues not specifically addressed in APB Opinion No. 25, such as the definition of an employee and the accounting for modifications to a previously fixed stock option award. FIN 44 was effective July 1, 2000. There was no material impact on the operating results of the Company upon the adoption of FIN 44.

In September 2000, FASB issued Statement of Financial Accounting Standards ("FAS") No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. FAS No. 140 replaces FAS No. 125, revises the standards for accounting for securitizations and other transfers of financial assets, and requires certain new disclosures, while carrying over most of FAS No. 125's provisions. FAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Company adopted the disclosure requirements of FAS No. 140 effective December 31, 2000.

NOTE 3. MORTGAGE ASSETS

At March 31, 2001 and December 31, 2000, investments in Mortgage Assets consisted of interests in adjustable-rate, hybrid or fixed-rate mortgage loans on residential and commercial properties. The hybrid mortgages have an initial fixed coupon rate for three to ten years followed by annual adjustments. The original maturity of the majority of the Mortgage Assets is thirty years; the actual maturity is subject to change based on the prepayments of the underlying mortgage loans.

At March 31, 2001 and December 31, 2000, the annualized effective yield after taking into account the amortization expense due to prepayments on the Mortgage Assets was 7.42% and 8.01%, respectively, based on the reported cost of the assets. At March 31, 2001, 80% of the Mortgage Assets owned by the Company were adjustable-rate mortgages, 14% were hybrid mortgages, and 6% were fixed-rate mortgages. At December 31, 2000, 79% of the Mortgage Assets owned by the Company were adjustable-rate mortgages, 17% were hybrid mortgages, and 4% were fixed-rate mortgages. At March 31, 2001 and December 31, 2000, the coupons on 61% and 59% of the adjustable-rate Mortgage Assets were limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every six months or 2% every year), respectively. The majority of the coupons on the adjustable-rate and hybrid Mortgage Assets owned by the Company are limited by lifetime caps. At March 31, 2001 and December 31, 2000, the weighted average lifetime cap on the adjustable-rate Mortgage Assets was 11.64% and 11.43%, respectively.

At March 31, 2001 and December 31, 2000, Mortgage Assets consisted of the following:

NET INVESTMENT IN RESIDENTIAL CREDIT ENHANCEMENT INTERESTS

<TABLE>
<CAPTION>

	MARCH 31, 2001 MORTGAGE SECURITIES AVAILABLE-FOR-SALE	DECEMBER 31, 2000 MORTGAGE SECURITIES AVAILABLE-FOR-SALE
	(IN THOUSANDS)	
<S>	<C>	<C>
Current Face	$155,233	$124,878
Unamortized Discount	(21,137)	(16,883)
Portion Of Discount Designated As A Credit Reserve	(35,722)	(27,052)
Amortized Cost	98,374	80,943
Gross Unrealized Gains	3,416	2,646
Gross Unrealized Losses	(941)	(2,825)
Carrying Value	$100,849	$ 80,764

</TABLE>

As the Company purchases residential credit enhancement interests, a portion of the discount for each security is designated as a credit reserve, with the remaining portion of the discount designated to be amortized into income over the life of the security using the effective yield method. If future credit losses exceed the Company's original expectations, the Company may take a charge to write down the basis in the security. If future credit losses are less than the Company's original estimate, the yield over the remaining life of the security may be adjusted. At March 31, 2001 and December 31, 2000, the Company designated $35.7 million and $27.1 million as a credit reserve on its residential credit enhancement interests, respectively.

The Company adopted the provisions of EITF 99-20 on January 1, 2001, and recorded a $2.4 million charge through the Statement of Operations as a cumulative effect of a change in accounting principle for certain mark-to-market adjustments that had previously been recorded as unrealized losses through Accumulative Other Comprehensive Income as a component of Stockholders' Equity. Since this was a reclassification of declines in market values that had previously been recognized in the Company's balance sheet and stockholders' equity accounts, there was no change in book value upon adoption. Any subsequent income statement adjustments under the provisions of EITF 99-20 will be recognized as mark-to-market adjustments under "Realized and unrealized gain or loss on assets." The gains and losses on the sales of mortgage securities available-for-sale are reflected as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

RESIDENTIAL RETAINED LOAN PORTFOLIO

<TABLE>
<CAPTION>

	MARCH 31, 2001			DECEMBER 31, 2000		
	HELD-FOR-SALE	HELD-FOR-INVESTMENT	TOTAL	HELD-FOR-SALE	HELD-FOR-INVESTMENT	TOTAL
			(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Current Face	$4,609	$1,059,024	$1,063,633	$6,784	$1,115,386	$1,122,170
Unamortized Discount	(85)	--	(85)	(126)	--	(126)
Unamortized Premium	--	13,239	13,239	--	13,767	13,767
Amortized Cost	4,524	1,072,263	1,076,787	6,658	1,129,153	1,135,811
Reserve for Credit Losses	--	(4,968)	(4,968)	--	(4,814)	(4,814)
Carrying Value	$4,524	$1,067,295	$1,071,819	$6,658	$1,124,339	$1,130,997

</TABLE>

The Company recognized losses of $0.1 million during the three months ended March 31, 2000 as a result of LOCOM adjustments on residential mortgage loans held-for-sale. No such losses were recorded during the

three months ended March 31, 2001. During the three months ended March 31, 2000, the Company sold to Holdings residential mortgage loans held-for-sale for proceeds of $380.5 million, resulting in no net gain or loss. These assets were subsequently transferred to Sequoia during the three months ended March 31, 2000, and are classified as part of Mortgage Loans Held-For-Investment and are Bond Collateral for Long-Term Debt (see Note 8).

INVESTMENT PORTFOLIO

<TABLE>

<CAPTION>

	MARCH 31, 2001			DECEMBER 31, 2000		
	MORTGAGE SECURITIES TRADING	MORTGAGE SECURITIES AVAILABLE-FOR-SALE	TOTAL	MORTGAGE SECURITIES TRADING	MORTGAGE SECURITIES AVAILABLE-FOR-SALE	TOTAL
			(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Current Face...........	$974,430	$13,040	$ 987,470	$751,449	$5,500	$756,949
Unamortized Discount....	(165)	(314)	(479)	(388)	(427)	(815)
Unamortized Premium.....	10,957	2,580	13,537	8,551	--	8,551
Unamortized Cost........	985,222	15,306	1,000,528	759,612	5,073	764,685
Gross Unrealized Gains.................	--	91	91	--	105	105
Gross Unrealized Losses...............	--	(7)	(7)	--	(15)	(15)
Carrying Value..........	$985,222	$15,390	$1,000,612	$759,612	$5,163	$764,775
Agency..................	$488,735	--	$ 488,735	$521,204	--	$521,204
Non-Agency.............	496,487	15,390	511,877	238,408	5,163	243,571
Carrying Value..........	$985,222	$15,390	$1,000,612	$759,612	$5,163	$764,775

</TABLE>

For the three months ended March 31, 2001 and 2000, the Company recognized a market value gain of $0.7 million and a market value loss of $0.9 million on mortgage securities classified as trading, respectively. During the three months ended March 31, 2001 and 2000, the Company sold mortgage securities classified as trading for proceeds of $8.0 million and $49.0 million, respectively. During the three months ended March 31, 2001, the Company sold mortgage securities classified as available-for-sale for proceeds of $3.0 million, resulting in a net gain of $0.1 million. No such sales were made during the first quarter of 2000. The market value adjustments are reflected as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

COMMERCIAL RETAINED LOAN PORTFOLIO

<TABLE>
<CAPTION>

	MARCH 31, 2001			DECEMBER 31, 2000		
	HELD-FOR-SALE	HELD-FOR-INVESTMENT	TOTAL	HELD-FOR-SALE	HELD-FOR-INVESTMENT	TOTAL
			(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Current Face...........................	$33,557	$37,694	$71,251	$34,275	$23,425	$57,700
Unamortized Discount..................	(814)	(360)	(1,174)	--	(531)	(531)
Carrying Value.........................	$32,743	$37,334	$70,077	$34,275	$22,894	$57,169

</TABLE>

The Company sold a commercial mortgage loan for sales proceeds of $1.7 million during the three months ending March 31, 2001, resulting in no net gain or loss on the sale. No such sales occurred during the three months ended March 31, 2000.

During the three months ended March 31, 2000, Redwood Trust sold commercial mortgage loans to Redwood Commercial Funding ("RCF"), a subsidiary of Holdings, for proceeds of $8.4 million. Pursuant to

Master Forward Commitment Agreements, all commercial mortgage loans purchased by Redwood Trust were sold to RCF at the same price for which the Redwood Trust acquires the commercial mortgage loans (see Note 12). While Master Forward Sales Agreements are still in place, such activity is not reflected in the March 31, 2001 consolidated financial statements. Accordingly, there were no LOCOM adjustments or gains on sales related to commercial mortgage loans sold to RCF during the three months ended March 31, 2001 and 2000.

NOTE 4. RESERVE FOR CREDIT LOSSES

The Reserve for Credit Losses on Residential Mortgage Loans Held-For-Investment is reflected as a component of Mortgage Assets on the Consolidated Balance Sheets. The following table summarizes the Reserve for Credit Losses on Residential Mortgage Loans Held-For-Investment activity:

	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2000
	(IN THOUSANDS)	
Balance at beginning of period	$4,814	$4,125
Provision for credit losses	184	119
Charge-offs	(30)	--
Balance at end of period	$4,968	$4,244

There is no reserve for credit losses at March 31, 2001 or December 31, 2000 for the commercial retained mortgage loan held-for-investment portfolio.

NOTE 5. COLLATERAL FOR LONG-TERM DEBT

The Company has collateral as security for Long-Term Debt issued in the form of collateralized mortgage bonds ("Bond Collateral") and certain commercial mortgage loans held-for-investment. The Bond Collateral consists primarily of adjustable-rate and hybrid, conventional, 30-year mortgage loans secured by first liens on one- to four-family residential properties. All Bond Collateral is pledged to secure repayment of the related Long-Term Debt obligation. All principal and interest (less servicing and related fees) on the Bond Collateral is remitted to a trustee and is available for payment on the Long-Term Debt obligation. The Company's exposure to loss on the Bond Collateral and certain commercial mortgage loans is limited to its net investment, as the Long-Term Debt is non-recourse to the Company.

The components of the collateral for the Company's long-term debt are summarized as follows:

	MARCH 31, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
Residential Mortgage Loans:		
Residential Retained Loan Portfolio Held-For-Sale	$ 155	$ 315
Residential Retained Loan Portfolio Held-For-Investment	1,067,295	1,124,339
Restricted cash	2,770	3,729
Accrued interest receivable	5,995	7,010
Total Residential Collateral	$1,076,215	$1,135,393
Commercial Mortgage Loans Held-For-Investment	$ 20,526	$ --
Total Long-Term Debt Collateral	$1,096,741	$1,135,393

For presentation purposes, the various components of the Bond Collateral summarized above are reflected in their corresponding line items on the Consolidated Balance Sheets.

NOTE 6. INTEREST RATE AGREEMENTS

The Company reports its Interest Rate Agreements at fair value, and has not elected to obtain hedge accounting treatment on any of its Interest Rate Agreements.

During the three months ended March 31, 2001 and 2000, the Company recognized net market value losses of $0.5 million and $0.1 million on Interest Rate Agreements. The market value gains are reflected as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

The following table summarizes the aggregate notional amounts of all of the Company's Interest Rate Agreements as well as the credit exposure related to these instruments. The credit exposure reflects the fair market value of any cash and collateral of the Company held by counterparties.

