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: JUNE 30, 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>

<S>	<C>
Class B Preferred Stock ($.01 par value)....................	902,068 as of August 13, 2001
Common Stock ($.01 par value)..............................	10,034,052 as of August 13, 2001

</Table>

REDWOOD TRUST, INC.

FORM 10-Q

INDEX

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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>	JUNE 30, 2001 (UNAUDITED) <C>	DECEMBER 31, 2000 <C>
Net Investment In Residential Credit Enhancement Interests:		
Mortgage securities available-for-sale....................	$ 62,156	$ 48,495
Mortgage securities available-for-sale, pledged...........	96,548	32,269
	158,704	80,764
Residential Retained Loan Portfolio:		
Mortgage loans held-for-investment........................	980,318	1,124,339
Mortgage loans held-for-sale..............................	115	531
Mortgage loans held-for-sale, pledged.....................	80,037	6,127
	1,060,470	1,130,997
Investment Portfolio:		
Mortgage securities trading...............................	46,933	57,450
Mortgage securities trading, pledged......................	661,024	702,162
Mortgage securities available-for-sale....................	30,264	5,163
Mortgage securities available-for-sale, pledged...........	966	--
	739,187	764,775
Commercial Retained Loan Portfolio:		
Mortgage loans held-for-investment........................	22,549	5,177
Mortgage loans held-for-investment, pledged...............	13,317	17,717
Mortgage loans held-for-sale..............................	1,373	14,325
Mortgage loans held-for-sale, pledged.....................	29,804	19,950
	67,043	57,169
Cash and cash equivalents.................................	18,009	15,483
Restricted cash...	5,063	5,240
Interest rate agreements..................................	79	66
Accrued interest receivable...............................	12,946	15,797
Principal receivable......................................	9,357	7,986
Investment in RWT Holdings, Inc...........................	--	1,899
Other assets..	2,630	1,939
Total Assets..	$2,073,488	$2,082,115
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Short-term debt...	$ 861,226	$ 756,222
Long-term debt, net.......................................	971,365	1,095,835
Accrued interest payable..................................	4,592	5,657
Accrued expenses and other liabilities....................	6,701	4,180
Dividends payable...	5,590	4,557
Total Liabilities.....................................	1,849,474	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; 8,924,789 and 8,809,500 issued and outstanding	89	88
Additional paid-in capital	244,305	242,522
Accumulated other comprehensive income	2,691	(89)
Cumulative earnings	41,579	27,074
Cumulative distributions to stockholders	(91,167)	(80,448)
Total Stockholders' Equity	224,014	215,664
Total Liabilities and Stockholders' Equity	$2,073,488	$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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
Interest Income				
Net Investment In Residential Credit Enhancement Interests:				
Mortgage securities available-for-sale	$ 3,403	$ 2,135	$ 6,045	$ 3,750
Residential Retained Loan Portfolio:				
Mortgage loans held-for-investment	16,293	22,916	36,035	40,134
Mortgage loans held-for-sale	134	217	278	6,737
	16,427	23,133	36,313	46,871
Investment Portfolio:				
Mortgage securities trading	16,143	17,199	33,082	34,259
Mortgage securities available-for-sale	419	--	528	--
	16,562	17,199	33,610	34,259
Commercial Retained Loan Portfolio:				
Mortgage loans held-for-investment	1,092	--	1,699	--
Mortgage loans held-for-sale	869	393	2,195	604
	1,961	393	3,894	604
Provision for credit losses on residential mortgage loans held-for-investment	(164)	(128)	(348)	(247)
Cash and cash equivalents	264	276	576	590
Total interest income after provision for credit losses	38,453	43,008	80,090	85,827
Interest Expense				
Short-term debt	(11,625)	(13,987)	(25,069)	(33,151)
Long-term debt	(15,167)	(20,927)	(33,005)	(36,286)
Net interest rate agreements expense	(218)	(219)	(349)	(627)
Total interest expense and interest rate agreement expense	(27,010)	(35,133)	(58,423)	(70,064)
Net Interest Income After Provision For Credit Losses	11,443	7,875	21,667	15,763
Net unrealized and realized market value gains (losses)				
Loans and securities	(471)	(856)	2,661	(1,933)
Interest rate agreements	58	(503)	(433)	(650)
Total net unrealized and realized market value gains (losses)	(413)	(1,359)	2,228	(2,583)
Operating expenses	(3,886)	(2,239)	(7,022)	(4,386)
Other income	--	21	--	36
Equity in losses of RWT Holdings, Inc.	--	(531)	--	(1,099)
Net income before preferred dividend and change in accounting principle	7,144	3,767	16,873	7,731
Less dividends on Class B preferred stock	(681)	(681)	(1,362)	(1,362)
Net income before change in accounting principle	6,463	3,086	15,511	6,369
Cumulative effect of adopting EITF 99-20 (See Note 2)	--	--	(2,368)	--
Net Income Available to Common Stockholders	$ 6,463	$ 3,086	$ 13,143	$ 6,369
Earnings per Share:				
Basic Earnings Per Share:				

Net income before change in accounting principle......	$ 0.73	$ 0.35	$ 1.75	$ 0.72
Cumulative effect of adopting EITF 99-20.............	$ --	$ --	$ (0.27)	$ --
Net income...	$ 0.73	$ 0.35	$ 1.48	$ 0.72
Diluted Earnings Per Share:				
Net income before change in accounting principle......	$ 0.70	$ 0.35	$ 1.70	$ 0.72
Cumulative effect of adopting EITF 99-20.............	$ --	$ --	$ (0.27)	$ --
Net income...	$ 0.70	$