	NOTIONAL AMOUNTS		CREDIT EXPOSURE	
	MARCH 31, 2001	DECEMBER 31, 2000	MARCH 31, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)			
Interest Rate Options				
Purchased	$1,385,800	$1,490,300	--	--
Sold	3,500	--	--	--
Interest Rate Swaps	55,000	5,000	$4,771	$2,814
Interest Rate Futures and Forwards	147,000	506,600	705	948
Total	$1,591,300	$2,001,900	$5,476	$3,762

Interest Rate Options purchased (sold), which may include caps, floors, call and put corridors, options on futures, options on MBS forwards, and swaption collars (collectively, "Options"), are agreements which transfer, modify or reduce interest rate risk in exchange for the payment (receipt) of a premium when the contract is initiated. Purchased interest rate cap agreements provide cash flows to the Company to the extent that a specific interest rate index exceeds a fixed rate. Conversely, purchased interest rate floor agreements produce cash flows to the Company to the extent that the referenced interest rate index falls below the agreed upon fixed rate. Purchased call (put) corridors will cause the Company to incur a gain to the extent that the yield of the specified index is below (above) the strike rate at the time of the option expiration. The maximum

gain or loss on a purchased call (put) corridor is equal to the up-front premium. Call (put) corridors that are sold will cause the Company to incur a loss to the extent that the yield of the specified index is below (above) the strike rate at the time of the option expiration. Such losses are partially offset by the up front premium received. The maximum gain or loss on a call (put) corridor sold is determined at the time of the transaction by establishing a minimum (maximum) index rate. The Company will receive cash on the purchased options on futures/forwards if the futures/forward price exceeds (is below) the call (put) option strike price at the expiration of the option. For the written options on futures/forwards, the Company receives an up-front premium for selling the option, however, the Company will incur a loss on the written option if the futures/ forward price exceeds (is below) the call (put) option strike price at the expiration of the option. Purchased receiver (payor) swaption collars will cause the Company to incur a gain (loss) should the index rate be below (above) the strike rate as of the expiration date. The maximum gain or loss on a receiver (payor) swaption is established at the time of the transaction by establishing a minimum (maximum) index rate. The Company's credit risk on the purchased Options is limited to the carrying value of the Options agreements. The credit risk on options on futures is limited due to the fact that the exchange and its members are required to satisfy the obligations of any member that fails to perform.

Interest Rate Swaps ("Swaps") are agreements in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. Most of the Company's Swaps involve the exchange of one floating interest payment for another floating interest payment based on a different index. Most of the Swaps require that the Company provide collateral, such as mortgage securities, to the counterparty. Should the counterparty fail to return the collateral, the Company would be at risk for the fair market value of that asset.

Interest Rate Futures and Forwards ("Futures and Forwards") are contracts for the purchase or sale of securities or cash in which the seller (buyer) agrees to deliver (purchase) on a specified future date, a specified instrument (or the cash equivalent), at a specified price or yield. Under these agreements, if the Company has sold (bought) the futures/forwards, the Company will generally receive additional cash flows if interest rates rise (fall). Conversely, the Company will generally pay additional cash flows if interest rates fall (rise). The credit risk inherent in futures and forwards arises from the potential inability of counterparties to meet the terms of their contracts, however, the credit risk on futures is limited by the requirement that the exchange and its members make good on obligations of any member that fails to perform.

In general, the Company incurs credit risk to the extent that the counterparties to the Interest Rate Agreements do not perform their obligations under the Interest Rate Agreements. If one of the counterparties does not perform, the Company would not receive the cash to which it would otherwise be entitled under the Interest Rate Agreement. In order to mitigate this risk, the Company has only entered into Interest Rate Agreements that are either a) transacted on a national exchange or b) transacted with counterparties that are either i) designated by the U.S. Department of the Treasury as a "primary government dealer", ii) affiliates of "primary government dealers", or iii) rated BBB or higher. Furthermore, the Company has entered into Interest Rate Agreements with several different counterparties in order to diversify the credit risk exposure.

NOTE 7. SHORT-TERM DEBT

The Company has entered into repurchase agreements, bank borrowings, and other forms of collateralized short-term borrowings (collectively, "Short-Term Debt") to finance acquisitions of a portion of its Mortgage Assets. This Short-Term Debt is collateralized by a portion of the Company's Mortgage Assets.

At March 31, 2001, the Company had $1.0 billion of Short-Term Debt outstanding with a weighted-average borrowing rate of 5.28% and a weighted-average remaining maturity of 170 days. This debt was collateralized with $1.0 billion of Mortgage Assets. At December 31, 2000, the Company had $0.8 billion of

Short-Term Debt outstanding with a weighted-average borrowing rate of 6.85% and a weighted-average remaining maturity of 122 days. This debt was collateralized with $0.8 billion of Mortgage Assets.

At March 31, 2001 and December 31, 2000, the Short-Term Debt had the following remaining maturities:

<TABLE>
<CAPTION>

	MARCH 31, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
<S>	<C>	<C>
Within 30 days	$ 89,033	$100,885
31 to 90 days	255,013	268,867
Over 90 days	648,551	386,470
Total Short-Term Debt	$992,597	$756,222

</TABLE>

For the three months ended March 31, 2001 and 2000, the average balance of Short-Term Debt was $0.9 billion and $1.2 billion with a weighted-average interest cost of 5.91% and 6.25%, respectively. The maximum balance outstanding during the three months ended March 31, 2001 and 2000, was $1.0 billion and $1.3 billion, respectively. The Company met all of it debt covenants for its short-term borrowing arrangements and credit facilities during the three months ended March 31, 2001 and 2000.

In addition to the committed facilities listed below, the Company has uncommitted facilities with credit lines in excess of $4 billion at March 31, 2001. It is the intention of the Company's management to renew committed and uncommitted facilities, if and as needed.

In March 2000, the Company entered into a $50 million committed revolving mortgage warehousing credit facility. The facility is intended to finance newly originated commercial mortgage loans. In September 2000, this facility was extended through August 2001 and was increased to $70 million. At March 31, 2001, the Company had borrowings under this facility of $34.2 million. In addition, a portion of this facility allows for loans to be financed to the maturity of the loan, which may extend beyond the expiration date of the facility. Borrowings under this facility bear interest based on a specified margin over the London Interbank Offered Rate ("LIBOR"). At March 31, 2001, the weighted average borrowing rate under this facility was 7.01%. This committed facility expires in August 2001.

In July 2000, the Company renewed for one year, a $30 million committed master loan and security agreement with a Wall Street Firm. The facility is intended to finance newly originated commercial mortgage loans. In September 2000, this facility was increased to $50 million. At March 31, 2001, the Company had borrowings under this facility of $7.2 million. Borrowings under this facility bear interest based on a specified margin over LIBOR. At March 31, 2001, the weighted average borrowing rate under this facility was 6.66%. This committed facility expires in July 2001.

In September 2000, the Company entered into two separate $30 million committed master repurchase agreements with a bank and a Wall Street Firm. These facilities are intended to finance residential mortgage-backed securities with lower than investment grade ratings. At March 31, 2001, the Company had borrowings under these facilities of $30.6 million. Borrowings under these facilities bear interest based on a specified margin over LIBOR. At March 31, 2001, the weighted average borrowing rate under these facilities was 5.98%. These committed facilities expire in September 2001.

In October 2000, the Company entered into a $20 million committed master repurchase agreement with a Wall Street Firm. This facility is intended to finance residential mortgage-backed securities with lower than investment grade ratings. At March 31, 2001, the Company had borrowings under this facility of $14.4 million. Borrowings under this facility bear interest based on a specified margin over LIBOR. At March 31, 2001, the

weighted average borrowing rate under this facility was 6.25%. This committed facility expires in October 2001.

NOTE 8. LONG-TERM DEBT

Long-Term Debt in the form of collateralized mortgage bonds is secured by Bond Collateral. As required by the indentures relating to the Long-Term Debt, the Bond Collateral is held in the custody of trustees. The trustees collect principal and interest payments on the Bond Collateral and make corresponding principal and interest payments on the Long-Term Debt. The obligations under the Long-Term Debt are payable solely from the Bond Collateral and are otherwise non-recourse to the Company.

Each series of Long-Term Debt consists of various classes of bonds at variable rates of interest. The maturity of each class is directly affected by the rate of principal prepayments on the related Bond Collateral. Each series is also subject to redemption according to the specific terms of the respective indentures. As a result, the actual maturity of any class of a Long-Term Debt series is likely to occur earlier than its stated maturity.

For the three months ended March 31, 2001 and 2000, the average effective interest cost for Long-Term Debt, as adjusted for the amortization of bond premium, deferred bond issuance costs, and other related expenses, was 6.65% and 6.32%, respectively. At March 31, 2001 and 2000, accrued interest payable on Long-Term Debt was $2.6 million and $3.5 million, respectively, and is reflected as a component of Accrued Interest Payable on the Consolidated Balance Sheets. For the three months ended March 31, 2001 and 2000, the average balance of Long-Term Debt was $1.1 billion and $1.0 billion, respectively.

The components of the Long-Term Debt at March 31, 2001 and December 31, 2000 along with selected other information are summarized below:

<TABLE>
<CAPTION>

	MARCH 31, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
<S>	<C>	<C>
Residential Long-Term Debt..................	$ 1,039,152	$ 1,095,909
Commercial Long-Term Debt...................	16,948	--
Unamortized premium on Long-Term Debt.......	2,934	3,045
Deferred bond issuance costs................	(2,822)	(3,119)
Total Long-Term Debt.............	$ 1,056,212	$ 1,095,835
Range of weighted-average interest rates, by series -- residential.....................	5.34% to 6.66%	6.35% to 7.20%
Stated residential maturities...............	2017 - 2029	2017 - 2029

Number of residential series	4	4
Weighted-average interest rates -- commercial	8.58	--
Stated commercial maturities	2002 - 2003	--
Number of commercial series	2	--

NOTE 9. INCOME TAXES -- HOLDINGS

The current provision for income taxes for Holdings for the three months ended March 31, 2001 and 2000 was $3,200. These amounts represent the minimum California franchise taxes. No additional tax provision has been recorded for the three months ended March 31, 2001 and 2000, as Holdings reported a loss in years prior to 2001, and did not recognize a significant amount of net income during the first three months of 2001. In addition, due to the uncertainty of realization of net operating losses, no deferred tax benefit has been

recorded. A valuation allowance has been provided to offset the deferred tax assets related to net operating loss carryforwards and other future temporary deductions at March 31, 2001 and December 31, 2000. At both March 31, 2001 and December 31, 2000, the deferred tax assets and associated valuation allowances were approximately $9.5 million. At both March 31, 2001 and December 31, 2000, Holdings had net operating loss carryforwards of approximately $24.6 million for federal tax purposes, and $11 million for state tax purposes. The federal loss carryforwards and a portion of the state loss carryforwards expire between 2018 and 2020, while the largest portion of the state loss carryforwards expire between 2003 and 2005.

NOTE 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying values and estimated fair values of the Company's financial instruments at March 31, 2001 and December 31, 2000.

	MARCH 31, 2001		DECEMBER 31, 2000	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
	(IN THOUSANDS)			
Assets				
Mortgage Loans				
Residential: held-for-sale	$ 4,524	$ 4,524	$ 6,658	$ 6,658
Residential: held-for-investment	1,067,295	1,056,838	1,124,339	1,113,389
Commercial: held-for-sale	32,743	32,743	34,275	34,275
Commercial: held-for-investment	37,334	37,334	22,894	22,894
Mortgage Securities				
Residential: trading	985,222	985,222	759,612	759,612
Residential: available-for-sale	15,390	15,390	85,927	85,927
Interest Rate Agreements	77	77	66	66
Investment in RWT Holdings, Inc.	--	--	1,899	1,989
Liabilities				
Short-Term Debt	992,597	992,597	756,222	756,222
Long-Term Debt	1,056,212	1,047,194	1,095,835	1,085,368

The carrying values of all other balance sheet accounts as reflected in the consolidated financial statements approximate fair value because of the short-term nature of these accounts.

NOTE 11. STOCKHOLDERS' EQUITY

Class B 9.74% Cumulative Convertible Preferred Stock

On August 8, 1996, the Company issued 1,006,250 shares of Class B Preferred Stock ("Preferred Stock"). Each share of the Preferred Stock is convertible at the option of the holder at any time into one share of Common Stock. Effective October 1, 1999, the Company can either redeem or, under certain circumstances, cause a conversion of the Preferred Stock. The Preferred Stock pays a dividend equal to the greater of (i) $0.755 per share, per quarter or (ii) an amount equal to the quarterly dividend declared on the number of shares of the Common Stock into which the Preferred Stock is convertible. The Preferred Stock ranks senior to the Company's Common Stock as to the payment of dividends and liquidation rights. The liquidation preference entitles the holders of the

Preferred Stock to receive $31.00 per share plus any accrued dividends before any distribution is made on the Common Stock. At both March 31, 2001 and December 31, 2000, 96,732 shares of the Preferred Stock have been converted into 96,732 shares of the Company's Common Stock.

In March 1999, the Company's Board of Directors approved the repurchase of up to 150,000 shares of the Company's Preferred Stock. The Company did not repurchase any shares of Preferred Stock during the three months ended March 31, 2001 and 2000. At March 31, 2001, there remained 142,550 shares available under the authorization for repurchase.

Stock Option Plan

The Company has adopted a Stock Option Plan for executive officers, employees, and non-employee directors (the "Plan"). The Plan authorizes the Board of Directors (or a committee appointed by the Board of Directors) to grant "incentive stock options" as defined under Section 422 of the Code ("ISOs"), options not so qualified ("NQSOs"), deferred stock, restricted stock, performance shares, stock appreciation rights, limited stock appreciation rights ("Awards"), and dividend equivalent rights ("DERs") to such eligible recipients other than non-employee directors. Non-employee directors are automatically provided annual grants of NQSOs with DERs pursuant to a formula under the Plan.

The number of shares of Common Stock available under the Plan for options and Awards, subject to certain anti-dilution provisions, is 15% of the Company's total outstanding shares of Common Stock. The total outstanding shares are determined as the highest number of shares outstanding prior to any stock repurchases. Of these shares of Common Stock available for grant, no more than 500,000 shares of Common Stock shall be cumulatively available for grant as ISOs. At March 31, 2001 and December 31, 2000, 441,304 and 476,854 shares of Common Stock, respectively, were available for grant. At March 31, 2001, 28,000 shares of restricted stock had been granted. No restricted stock had been granted prior to December 31, 2000. At March 31, 2001 and December 31, 2000, 331,652 and 328,152 ISOs had been granted, respectively. The exercise price for ISOs granted under the Plan may not be less than the fair market value of shares of Common Stock at the time the ISO is granted. All stock options granted and restricted stock awarded under the Plan vest no earlier than ratably over a four-year period from the date of grant or award and all stock options granted expire within ten years after the date of grant.

The Company has granted stock options that accrue and pay stock and cash DERs. This feature results in current operating expenses being incurred that relate to long-term incentive grants made in the past. To the extent the Company increases its common dividends or the market price of the Common Stock increases, such operating expenses may increase. For the three months ended March 31, 2001 and 2000, the Company accrued cash and stock DER expenses of $1.0 million and $0.4 million, respectively. Stock DERs represent shares of stock which are issuable to holders of stock options when the holders exercise the underlying stock options. The number of stock DER shares accrued is based on the level of the Company's common stock dividends and on the price of the common stock on the related dividend payment date. At March 31, 2001 and December 31, 2000, there were 166,459 and 166,451 unexercised options with stock DERs under the Plan, respectively. Cash DERs are accrued and paid based on the level of the Company's common stock dividend. At March 31, 2001 and December 31, 2000, there were 1,155,372 and 1,180,797 unexercised options with cash DERs under the Plan, respectively. At March 31, 2001 and December 31, 2000, there were 154,550 and 147,550 outstanding stock options that did not have DERs, respectively.

A summary of the status of the Company's Plan as of March 31 and changes during the three months ending on that date is presented below.

<TABLE>
<CAPTION>

	MARCH 31, 2001		MARCH 31, 2000	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	(IN THOUSANDS, EXCEPT SHARE DATA)			
<S>	<C>	<C>	<C>	<C>
Outstanding options at January				

1	1,494,798	$22.32	1,713,836	$21.97
Options granted	4,000	$20.02	11,000	$12.55
Options exercised	(25,967)	$14.00	(6,035)	$ 3.02
Options canceled	(500)	$18.94	(144,225)	$14.04
Dividend equivalent rights earned	4,050	--	3,556	--
Outstanding options at March 31	1,476,381	$22.40	1,578,132	$22.66

</TABLE>

Common Stock Repurchases

Since September 1997, the Company's Board of Directors has approved the repurchase of 7,455,000 shares of the Company's Common Stock. Pursuant to this repurchase program, the Company did not repurchase any shares of Common Stock during the three months ended March 31, 2001 and 2000. At March 31, 2001, there remained 1,000,000 shares available under the authorization for repurchase. Common stock previously repurchased has been returned to the Company's authorized but unissued shares of Common Stock.

NOTE 12. COMMITMENTS AND CONTINGENCIES

At March 31, 2001, the Company had entered into commitments to purchase $1.6 million of residential mortgage securities for settlement during April and May 2001.

At March 31, 2001, the Company is obligated under non-cancelable operating leases with expiration dates through 2006. The total future minimum lease payments under these non-cancelable leases is $3.0 million and is expected to be recognized as follows: 2001 -- $0.5 million; 2002 -- $0.6 million; 2003 -- $0.6 million; 2004 -- $0.6 million; 2005 -- $0.5 million; 2006 -- $0.2 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes.

SAFE HARBOR STATEMENT

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Certain matters discussed in this Form 10-Q may constitute forward-looking statements within the meaning of the federal securities laws that inherently include certain risks and uncertainties. Actual results and the timing of certain events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including, among other things, credit results for our mortgage assets, our cash flows and liquidity, changes in interest rates and market values on our mortgage assets and borrowings, changes in prepayment rates on our mortgage assets, general economic conditions, particularly as they affect the price of mortgage assets and the credit status of borrowers, and the level of liquidity in the capital markets, as it affects our ability to finance our mortgage asset portfolio, and other risk factors outlined in the Company's Form 10-K. Other factors not presently identified may also cause actual results to differ. We continuously update and revise our estimates based on actual conditions experienced. It is not practicable to publish all such revisions and, as a result, no one should assume that results projected in or contemplated by the forward-looking statements included above will continue to be accurate in the future.

Throughout this Form 10-Q and other company documents, the words "believe", "expect", "anticipate", "intend", "aim", "will", and similar words identify "forward-looking" statements.

RESULTS OF OPERATIONS

Consolidation of Financial Statements

On January 1, 2001, Redwood Trust, Inc. ("Redwood") acquired 100% of the common stock of RWT Holdings, Inc., ("Holdings") equivalent to a 1% economic interest in Holdings. As a result, Redwood now presents the financial statements of Redwood and Holdings on a consolidated basis. Thus, assets and liabilities of Holdings now appear on our consolidated statements as assets and liabilities, instead of being netted against our equity investment in Holdings. In accordance with generally accepted accounting principles, the financial statements for prior years have not been restated to conform to the consolidated format to be used in 2001 and beyond.

Earnings Summary

Core earnings were $0.71 per share for the first quarter of 2001, an increase of 39% over first quarter of 2000 core earnings of $0.51 per share. Reported earnings per share for the first quarter of 2001 were $0.74, a 100% increase over the first quarter of 2000 reported earnings per share of $0.37. Reported earnings include mark-to-market adjustments.

Our common stock dividend for the first quarter of 2001 was $0.50 per share. Book value per share rose from $21.47 to $21.94 during the quarter.

Revenues Summary

Revenues declined from $42.8 million in the first quarter of 2000 to $41.6 million in the first quarter of 2001. Although average earning assets yields increased from 7.25% to 7.72% with rising interest rates, our average balance of earning assets (as reported on-balance sheet) fell from $2.4 billion to $2.2 billion.

In general, unless we increase our capital base, our revenues may continue to decline as we continue to shift our product mix towards our credit enhancement portfolio. If we continue with this change in product mix, our reported assets and revenues may continue to decline. However, we would also expect that borrowings and interest expenses would decline, and that the net result may be favorable over time.

TABLE 1
TOTAL INTEREST INCOME AND YIELDS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AVERAGE EARNING ASSETS	COUPON INCOME	NET PREMIUM AMORTIZATION EXPENSE	RESIDENTIAL RETAINED PORTFOLIO CREDIT PROVISION EXPENSE	TOTAL INTEREST INCOME REVENUES	EARNING ASSET YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000..........................	$2,363,903	$ 43,460	$ (522)	$ (119)	$ 42,819	7.25%
Q2: 2000..........................	2,282,889	43,091	45	(128)	43,008	7.54%
Q3: 2000..........................	2,187,936	42,959	(1,040)	(240)	41,679	7.62%
Q4: 2000..........................	2,118,952	42,817	(818)	(244)	41,755	7.88%
Q1: 2001..........................	2,156,741	42,690	(869)	(184)	41,637	7.72%
1999..............................	$2,200,916	$152,472	$(5,162)	$(1,346)	$145,964	6.63%
2000..............................	2,237,956	172,327	(2,335)	(731)	169,261	7.56%

</TABLE>

We operate in the single business segment of real estate finance, with common staff and management, commingled financing arrangements, and flexible capital commitments. We allocate our staff and capital resources in a fluid manner to our real estate finance product lines as we seek the highest risk-adjusted returns.

To provide a greater level of detail on our revenue trends, we discuss revenue and portfolio characteristics by product line below. The following discussion of our assets contains statistics that in some cases have been obtained from, or compiled from, information made available by servicing entities and information service providers.

Residential Credit Enhancement Portfolio

The balance of loans that we credit enhance increased from $23 billion to $27 billion during the first quarter of 2001. These loans do not appear on our balance sheet; only our net investment in the credit enhancement interests for these loans appear on our balance sheet. Credit enhancement revenue increased to $2.7 million as our net investment in credit enhancement assets increased. We acquired $31 million principal value of credit enhancement assets in the first quarter of 2001 at a cost of $21 million. At March 31, 2001, the total principal value of our credit enhancement interests was $155 million. We acquired these interests at an adjusted cost of $101 million. Of the $54 million difference between principal value and amortized costs, $36 million is designated as credit reserve and $18 million is designated as a purchase discount to be amortized into income over time.

We continue to establish what we believe to be an appropriate level of credit reserves upon acquisition of these assets. Should we experience better than projected future credit results, some of these credit reserves may be reduced, thereby positively affecting future yields on this portfolio. We expect solid growth in this portfolio in the second quarter of 2001. If favorable market conditions continue, we expect to pursue growth in this portfolio throughout the year.

Our credit enhancement portfolio yield was 12.32% during the first quarter of 2001. The average yield on this portfolio has declined from 16.95% in the first quarter of 2000 due to acquisition of new assets for which we set up relatively large initial reserves and thus relatively low initial yields. Additionally, we have acquired an increased proportion of third loss interests that have lower yields than first or second loss interests due to their lower risk levels.

In today's environment, accounting yields initially booked on these assets of 12% to 13% (after setting aside credit reserves) generally allow returns on equity capital employed before overhead of 14% to 15% after our modest use of leverage. Actual long-term returns on this capital could be lower or higher as a function of a number of factors, with the principal factor being future credit results. At March 31, 2001, we had set aside $36 million of credit reserves for these assets. If future credit results are satisfactory, we may not need all of

these reserves. Should this be determined, we can then reverse some of these reserves into income over time, thus increasing our asset yields. Although we do expect material credit losses, it may be useful to note that our long-term return on equity before overhead from this current portfolio, assuming our modest use of leverage, expected prepayment rates, and so forth, could be as high as 20% to 23% in the event that there are no credit losses or credit losses are very minor. Thus, assuming credit losses are not greater than implied by our reserve levels, a reasonable expectation of long-term returns from this current portfolio might be 14% to 23% return on equity before overhead. However, achieving such returns is subject to many factors.

TABLE 2
CREDIT ENHANCEMENT PORTFOLIO INTEREST INCOME AND YIELDS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AVERAGE PRINCIPAL VALUE	AVERAGE CREDIT RESERVE	AVERAGE NET DISCOUNT BALANCE	AVERAGE BASIS	COUPON INCOME	NET DISCOUNT AMORTIZATION INCOME	TOTAL INTEREST INCOME REVENUES	YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000............	$ 56,439	$(11,567)	$ (6,758)	$38,114	$1,048	$ 567	$1,615	16.95%
Q2: 2000............	77,173	(16,361)	(7,654)	53,158	1,412	723	2,135	16.07%
Q3: 2000............	100,857	(21,484)	(11,956)	67,417	1,928	356	2,284	13.55%
Q4: 2000............	113,370	(24,596)	(12,514)	76,260	2,144	346	2,490	13.06%
Q1: 2001............	135,471	(31,415)	(18,260)	85,796	2,516	126	2,642	12.33%
1999................	$ 27,976	$ (6,816)	$ (2,891)	$18,269	$1,900	$2,302	$4,202	23.00%
2000................	87,070	(18,527)	(9,734)	58,809	6,532	1,992	8,524	14.49%

</TABLE>

Credit losses for the entire $27 billion portfolio that we credit enhanced at March 31, 2001 declined in the first quarter of 2001 to $0.6 million from $1.5 million in the previous quarter. The annualized rate of credit loss was less than 1 basis point (0.01%) of the portfolio. Of this loss, $550,000 was borne by the external credit enhancements to our positions and $55,000 was incurred by us and charged against our internal reserves. At quarter-end, we had $86 million of external credit enhancements and $36 million of internal credit reserves for this portfolio. External credit reserves serve to protect us from credit losses on our $27 billion credit enhancement portfolio on a specific asset basis. It represents the principal value of first and second loss interests that are junior to us and are owned by others. Total reserves of $122 million represented 45 basis points (0.45%) of our credit enhancement portfolio. Reserves, credit protections, and risks are specific to each asset. Unlike general reserves, specific reserves cannot be reallocated to other assets.

Delinquencies (over 90 days, foreclosure, bankruptcy, and REO) in our credit enhancement portfolio increased from 0.23% at December 31, 2000 to 0.24% of the current balances at March 31, 2001. We expect delinquency and loss rates to increase from their current modest levels, given the weakening economy and the natural seasoning pattern of these loans.

TABLE 3
CREDIT ENHANCEMENT PORTFOLIO -- CREDIT RESULTS
(AT PERIOD END, ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	UNDERLYING MORTGAGE LOANS	DELINQUENCIES		TOTAL CREDIT LOSSES	ANNUALIZED TOTAL CREDIT LOSSES AS % OF LOANS	REDWOOD'S SHARE OF CREDIT LOSSES
		$	%			
<S>	<C>	<C>	<C>	<C>	<C>	<C>

Q1: 2000	$ 8,539,491	$49,731	0.58%	$ (813)	0.04%	$ (270)
Q2: 2000	20,925,931	45,999	0.22%	(1,537)	0.03%	(187)
Q3: 2000	21,609,785	58,102	0.27%	(590)	0.01%	(245)
Q4: 2000	22,633,860	51,709	0.23%	(1,568)	0.03%	(56)
Q1: 2001	27,081,361	63,893	0.24%	(605)	0.01%	(55)
1999	$ 6,376,571	$45,451	0.71%	$(3,141)	0.05%	$(1,146)
2000	22,633,860	51,709	0.23%	(4,508)	0.02%	(758)

</TABLE>

At March 31, 2001, we credit-enhanced over 77,000 loans with a total principal value of $27 billion. Of these, 61% were fixed-rate loans, 11% were hybrid loans (loans that become adjustable after a 3 to 10 year fixed rate period), and 28% were adjustable-rate loans. The average size of the loans that we credit-enhanced was $351,700. We credit-enhanced 1,119 loans with principal balances in excess of $1 million; these loans had an average size of $1.4 million and a total loan balance of $1.5 billion. Loans over $1 million were 1% of the total number of loans and 6% of the total balance of loans that we credit-enhanced at year-end.

The geographic dispersion of our credit enhancement portfolio closely mirrors that of the jumbo residential market as a whole. At March 31, 2001, our loans were most concentrated in the following states: California 47%, New York 6%, New Jersey 4%, Texas 4%, and Massachusetts 4%. No other state had more than 3%.

Most of the loans that we credit-enhance are seasoned. Generally, the credit risk for these loans is reduced as property values have appreciated and the loan balances have amortized. In effect, the current loan-to-value ratio for seasoned loans is often much reduced from the loan-to-value ratio at origination. Only 16% of the loans we credit enhanced at March 31, 2001 were originated in year 2000 or 2001.

For loans in which a FICO credit score was obtained at origination and is available, the average FICO score for our credit enhancement portfolio was 733 at March 31, 2001. Borrowers with FICO scores over 720 comprised 61% of the portfolio, those with scores between 680 and 720 comprised 22%, those with scores between 620 and 680 comprised 15% and those with scores below 620 comprised 2% of our credit enhancement portfolio.

Given housing appreciation and loan amortization, we estimate the average current effective LTV for the loans that we credit-enhance is 61%. Loans with loan-to-value ratios ("LTV") at origination in excess of 80% made up 10% of loan balances; we benefit from primary mortgage insurance ("PMI") on 99% of these loans. With this insurance, our effective LTV on these loans is substantially reduced. Our average effective LTV at origination (including the effect of PMI, pledged collateral, and other credit enhancements) was 70%.

For the loans that we credit enhance where the property is in Northern California, (23% of the total portfolio), the average loan balance was $386,400, the average FICO score is 728, and the average LTV at origination was 71%. On average, these loans have 38 months of seasoning.

For 24% of our loans where the properties are located in Southern California, the average loan balance was $376,200, the average FICO score was 722 and the average LTV at origination was 72%. These loans have 50 months of seasoning, on average.

TABLE 4
CREDIT ENHANCEMENT PORTFOLIO -- UNDERLYING COLLATERAL CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	MARCH 2000	JUNE 2000	SEPTEMBER 2000	DECEMBER 2000	MARCH 2001
<S>	<C>	<C>	<C>	<C>	<C>
Credit enhancement portfolio	$8,539,491	$20,925,931	$21,609,785	$22,633,860	$27,081,361
Credit enhanced loans	26,934	59,779	61,756	63,675	77,011
Adjustable %	9%	36%	34%	35%	28%
Hybrid %	16%	3%	3%	7%	11%
Fixed %	75%	61%	63%	58%	61%
Face Value:					
First loss position	$ 17,718	$ 28,262	$ 30,782	$ 34,959	$ 41,156
Second loss position	11,528	18,089	20,597	30,703	37,197
Third loss position	31,632	49,280	54,793	59,216	76,880
Net Face Value	60,878	95,631	106,172	124,878	155,233
Net investment:					
First loss position	$ 8,106	$ 9,666	$ 10,231	$ 12,080	$ 13,191
Second loss position	5,180	12,700	14,168	21,109	25,106
Third loss position	23,708	36,527	41,719	47,575	62,552
Net Investment	36,994	58,893	66,118	80,764	100,849

Net Face Value	$ 60,878	$ 95,631	$ 106,172	$ 124,878	$ 155,233
Internal Credit Reserves	(11,893)	(20,829)	(22,139)	(27,052)	(35,722)
Discount to be amortized	(11,991)	(15,909)	(17,915)	(17,062)	(18,662)
Net Investment	36,994	58,893	66,118	80,764	100,849
Internal Credit Reserves	$ 11,893	$ 20,829	$ 22,139	$ 27,052	$ 35,722
External Credit Enhancement	34,311	79,404	78,564	86,840	86,601
Total Credit Protection	46,204	100,233	100,703	113,892	122,323
As % of Portfolio	0.54%	0.48%	0.47%	0.50%	0.45%
California %	37%	52%	50%	50%	47%
New York	9%	6%	6%	6%	6%
New Jersey	5%	3%	4%	4%	4%
Massachusetts	5%	3%	3%	3%	4%
Texas	4%	3%	3%	3%	4%
Other states	40%	33%	34%	34%	35%

</TABLE>

Residential Retained Loan Portfolio

Revenues declined in this portfolio over the last year, from $23.6 million in the first quarter of 2000 to $19.7 million in the first quarter of 2001. Yields rose during this time period due to rising interest rates, but the average balance of the portfolio was lower due to principal repayments. We are evaluating several acquisition opportunities and may add to this portfolio later in 2001. Otherwise, we would expect revenue to decline as yields decline along with short-term interest rates, and as the existing portfolio continues to pay off.

TABLE 5
RESIDENTIAL RETAINED PORTFOLIO INTEREST INCOME AND YIELDS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AVERAGE PRINCIPAL BALANCE	AVERAGE NET PREMIUM BALANCE	AVERAGE CREDIT RESERVE	ANNUAL MORTGAGE PREPAYMENT RATE (CPR)	COUPON INCOME	NET PREMIUM AMORTIZATION EXPENSE	CREDIT PROVISION EXPENSE	TOTAL INTEREST INCOME REVENUES	YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000	$1,337,428	$16,061	$(4,187)	14%	$24,378	$ (640)	$ (119)	$23,619	7.00%
Q2: 2000	1,276,340	15,372	(4,290)	16%	23,648	(515)	(128)	23,005	7.15%
Q3: 2000	1,202,056	14,760	(4,454)	22%	23,118	(829)	(240)	22,049	7.27%
Q4: 2000	1,141,624	14,141	(4,696)	16%	22,316	(611)	(244)	21,461	7.46%
Q1: 2001	1,083,943	13,519	(4,895)	21%	20,371	(485)	(184)	19,702	7.21%
1999	$1,115,874	$13,895	$(3,505)	25%	$77,065	$(3,915)	$(1,346)	$71,804	6.38%
2000	1,238,993	15,080	(4,408)	17%	93,460	(2,595)	(731)	90,134	7.21%

</TABLE>

Credit losses were $30,000 in this portfolio in the first quarter of 2001 as we liquidated one Real Estate Owned property and experienced a 13% loss severity (the percentage of our loan balance that represents a loss upon liquidation, including all foregone interest). Our annualized loss rate was 1 basis point (0.01%) of current portfolio balances. We charged our $30,000 loss against our credit reserve for this portfolio, which ended the quarter at $5.0 million (0.46% of the portfolio). Delinquencies in this portfolio increased to 0.59% of the portfolio from 0.50% at the end of the previous quarter. We expect delinquencies and losses to increase from their current rates if the economy continues to weaken.

TABLE 6
RESIDENTIAL RETAINED PORTFOLIO -- CREDIT RESULTS
(AT PERIOD END, ALL DOLLARS IN THOUSANDS)

<TABLE>

<CAPTION>

	DELINQUENT LOANS	GROSS DEFAULTS	LOSS SEVERITY	REALIZED CREDIT LOSSES	CREDIT PROVISION EXPENSE	ENDING CREDIT RESERVE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000............	$5,338	$ 0	0%	$ 0	$ (119)	$4,244
Q2: 2000............	4,968	450	9%	(42)	(128)	4,330
Q3: 2000............	4,330	0	0%	0	(240)	4,570
Q4: 2000............	5,667	0	0%	0	(244)	4,814
Q1: 2001............	6,371	238	13%	(30)	(184)	4,968
1999................	$4,635	$145	4%	$ (5)	$(1,346)	$4,125
2000................	5,667	450	9%	(42)	(731)	4,814

</TABLE>

At March 31, 2001, we owned 3,433 residential loans with a total value of $1.1 billion. These were all "A" quality or "prime" quality loans at origination. Of these, 71% were adjustable rate loans and 29% were hybrid loans. Our hybrid loans have fixed rate coupons until December 2002, on average, and then will become adjustable rate loans. The average loan size was $312,100. We owned 78 loans with a loan balance over $1 million; the average size of these loans was $1.4 million. Loans with balances over $1 million made up 2% of the loans and 11% of the balances of our total retained loan portfolio. California loans were 24% of the total. All of the loans were originated in 1999 or earlier. Loans where the original loan balance exceeded 80% LTV made up 7% of loan balances; we benefit from PMI on 99% of these loans (serving to substantially lower our effective LTVs). Average effective LTV at origination for our residential retained portfolio (including the effect of PMI, pledged collateral, and other credit enhancements) was 71%. Given housing appreciation and loan amortization, we estimate the current effective LTV of our retained loan portfolio is less than 63%.

We fund most of our residential retained loan portfolio through the issuance of long-term debt through our special purpose subsidiary, Sequoia Mortgage Funding Corporations ("Sequoia"). The financing is non-recourse to Redwood, and our exposure to these loans is limited to our investment in Sequoia, which, at March 31, 2001 was $35 million, or 3.2% of the loan balances. Residential mortgage loans that are included in this portfolio, but are funded by short-term borrowings, represent less than one percent of the total loans at

March 31, 2001. For these short-term funded loans, we set aside capital based on our internal risk adjusted capital guidelines that take into consideration characteristics of our loans and our financing facilities.

TABLE 7
RETAINED RESIDENTIAL PORTFOLIO -- LOAN CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	MARCH 2000	JUNE 2000	SEPTEMBER 2000	DECEMBER 2000	MARCH 2001
<S>	<C>	<C>	<C>	<C>	<C>
Book value....................	$1,330,674	$1,267,780	$1,186,799	$1,130,997	$1,071,819
Number of loans...............	4,207	4,021	3,804	3,633	3,433
Average loan size.............	$ 316	$ 315	$ 312	$ 311	$ 312
Adjustable %..................	71%	71%	71%	71%	71%
Hybrid %......................	29%	29%	29%	29%	29%
Fixed %.......................	0%	0%	0%	0%	0%
Funded with short-term debt...	1%	1%	1%	1%	1%
Funded with long-term debt....	99%	99%	99%	99%	99%
Long-term debt................	$1,282,756	$1,227,546	$1,148,519	$1,095,835	$1,039,264
Net investment in Sequoia.....	$ 42,437	$ 40,659	$ 38,803	$ 37,166	$ 34,982
California %..................	26%	25%	25%	25%	24%
Florida.......................	9%	9%	9%	9%	9%
New York......................	8%	8%	8%	8%	8%
New Jersey....................	5%	5%	5%	5%	5%
Texas.........................	5%	5%	5%	5%	5%
Georgia.......................	5%	5%	5%	5%	5%
Other states..................	42%	43%	43%	43%	44%
Year 2000 origination.........	0%	0%	0%	0%	0%
Year 1999 origination.........	19%	19%	19%	19%	18%
Year 1998 origination.........	32%	32%	32%	32%	32%
Year 1997 origination.........	37%	37%	37%	37%	38%
Year 1996 or earlier origination.................	12%	12%	12%	12%	12%

</TABLE>

Combined Residential Loan Portfolios

The tables below show certain attributes of our residential credit enhancement portfolio and our residential retained loan portfolio on a combined basis.

TABLE 8
RESIDENTIAL LOAN PORTFOLIO -- CREDIT PROTECTION
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	RESIDENTIAL CREDIT ENHANCEMENT PORTFOLIO	RESIDENTIAL RETAINED LOAN PORTFOLIO	TOTAL RESIDENTIAL LOANS	REDWOOD'S RESIDENTIAL CREDIT RESERVE	EXTERNAL CREDIT ENHANCEMENT	TOTAL CREDIT PROTECTION	AS % OF TOTAL RESIDENTIAL LOANS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000............	$ 8,539,491	$1,330,674	$ 9,870,165	$16,137	$34,310	$ 50,447	0.51%
Q2: 2000............	20,925,931	1,267,780	22,193,711	25,159	79,403	104,563	0.47%
Q3: 2000............	21,609,785	1,186,799	22,796,584	26,709	78,564	105,273	0.46%
Q4: 2000............	22,633,860	1,130,997	23,764,857	31,866	86,840	118,706	0.50%
Q1: 2001............	27,081,361	1,071,819	28,153,180	40,690	86,600	127,290	0.45%
1999................	$ 6,376,571	$1,385,589	$ 7,762,160	$15,366	$26,111	$ 41,477	0.53%
2000................	22,633,860	1,130,997	23,764,857	31,866	86,840	118,706	0.50%

</TABLE>

TABLE 9
RESIDENTIAL LOAN PORTFOLIO -- CREDIT PERFORMANCE
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	TOTAL RESIDENTIAL LOANS	DELINQUENCIES	AS % OF TOTAL RESIDENTIAL LOANS	REDWOOD'S CHARGE OFFS	LOSSES TO EXTERNAL CREDIT ENHANCEMENT	TOTAL CREDIT LOSSES	AS % OF TOTAL RESIDENTIAL LOANS (ANNUALIZED)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000............	$ 9,870,165	$55,069	0.56%	$ 270	$ 543	$ 813	0.03%
Q2: 2000............	22,193,711	50,967	0.23%	229	1,350	1,579	0.03%
Q3: 2000............	22,796,584	62,432	0.27%	245	345	590	0.01%
Q4: 2000............	23,764,857	57,376	0.24%	56	1,512	1,568	0.03%
Q1: 2001............	28,153,180	70,264	0.25%	85	550	635	0.01%
1999................	$ 7,762,160	$50,086	0.65%	$1,151	$1,995	$3,146	0.02%
2000................	23,764,857	57,376	0.24%	800	3,750	4,550	0.02%

</TABLE>

Investment Portfolio

We acquired $310 million of mortgage securities and sold $11 of million mortgage securities in our investment portfolio in the first quarter of 2001. This portfolio was smaller in size at $874 million average assets than it was a year ago at $944 million as principal pay downs and sales exceeded acquisitions. Although yields were higher with higher interest rates (7.71% versus 7.16%), revenues were flat due to the smaller portfolio. Although we may increase the size of our investment portfolio on a temporary basis if market conditions change or if we raise new equity capital, our longer-term plan is to reduce the role of the investment portfolio on our balance sheet. We expect yields on this portfolio to drop rapidly in the coming months due to declining interest rates and faster prepayment speeds.

TABLE 10
INVESTMENT PORTFOLIO INTEREST INCOME AND YIELDS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AVERAGE EARNING ASSETS	AVERAGE NET PREMIUM BALANCE	MORTGAGE PREPAYMENT RATES (CPR)	COUPON INCOME	NET PREMIUM AMORTIZATION EXPENSE	TOTAL INTEREST INCOME REVENUES	YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000......................	$944,301	$ 8,118	19%	$17,510	$ (450)	$17,060	7.16%
Q2: 2000......................	902,265	7,225	20%	17,362	(163)	17,199	7.56%
Q3: 2000......................	868,159	8,946	20%	17,278	(572)	16,706	7.62%
Q4: 2000......................	822,452	9,595	19%	16,832	(591)	16,241	7.81%
Q1: 2001......................	874,307	10,164	19%	17,634	(586)	17,048	7.71%

1999..........................	$999,972	$ 9,177	27%	$69,769	$(3,550)	$66,219	6.56%
2000..........................	884,081	8,475	20%	68,982	(1,776)	67,206	7.53%

</TABLE>

At March 31, 2001, we owned $1.0 billion of mortgage securities, an increase from $0.8 billion at December 31, 2000. Substantially all of these assets were rated AAA or AA. The majority of our investments were residential adjustable-rate or floating rate securities.

TABLE 11
INVESTMENT PORTFOLIO CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	RATING	MARCH 2000	JUNE 2000	SEPTEMBER 2000	DECEMBER 2000	MARCH 2001
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Agency Adjustable...........	AAA	$ 665,201	$618,964	$624,918	$532,578	$ 488,735
Agency CMO Floaters.........	AAA	6,193	0	0	0	0
Jumbo Adjustable...........	AAA or AA	283,982	214,470	200,037	191,047	475,947
Jumbo Short Fixed CMOs......	AAA or AA	14,808	14,260	13,843	0	0
Home Equity Floaters........	AAA or AA	22,914	23,015	23,015	23,015	19,277
Home Equity Fixed..........	AAA to BBB	11,692	12,110	12,314	17,044	13,062
Interest-Only -- Residential...	AAA or AA	72	233	216	113	71
Interest-Only -- Commercial...	AAA or AA	0	0	0	0	2,534
CBO Equity.................	B or NR	0	0	0	978	986
Total Investment Portfolio.............		$1,004,862	$883,052	$874,343	$764,775	$1,000,612
Realized Credit Loses..................		0	0	0	0	0

</TABLE>

Commercial Retained Loan Portfolio

The amount of commercial loans shown on our balance sheet increased in the first quarter of 2001 due to the consolidation of Holdings. However, our total combined commercial loan portfolio declined from $76 million to $70 million due to payoffs and sales. We are not adding to our commercial portfolio at this time, although we may acquire additional commercial assets later in the year. Unless we make additional acquisitions, portfolio balances should continue to decline.

TABLE 12
COMMERCIAL PORTFOLIO INTEREST INCOME AND YIELDS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AVERAGE PRINCIPAL VALUE	AVERAGE NET DISCOUNT BALANCE	COUPON INCOME	DISCOUNT AMORTIZATION INCOME	CREDIT PROVISION EXPENSE	TOTAL INTEREST INCOME	YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000....................	$ 8,710	$ (13)	$ 211	$ 0	$0	$ 211	9.70%
Q2: 2000....................	15,418	(30)	393	0	0	393	10.21%
Q3: 2000....................	13,982	(265)	367	5	0	372	10.85%
Q4: 2000....................	38,020	(477)	987	39	0	1,026	10.93%
Q1: 2001....................	73,836	(1,208)	1,857	76	0	1,933	10.65%
1999........................	$11,151	$ (3)	$1,081	$ 0	$0	$1,081	9.69%
2000........................	19,071	(197)	1,958	44	0	2,002	10.61%

</TABLE>

To date, we have not experienced any delinquencies or credit losses in our commercial loan portfolio, nor do we anticipate any credit problems at this time. We have not established a general credit reserve for commercial loans. A slowing economy, and factors particular to each loan, could cause credit issues in the future. If this occurs, we may need to provide for future losses and create a specific credit reserve on an asset by asset basis for our commercial loans held for investment, or reduce the reported market value for our loans held for sale. Other factors may also affect the market value of these loans.

TABLE 13
COMMERCIAL PORTFOLIO LOAN CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	MARCH 2000	JUNE 2000	SEPTEMBER 2000	DECEMBER 2000	MARCH 2001

<S>	<C>	<C>	<C>	<C>	<C>
Held at Redwood........................	$16,865	$ 9,800	$32,308	$57,169	N/A
Held at Holdings.......................	17,636	42,482	32,333	18,913	N/A
Total Commercial $.....................	34,501	52,282	64,641	76,082	70,077
Number of Loans........................	11	14	17	20	18
Average Loan Size......................	$ 3,136	$ 3,734	$ 3,802	$ 3,804	$ 3,893
Serious Delinquency $..................	0	0	0	0	0
Serious Delinquency %..................	0%	0%	0%	0%	0%
Serious Delinquency %..................	0%	0%	0%	0%	0%
Realized Credit losses.................	0	0	0	0	0
California %...........................	71%	61%	69%	73%	71%

</TABLE>

Interest Expense

Interest expense declined over the last year, from $34.9 million in the first quarter of 2000 to $31.4 million in the first quarter of 2001, as we reduced our average borrowings from $2.2 billion to $2.0 billion. Our cost of funds was flat on a year over year basis but declined sharply in the first quarter of 2001 from the previous quarter as short-term interest rates declined.

TABLE 14
INTEREST EXPENSE
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	AVERAGE LONG TERM DEBT <C>	LONG TERM DEBT INTEREST EXPENSE <C>	LONG TERM DEBT COST OF FUNDS <C>	AVERAGE SHORT TERM DEBT <C>	SHORT TERM DEBT INTEREST EXPENSE <C>	SHORT TERM DEBT COST OF FUNDS <C>	COST OF HEDGING <C>	TOTAL INTEREST EXPENSE AND HEDGING <C>	TOTAL COST OF FUNDS AND HEDGING <C>
Q1: 2000............	$ 972,338	$15,359	6.32%	$1,225,562	$19,164	6.25%	0.07%	$ 34,931	6.36%
Q2: 2000............	1,258,859	20,927	6.65%	865,068	13,987	6.47%	0.04%	35,133	6.62%
Q3: 2000............	1,191,730	20,449	6.86%	827,114	14,053	6.80%	0.04%	34,694	6.87%
Q4: 2000............	1,125,898	19,559	6.95%	819,160	14,151	6.91%	0.03%	33,845	6.96%
Q1: 2001............	1,072,172	17,838	6.65%	910,515	13,444	5.91%	0.03%	31,413	6.34%
1999................	$1,090,242	$65,785	6.03%	$ 955,890	$51,377	5.37%	0.10%	$119,227	5.83%
2000................	1,137,324	76,294	6.71%	933,619	61,355	6.57%	0.05%	138,603	6.69%

</TABLE>

Short-term debt balances rose slightly during the first quarter of 2001 to fund the increase in our investment portfolio. All of our long-term debt for our residential loans was issued through our special purpose financing subsidiary, Sequoia. Long-term debt declined slightly as a result of principal repayments received in our residential retained portfolio. We issued $17 million of new long-term debt during the quarter to fund two of our commercial loans to maturity. We may issue more long-term debt in 2001, especially if we acquire portfolios of residential loans. In April 2001, the credit rating on three of our debt issues, Sequoia 3 M1 to M3, were each upgraded by Fitch IBCA rating agency.

TABLE 15
LONG-TERM DEBT CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

LONG TERM DEBT ISSUE	DEBT RATING	ISSUE DATE	ORIGINAL ISSUE AMOUNT	INDEX	STATED MATURITY	ESTIMATED CALLABLE DATE	PRINCIPAL OUTSTANDING AT MARCH 31, 2001	INTEREST RATE AT MARCH 31, 2001

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Sequoia 1 A1.........	AAA	7/29/97	$ 334,347	1m LIBOR	2/15/28	Called	$ 0	N/A
Sequoia 1 A2.........	AAA	7/29/97	200,000	Fed Funds	2/15/28	Called	0	N/A
Sequoia 2 A1.........	AAA	11/6/97	592,560	1y Treasury	3/30/29	2004	280,674	6.99%
Sequoia 2 A2.........	AAA	11/6/97	156,600	1m LIBOR	3/30/29	2004	74,176	5.39%
Sequoia 3 A1.........	AAA	6/26/98	225,459	Fixed	5/31/28	Retired	0	N/A
Sequoia 3 A2.........	AAA	6/26/98	95,000	Fixed	5/31/28	Retired	0	N/A
Sequoia 3 A3.........	AAA	6/26/98	164,200	Fixed	5/31/28	2002	146,228	6.35%
Sequoia 3 A4.........	AAA	6/26/98	121,923	Fixed	5/31/28	2002	121,923	6.25%
Sequoia 3 M1.........	AA/AAA	6/26/98	16,127	Fixed	5/31/28	2002	16,127	6.79%
Sequoia 3 M2.........	A/AA	6/26/98	7,741	Fixed	5/31/28	2002	7,741	6.79%
Sequoia 3 M3.........	BBB/A	6/26/98	4,838	Fixed	5/31/28	2002	4,838	6.79%
Sequoia 1A A1........	AAA	5/4/99	157,266	1m LIBOR	2/15/28	2003	83,204	5.69%
Sequoia 4 A..........	AAA	3/21/00	377,119	1m LIBOR	8/31/24	2008	304,242	5.34%
Commercial 1.........	N/A	3/30/01	8,628	1m LIBOR	11/1/02	N/A	8,628	8.58%
Commercial 2.........	N/A	3/30/01	8,320	1m LIBOR	10/1/03	N/A	8,320	8.58%
Total L-T Debt.......			$2,470,128				$1,056,100	6.15%

</TABLE>

Net Interest Income After Credit Expenses

Net interest income after credit expenses rose from $7.9 million in the first quarter of 2000 to $10.2 million in the first quarter of 2001. We benefited from rapidly falling interest rates in the first quarter of 2001, as our cost of funds declined faster than our asset yields. In addition, we benefited from increased portfolio investment made possible by retention of free cash flow generated in excess of our dividend requirements. Net interest income divided by equity increased from 14.76% in the first quarter of 2000 to 18.83% in the first quarter of 2001.

We believe that we have reduced the potential sensitivity of our net interest income and earnings to changes in interest rates and prepayment rates, although earnings are still sensitive to such market factors. We generally maintained or increased our portfolio margins last year when short-term interest rates increased. Although we believe that over time we have increased the stability of our margins, as part of our asset/liability strategy we did allow for the possibility of increased margins on a temporary basis following periods of short-term interest rate decline. We expect to benefit from declining interest rates in the second and third quarters of 2001, although probably not to the same degree as we did in the first quarter.

While falling short-term interest rates may boost earnings temporarily, lower levels of interest rates will generally lead to lower earnings after a few quarters as the benefit of lower cost of funds is more than offset by lower asset yields. Even if yields decline by the same amount as our cost of funds, we have more assets than liabilities, so the overall results would normally be lower net interest income. Ongoing changes in our product mix, emphasizing residential loan products rather than the investment portfolio, and changes in our asset/ liability mix to include more fixed-rate loans, may mitigate this effect.

TABLE 16
NET INTEREST INCOME
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	TOTAL INTEREST INCOME REVENUES	COST OF FUNDS PLUS HEDGING	NET INTEREST INCOME AFTER CREDIT PROVISIONS	EARNING ASSET YIELD	COST OF FUNDS PLUS HEDGING	INTEREST RATE SPREAD AFTER CREDIT PROVISIONS	INTEREST RATE MARGIN AFTER CREDIT PROVISIONS	NET INTEREST INCOME/ AVERAGE EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000............	$ 42,819	$ (34,931)	$ 7,888	7.25%	6.36%	0.89%	1.30%	14.76%
Q2: 2000............	43,008	(35,133)	7,875	7.54%	6.62%	0.92%	1.34%	14.78%
Q3: 2000............	41,679	(34,694)	6,985	7.62%	6.87%	0.75%	1.25%	13.10%
Q4: 2000............	41,755	(33,845)	7,910	7.88%	6.96%	0.92%	1.46%	14.68%
Q1: 2001............	41,637	(31,413)	10,224	7.72%	6.34%	1.38%	1.85%	18.83%
1999................	$145,964	$(119,227)	$26,737	6.63%	5.83%	0.80%	1.17%	11.24%
2000................	169,261	(138,603)	30,658	7.56%	6.69%	0.87%	1.33%	14.33%

</TABLE>

Operating Expenses

Fixed operating expense (expenses excluding performance-based compensation) declined from $1.7 million in the first quarter of 2000 to $1.6 million in the first quarter of 2001. Variable operating expenses (compensation based on return on equity and dividends) are accrued each quarter based on that quarter's profitability; with record results in the first quarter of 2001, variable expenses were $1.6 million. Included in variable operating expenses was $0.2 million of variable stock option expense recorded due to the increase in our stock price to $19.75 at March 31, 2001. We estimate variable stock option expense will be approximately $0.2 million ($0.02 per share) for each $1.00 increase in our stock price. Variable stock option expense may be reversed (benefiting income) should our stock price fall.

TABLE 17
OPERATING EXPENSES
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	REDWOOD AND HOLDINGS	CLOSED BUSINESS UNITS	ONGOING TOTAL	ONGOING FIXED	ONGOING VARIABLE	ONGOING TOTAL EXPENSE/ EQUITY	ONGOING FIXED EXPENSE/ EQUITY	ONGOING VARIABLE EXPENSE/ EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000................	$ 2,999	$ 197	$ 2,802	$1,718	$1,084	5.24%	3.21%	2.03%
Q2: 2000................	2,823	0	2,823	1,703	1,120	5.30%	3.20%	2.10%
Q3: 2000................	2,597	0	2,597	1,833	764	4.87%	3.44%	1.43%
Q4: 2000................	1,798	0	1,798	1,401	397	3.34%	2.60%	0.74%
Q1: 2001................	3,136	0	3,136	1,561	1,575	5.78%	2.88%	2.90%
1999....................	$25,879	$17,393	$ 8,486	$7,811	$ 675	3.57%	3.27%	0.30%
2000....................	10,217	197	10,020	6,655	3,365	4.68%	3.11%	1.57%

</TABLE>

We believe that we currently have the staff and systems that we will need to manage a much larger company. We believe that we are likely to benefit from substantial operating leverage in the event that we raise additional equity capital. With growth in our portfolios and capital employed following an equity offering, we believe revenue growth will exceed growth in fixed operating expenses. This could result in an increase in earnings per share and dividends per share. However, our variable expenses could increase as a result of stronger performance in income and dividends or by an increase in our stock price. Variable expenses will increase and decrease from quarter to quarter based on quarterly performance and our stock price.

As a result of our potential operating leverage, we believe that $0.15 to $0.20 per share annually after approximately three quarters is a reasonable current estimate of potential earnings per share improvement (relative to what earnings would otherwise be) should we complete an equity offering of $50 million and profitably employ the proceeds in our real estate finance business. As always, there are risks. Any such benefits

may not be achieved. In addition, such an equity offering would likely dilute earnings for several quarters until the new capital is employed profitably.

Core Earnings

Core earnings are earnings from ongoing operations before mark-to-market adjustments.

Our core earnings were $6.4 million in the first quarter of 2001, an increase of 41% from the $4.5 million earned in the first quarter of 2000 and an increase of 14% from the $5.6 million earned in the fourth quarter of 2000.

The table below reconciles core earnings to reported GAAP earnings, showing Holdings and Redwood using the 2001 format for presentation (i.e., as if Holdings had been consolidated with Redwood for the periods shown).

TABLE 18
CORE EARNINGS AND GAAP EARNINGS
PRESENTED AS IF HOLDINGS WAS CONSOLIDATED IN ALL QUARTERS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	TOTAL NET INTEREST INCOME AFTER CREDIT PROVISIONS	OPERATING EXPENSES OF ONGOING OPERATIONS	PREFERRED DIVIDENDS	CORE EARNINGS	MARKET VALUE CHANGES	CLOSED BUSINESS UNITS	REPORTED GAAP EARNINGS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000............	$ 8,019	$ (2,802)	$ (681)	$ 4,536	$(1,164)	$ (89)	$ 3,283
Q2: 2000............	8,000	(2,823)	(681)	4,496	(1,452)	43	3,087
Q3: 2000............	7,229	(2,597)	(681)	3,951	927	0	4,878
Q4: 2000............	8,082	(1,798)	(681)	5,603	(640)	0	4,963
Q1: 2001............	10,224	(3,136)	(681)	6,407	273	0	6,680
1999................	$27,849	$ (8,486)	$(2,741)	$16,622	$ 38	$(17,673)	$(1,013)
2000................	31,329	(10,020)	(2,724)	18,585	(2,329)	(46)	16,210

</TABLE>

Throughout 2001, we currently expect net interest income and core earnings to decline from first quarter 2001 levels due to falling short-term interest rates. Lower short-term interest rates also are likely, we believe, to put downward pressure on year 2002 core earnings. Positive offsets to this trend could be an increase in our residential loan portfolios relative to our investment portfolio and potential earnings accretion caused by operating leverage if an equity offering is completed.

The table below reconciles core earnings per share to reported GAAP earnings per share.

TABLE 19
CORE EARNINGS PER SHARE AND GAAP EARNINGS PER SHARE
PRESENTED AS IF HOLDINGS WAS CONSOLIDATED IN ALL QUARTERS
(DOLLARS PER SHARE)

<TABLE>
<CAPTION>

	AVERAGE DILUTED SHARES	CORE EARNINGS	MARKET VALUE CHANGES	CLOSED BUSINESS UNITS	REPORTED GAAP EARNINGS
<S>	<C>	<C>	<C>	<C>	<C>
Q1: 2000..................................	8,844,606	$0.51	$(0.13)	$(0.01)	$ 0.37
Q2: 2000..................................	8,883,651	0.51	(0.16)	0.00	0.35
Q3: 2000..................................	8,908,399	0.44	0.11	0.00	0.55
Q4: 2000..................................	8,962,950	0.62	(0.07)	0.00	0.55
Q1: 2001..................................	9,065,221	0.71	0.03	0.00	0.74
1999......................................	9,768,345	$1.71	$ 0.00	$(1.81)	$(0.10)
2000......................................	8,902,069	2.08	(0.26)	(0.00)	1.82

</TABLE>

Core earnings is not a measure of earnings in accordance with generally accepted accounting principles. It is calculated as GAAP earnings from ongoing operations less mark-to-market adjustments. Management believes that core earnings provides relevant and useful information regarding Redwood's results of operations in addition to GAAP measures of performance. Because all companies and analysts do not calculate non-GAAP measures such as core earnings in the same fashion, core earnings as calculated by us may not be comparable to similarly titled measures reported by other companies.

Market Value Changes

In the first quarter of 2001, assets marked-to-market through the income statement increased in value by $2.6 million and assets marked-to-market through the balance sheet increased in value by $0.1 million. Thus, the total mark-to-market adjustments for the quarter totaled positive $2.7 million. However, as a result of adopting EITF 99-20 in the first quarter of 2001, we reclassified certain cumulative mark-to-market adjustments from prior years from the balance sheet to the income statement.

Under the provisions of EITF 99-20, if the discounted value of probable future cash flows deteriorates from original assumptions, certain securitized interests should be marked-to-market through the income statement. Only negative mark-to-market adjustments are allowed under this principle. For a set of assets that we acquired prior to 1997, credit performance has not been as strong as we originally assumed, causing an adverse change to future cash flows. Upon adoption of EITF 99-20, we took the market valuation adjustment on these assets that we had previously recorded through our balance sheet and recognized the loss through our income statement. Any subsequent adjustments under the provisions of EITF 99-20 will be recognized as negative mark-to-market adjustments through our income statement.

TABLE 20
MARKET VALUE CHANGES
(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	INCOME STATEMENT MARKET ADJUST.	CUMULATIVE EFFECT UPON ADOPTING EITF 99-20	NET INCOME STATEMENT MARKET ADJUST.	NET BALANCE SHEET MARKET ADJUST.	CUMULATIVE EFFECT UPON ADOPTING EITF 99-20	NET BALANCE SHEET MARKET ADJUST.	TOTAL MARKET ADJUST.
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000.............	$(1,225)	$ 0	$(1,225)	$ (487)	$ 0	$ (487)	$(1,712)
Q2: 2000.............	(1,359)	0	(1,359)	(886)	0	(886)	(2,245)
Q3: 2000.............	927	0	927	720	0	720	1,647
Q4: 2000.............	(639)	0	(639)	3,912	0	3,912	3,273

Q1: 2001..............	2,641	(2,368)	273	100	2,368	2,468	2,741
1999..................	$ 284	$ 0	$ 284	$(2,978)	$ 0	$(2,978)	$(2,694)
2000..................	(2,296)	0	(2,296)	3,259	0	3,259	963

</TABLE>

Asset market values increased in part due to short-term rate declines. When short-term interest rates stabilize or increase, asset values may decline from their current levels. Many other factors affect market values.

Shareholder Wealth

In the 6.5 years since the founding of Redwood, cumulative shareholder wealth, as described below, has grown at a compound rate of 18% per year. We define shareholder wealth as growth in tangible book value per share, plus dividends received, plus reinvestment earnings on dividends. In calculating shareholder wealth, we assume that dividends are reinvested through the purchase of additional shares of Redwood at book value. With this assumption, shareholder wealth creation at Redwood can be compared to book value per share growth at a non-REIT company that retains its earnings and compounds book value within the company. This is a measure of management value-added, not a measure of shareholder returns.

Book value per share was $11.67 in September 1994 when Redwood commenced operations. We increased book value to $21.94 per share by March 31, 2001 through the retention of cash by keeping dividends lower than cash flow, changes in market values of assets, issuance of stock at prices above book value, and repurchases of stock below book value. Since we mark-to-market most of our assets through our income statement or balance sheet, reported book value is a good approximation of real intrinsic value in the company. Cumulative dividends paid during this period were $7.82 per share, and reinvestment earnings on those dividends were $4.62 per share. Thus, cumulatively, shareholder wealth has increased from $11.67 per share to $34.38 per share during this 6.5-year period. A company that earned an 18% after-tax return on equity and retained all its earnings would have shown a similar amount of shareholder wealth growth during this period.

TABLE 21
SHAREHOLDER WEALTH
(DOLLARS PER SHARE)

<TABLE>
<CAPTION>

	BOOK VALUE PER SHARE	YEAR TO DATE OR ANNUAL DIVIDENDS	CUMULATIVE DIVIDENDS	CUMULATIVE REINVESTMENT EARNINGS ON DIVIDENDS	CUMULATIVE SHAREHOLDER WEALTH
<S>	<C>	<C>	<C>	<C>	<C>
Sep-94............................	$11.67	$0.00	$0.00	$0.00	$11.67
Dec-94............................	10.82	0.25	0.25	0.00	11.07
Dec-95............................	12.38	0.96	1.21	0.09	13.68
Dec-96............................	16.50	1.67	2.88	1.07	20.45
Dec-97............................	21.55	2.15	5.03	3.07	29.65
Dec-98............................	20.27	0.28	5.31	2.67	28.25
Dec-99............................	20.88	0.40	5.71	3.07	29.66
Dec-00............................	21.47	1.61	7.32	4.11	32.90
Mar-01............................	21.94	0.50	7.82	4.62	34.38

</TABLE>

Dividends

We increased our common stock dividend from $0.44 per share in the fourth quarter of 2000 to $0.50 per share in the first quarter of 2001. We believe the outlook for further increases in our dividend rate is positive. As a REIT, our minimum dividend rate is determined by our taxable income. Currently, we expect that our taxable income may exceed our core earnings in 2001 and perhaps in 2002 as well, although there are many GAAP -- Tax differences which cannot necessarily be predicted. In general, we note that reduction of income through credit provisions for our residential retained loan portfolio, and reductions in effective yield through the setting aside of credit reserves upon acquisition of credit enhancement interests, are not allowed in the calculation of taxable income. Thus, as our credit-based activities, our credit provisions, and our credit reserves grow, there may be an increasing tendency for our taxable income, and our dividends, to exceed our core earnings.

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Over the past several quarters, our cash flow from operations has exceeded our earnings and our dividend distributions. In the first quarter of 2001, cash flow from operations was $8.0 million, consisting of earnings of $6.7 million plus non-cash depreciation, amortization, compensation, and mark-to-market adjustments of $1.3 million. Our free cash flow, after reduction in working capital, property, plant, equipment, and other non-earning assets, was $12.5

million. In addition, we issued $1.0 million in new common stock. We used the available cash from these sources to fund our common stock dividend of $3.9 million and to increase our investment in our portfolio activities by $9.6 million.

Our ability to retain significant amounts of the free cash flow that we generate may be diminished in the future should our minimum dividend distribution requirements increase relative to core earnings (see the discussion on "Dividends" above).

TABLE 22
CASH FLOW
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	CASH FLOW FROM OPERATIONS	CHANGES IN WORKING CAPITAL AND OTHER ASSETS	FREE CASH FLOW	(INVESTMENT IN)/ DIVIDENDS FROM HOLDINGS	COMMON DIVIDENDS	(PURCHASE)/ SALE OF STOCK	FUNDS AVAILABLE FOR PORTFOLIO INVESTING
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000.............	$ 6,325	$ (767)	$ 5,558	$ 4,999	$ (2,196)	$ 45	$ 8,406
Q2: 2000.............	5,562	1,435	6,997	1,973	(3,076)	0	5,894
Q3: 2000.............	5,957	(2,315)	3,642	0	(3,516)	381	507
Q4: 2000.............	7,239	(2,275)	4,964	0	(3,700)	2	1,266
Q1: 2001.............	8,006	4,457	12,463	0	(3,876)	986	9,573
1999..................	$28,455	$15,181	$43,636	$(9,927)	$ (1,323)	$(37,334)	$(4,948)
2000..................	25,083	(3,922)	21,161	6,972	(12,488)	428	16,073

</TABLE>

At March 31, 2001, we had over a dozen uncommitted facilities for short-term collateralized debt, with credit approval for over $4 billion of borrowings. We had no difficulty securing short term borrowings on favorable terms during first quarter of 2001. Outstanding borrowings under these agreements were $0.9 billion at March 31, 2001, an increase from $0.7 billion at year-end 2000 due to net acquisitions in our investment portfolio.

We had three committed borrowing facilities for residential assets totaling $80 million and two borrowing facilities for commercial assets totaling $100 million at March 31, 2001. There are certain restrictions regarding the collateral that we can pledge to secure these committed facilities but they generally allow us to fund either our commercial mortgage loans or our residential credit enhancement interests. We continue to meet the debt covenant tests required by our committed bank credit facility agreements and have not experienced difficulty in extending these facilities or negotiating new lines. Outstanding borrowings under these committed agreements were $86 million at March 31, 2001, a decrease from the $88 million at December 31, 2000.

Under our internal risk-adjusted capital system, we maintain liquidity reserves in the form of cash and unpledged liquid assets. These liquidity reserves may be needed in the event of a decline in the market value, or in the acceptability to lenders of the collateral we pledge to secure short-term borrowings, or for other liquidity needs. We maintained liquidity reserves at or in excess of our policy levels during the first quarter of 2001. At March 31, 2001, we had $53 million of unrestricted cash and highly liquid (unpledged) assets available to meet potential liquidity needs. Total available liquidity equaled 6% of our short-term, uncommitted debt balances. At December 31, 2000, we had $54 million of liquid assets, equaling 7% of our short-term debt balances.

At this time, we see no material negative trends that we believe would affect our access to short-term borrowings or bank credit lines, that would suggest that our liquidity reserves would be called upon, or that would likely cause us to be in danger of a covenant default. However, many factors, including ones external to us, may affect our liquidity in the future.

The $1.1 billion of long-term debt on our March 31, 2001 balance sheet is non-recourse debt. Substantially all this debt was issued through our special purpose financing subsidiaries and is collateralized by residential mortgage loans. The remaining $17 million of this debt is backed by commercial loans and was created through the sale of senior participations. The holders of our long-term debt can look only to the cash flow from the mortgages specifically collateralizing the debt for repayment. By using this source of financing, our liquidity risks are limited. Our special purpose financing subsidiaries that issue debt have no call on Redwood's general liquidity reserves, and there is no debt rollover risk as the loans are financed to maturity. The market for AAA rated long-term debt of the type that we issue through our special purpose financing subsidiaries is a large, global market that has been relatively stable for many years. At this time, we know of no reason why we would not be able to issue more of this debt on reasonable terms if we should choose to do so. The market for senior participations on commercial loans of the types in our portfolio is not large and there can be no assurance that we will be able to sell any future participations.

Excluding short and long term collateralized debt, we are capitalized entirely by common and preferred equity capital. Our equity base increased from $216 million to $222 million thus far in 2001 as a result of asset appreciation, retention of cash flow, and stock issuance of $1 million. We plan to raise new equity capital in the future when opportunities to expand our business are attractive and when such issuance is likely to benefit earnings and dividends per share.

We have not, to date, issued unsecured corporate debt. In the future, we may consider issuing longer-term unsecured corporate debt to supplement our capital base and improve the efficiency of our capital structure.

The amount of portfolio assets that can be supported with a given capital base is limited by our internal risk-adjusted capital policies. Our risk-adjusted capital policy guideline amounts are expressed in terms of an equity-to-assets ratio and vary with market conditions and asset characteristics. At March 31, 2001, our minimum capital amounts were: 62% of residential credit enhancement portfolio interests; 100% of net retained interests in residential retained loan portfolio after long-term debt issuance; 18% of short-term debt funded residential whole loans; 10% of investment portfolio securities; and 31% of commercial retained loan portfolio.

Our total risk-adjusted capital guideline amount for assets on our balance sheet was $215 million (9% of asset balances) at March 31, 2001. Capital required for outstanding commitments at March 31, 2001 for asset purchases settling later in 2001 was $1 million. Total capital available was $222 million; our available capital exceeded our internal risk-adjusted capital policy guideline minimum amount of $216 million by $6 million at March 31, 2001.

At March 31, 2001, our capital base of $222 million supported at-risk assets (excluding long-term funded residential loans owned by financing trusts) of $1.2 billion funded with short-term debt of $1.0 billion. Excluding non-recourse debt and related assets, our equity-to-assets ratio was 18% and our debt to equity ratio was 4.5 times. During the first quarter of 2001, our leverage on recourse assets increased primarily due to our acquiring assets in our investment portfolio. At year-end 2000, our equity-to-assets ratio was 22% and our debt to equity ratio was 3.5 times. Over the past year, we have generally maintained these ratios within the ranges stated above. In the future, our leverage may increase for a period of time from increases in our investment portfolio following issuance of additional equity or following the acquisition of residential loans we eventually intend to securitize. Loans that we acquire for securitization are funded with short-term debt between acquisition and securitization so our leverage ratios may increase while these loans are held for securitization.

TABLE 23
RECOURSE ASSETS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AT RISK ASSETS	RECOURSE DEBT	EQUITY	EQUITY TO AT-RISK ASSETS	RECOURSE DEBT TO EQUITY
<S>	<C>	<C>	<C>	<C>	<C>
Q1: 2000	$1,141,241	$ 922,405	$209,700	18.37%	4.4
Q2: 2000	1,026,281	806,643	208,384	20.30%	3.9
Q3: 2000	1,055,032	822,389	210,664	19.97%	3.9
Q4: 2000	983,097	756,222	215,663	21.94%	3.5
Q1: 2001	1,226,851	992,597	221,671	18.07%	4.5
1999	$1,471,570	$1,253,565	$209,935	14.27%	6.0
2000	983,097	756,222	215,663	21.94%	3.5

</TABLE>

RISK MANAGEMENT

We seek to manage the risks inherent in all financial institutions -- interest rate, market value, liquidity, prepayment, and credit risks -- in a prudent manner designed to insure our longevity. At the same time, we endeavor to provide our shareholders an opportunity to realize an attractive total rate of return through stock ownership in our company. We seek, to the best of our ability, to only assume risks that can be quantified from historical experience, to actively manage such risks, to earn sufficient compensation to justify the taking of such risks, and to maintain capital levels consistent with the risks we do undertake.

Market Value Risk

At March 31, 2001, we owned mortgage securities and loans totaling $1.1 billion that we account for on a mark-to-market basis (in the case of mortgage loans, on a lower-of-cost-or-market basis) for purposes of determining reported earnings. Of these assets, 96% had adjustable-rate coupons and 4% had fixed-rate coupons. All of our $1.6 billion in notional amounts of interest rate agreements are marked-to-market for income statement purposes. Market value fluctuations of these assets and interest rate agreements not only affect our earnings, but also can affect our liquidity, especially to the extent these assets are funded with short-term borrowings.

At March 31, 2001, we owned $0.1 billion of assets that were marked-to-market on our balance sheet. Market value fluctuations of these assets can affect the reported value of our stockholders' equity base.

Interest Rate Risk

At March 31, 2001, we owned $2.3 billion of assets and had $2.1 billion of liabilities. The majority of the assets were adjustable-rate, as were a majority of the liabilities.

On average, our cost of funds has the ability to rise or fall more quickly as a result of changes in short-term interest rates than does the earning rate on our assets. In addition, in the case of a large increase in short-term interest rates, periodic and lifetime caps for a portion of our assets could limit increases in interest income. The risk of reduced earnings in a rising interest rate environment may be mitigated to some extent by our interest rate agreements hedging program and by any concurrent slowing of mortgage prepayment rates that may occur. Over periods of time longer than a few quarters, we generally earn less in a lower short-term interest rate environment and may earn more over time in a higher short-term interest rate environment.

At March 31, 2001, we owned hybrid mortgage assets (with fixed-rate coupons for 3 to 7 years and adjustable-rate coupons thereafter) totaling $0.3 billion. We had debt with interest rate reset characteristics matched to the hybrid mortgages totaling $0.3 billion.

At March 31, 2001, we owned $0.5 billion of adjustable-rate mortgage assets with coupons that adjust monthly as a function of one-month LIBOR interest rates, funded with equity and with debt that also adjusts monthly as a function of one-month LIBOR interest rates. The spread between the coupon rates on these assets and the cost of funds of our liabilities has been stable.

For other parts of our balance sheet, our net income may fluctuate as the yield curve between one-month interest rates and six- and twelve-month interest rates varies, and as the differences between U.S. Treasury rates, the 11th District cost of funds rate (COFI), and LIBOR rates vary. At March 31, 2001, we owned $0.5 billion of adjustable-rate mortgage assets with interest rates that adjust every six months as a function of six-month LIBOR interest rates funded with equity and with debt that had an interest rate that adjusts monthly as a function of one-month LIBOR interest rates. Adjustable-rate assets with earnings rates dependent on one-year U.S. Treasury rates with annual adjustments totaled $0.7 billion at March 31, 2001. These Treasury-based assets were effectively funded with equity and with $0.3 billion of liabilities with a cost of funds dependent on one-year U.S. Treasury rates with annual adjustments. The remainder of the liabilities associated with these assets had a cost of funds dependent on one-month LIBOR rates or the daily Fed Funds rate.

At March 31, 2001, we owned a total of $0.1 billion of fixed rate assets funded, in part, with short-term variable rate debt that is only partially hedged. Holding these positions should mitigate earnings declines caused by lower yields on equity-funded assets as interest rates fall. As interest rates rise, net earnings on these assets should fall, but this would likely be offset, in part, by the beneficial effect of higher yields on equity-funded assets.

Interest rates and related factors can affect our spread income and our mark-to-market results. Changes in interest rates also affect prepayment rates (see below) and influence other factors that may affect our results.

Liquidity Risk

Our primary liquidity risk arises from financing long-maturity mortgage assets with short-term debt. Even if the interest rate adjustments of these assets and liabilities are well matched, maturities may not be matched. In addition, trends in the liquidity of the U.S. capital markets in general may affect our ability to rollover short-term debt. At March 31, 2001, we had $1.0 billion of short-term debt.

Prepayment Risk

One measure of prepayment risk is the amount of net premium balance that we carry on our balance sheet. At March 31, 2001 our net premium balance was $3.8

million, which was slightly lower than our net premium balance of $4.0 million at December 31, 2001. However, in some cases our gross premium levels before netting with discount balances may be a better measure of our risks relating to faster mortgage prepayment levels. The amount of gross premium on our balance increased in the first quarter of 2001, from $22 million to $27 million, as a result of acquisitions in our investment portfolio and positive mark-to-market adjustments. Our gross discount balance also increased during the quarter, from $18 million to $22 million, as a result of acquisitions in our credit enhancement portfolio.

We could have material net premium amortization expenses even if we have a very low net premium balance or a net discount balance. This could occur because our premium mortgage assets generally prepay at a faster rate than do our discount mortgage assets, and because the yields of our premium assets are generally more sensitive to prepayment rates due to their securitization structure.

TABLE 24
UNAMORTIZED PREMIUM AND DISCOUNT BALANCES
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	RESIDENTIAL GROSS PREMIUM	RESIDENTIAL GROSS DISCOUNT	COMMERCIAL GROSS DISCOUNT	NET PREM/(DISC) ON LONG-TERM DEBT	NET PREMIUM	AVERAGE MORTGAGE PREPAYMENT SPEED (CPR)	NET PREMIUM AMORTIZATION EXPENSE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 2000............	$28,023	$(12,145)	$ (34)	$ 270	$16,114	17%	$ (522)
Q2: 2000............	25,379	(14,166)	--	240	11,453	17%	45
Q3: 2000............	25,849	(16,599)	(438)	166	8,979	17%	(1,040)
Q4: 2000............	22,319	(17,825)	(531)	74	4,036	21%	(818)
Q1: 2001............	26,532	(21,672)	(959)	(112)	3,790	20%	(869)
1999................	$27,612	$(10,886)	$ (13)	$(1,045)	$15,669	27%	$(5,162)
2000................	22,319	(17,825)	(531)	74	4,036	18%	(2,335)

</TABLE>

Credit Risk

Our principal credit risk comes from residential mortgage loans in our retained portfolio and credit enhancement portfolio and from our commercial mortgage loan portfolio. A small amount of our investment portfolio is currently exposed to credit risk; the bulk of this portfolio has very high credit ratings and would not normally be expected to incur credit losses. We have credit risk with counter-parties with whom we do business.

It should be noted that the establishment of a credit reserve for GAAP purposes for our residential retained portfolio or a designated credit reserve under the effective yield method for our credit enhancement portfolio does not reduce our taxable income or our dividend payment obligations as a REIT. For taxable income, many of our credit expenses will be recognized only as incurred. Credit losses may be capital losses rather than a reduction in ordinary income. Thus, the timing of recognition of credit losses for GAAP and tax, and for our earnings and our dividends, may differ.

The method that we use to account for future credit losses depends upon the type of asset that we own. For our credit enhancement portfolio, we establish a credit reserve upon the acquisition of such assets. In addition, first loss and other credit enhancement interests that are junior to our positions that we do not own act as a form of credit reserve for us on a specific asset basis. For our retained residential mortgage loan portfolio, we establish a credit reserve based on anticipation of losses by taking credit provisions through our income statement over time. For our investment portfolio, most of the assets do not have material credit risk, and no credit reserves are generally established. When we acquire assets for this portfolio where credit risk exists, we will establish the appropriate reserve as necessary. For our commercial retained portfolio, we take credit reserves on a specific asset basis when specific circumstances may warrant such a charge for a particular loan. Management constantly monitors the performance of all of its assets and takes appropriate actions to mitigate potential losses to the extent possible. Regardless of how we account for future credit loss expectations, there can be no assurance that our estimates will prove to be correct, and thus we may need to adjust the amounts of credit reserves we have established.

Capital Risk

Our capital levels, and thus our access to borrowings and liquidity, may be tested, particularly if the market value of our assets securing our short-term borrowings declines or the market for short-term borrowings changes in an adverse manner.

Through our risk-adjusted capital policy, we assign a guideline capital adequacy amount, expressed as a guideline equity-to-assets ratio, to each of our mortgage assets. For short-term funded assets, this ratio will fluctuate over time, based on changes in that asset's credit quality, liquidity characteristics, potential for market value fluctuation, interest rate risk, prepayment risk, and the over-collateralization requirements for that asset set by our collateralized short-term lenders. Capital requirements for residential mortgage securities rated below AA, residential credit enhancement interests, retained interests from our Sequoia securitizations of our residential retained portfolio assets, and commercial mortgage whole loans are generally higher than for higher-rated residential securities and residential whole loans. Capital requirements for these less-liquid assets depend chiefly on our access to secure funding for these assets, the number of sources of such funding, the funding terms, and on the amount of extra capital we decide to hold on hand to protect against possible liquidity events with these assets. Capital requirements for most of our retained interests in Sequoia generally equal our net investment. The sum of the capital adequacy amounts for all of our mortgage assets is our aggregate capital adequacy guideline amount.

Generally, our total guideline equity-to-assets ratio has declined over the last few years as we have eliminated some of the risks of short-term debt funding through issuing long-term debt. In the most recent quarters, however, the guideline ratio has increased as we have acquired new types of assets requiring more capital, such as commercial mortgage loans and residential credit enhancement interests.

We do not expect that our actual capital levels will always exceed the guideline amount. If interest rates were to rise in a significant manner, our capital guideline amount may rise, as the potential interest rate risk of our mortgages would increase, at least on a temporary basis, due to periodic and life caps and slowing prepayment rates. We measure all of our mortgage assets funded with short-term debt at estimated market value for the purpose of making risk-adjusted capital calculations. Our actual capital levels, as determined for the risk-adjusted capital policy, would likely fall as rates increase and as the market values of our mortgages, net of mark-to-market gains on hedges, decrease. (Such market value declines may be temporary, as future coupon adjustments on adjustable-rate mortgage loans may help to restore some of the lost market value.)

In this circumstance, or any other circumstance in which our actual capital levels decreased below our capital adequacy guideline amount, we would generally cease the acquisition of new mortgage assets until capital balance was restored through prepayments, interest rate changes, or other means. In certain cases prior to a planned equity offering or other circumstances, the Board of Directors may authorize management to acquire mortgage assets in a limited amount beyond the usual constraints of our risk-adjusted capital policy.

Inflation Risk

Virtually all of our assets and liabilities are financial in nature. As a result, interest rates, changes in interest rates and other factors drive our performance far more than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates.

Our financial statements are prepared in accordance with GAAP and our dividends must equal at least 90% of our net income as calculated for tax purposes. In each case, our activities and balance sheet are measured with reference to historical cost or fair market value without considering inflation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion on the qualitative disclosures about market risk, please refer to our Risk Management presentation in Management's Discussion and Analysis. Our quantitative risk has not materially changed from our disclosures in our Year 2000 Form 10-K included in our Annual Report.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

At March 31, 2001, there were no pending legal proceedings to which the Company was a party or of which any of its property was subject.

ITEM 2. CHANGES IN SECURITIES

Not applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 11.1 to Part I -- Computation of Earnings Per Share for the three months ended March 31, 2001 and 2000.

(b) Reports

Form 8-K filed on January 10, 2001, regarding the Company's acquisition of 100% of RWT Holdings, Inc. voting common stock.

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.

Dated: May 11, 2001

By: /s/ DOUGLAS B. HANSEN

Douglas B. Hansen
President
(authorized officer of registrant)

Dated: May 11, 2001

By: /s/ HAROLD F. ZAGUNIS

Harold F. Zagunis
Vice President, Chief Financial Officer
Secretary, Treasurer and Controller
(principal financial and accounting officer)

EXHIBIT 11.1

REDWOOD TRUST, INC.
STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

	Three Months Ended March 31, 2001	Three Months Ended March 31, 2000
BASIC:		
Average common shares outstanding	8,838,964	8,785,017
Total	8,838,964	8,785,017
Net Income	$6,679,775	$3,283,791
Per Share Amount	$ 0.76	$ 0.37
DILUTED:		
Average common shares outstanding	8,838,964	8,785,017
Net effect of dilutive stock options outstanding during the period -- based on the treasury stock method	226,257	59,589
Total	9,065,221	8,844,606
Net Income	$6,679,775	$3,283,791
Per Share Amount	$ 0.74	$ 0.37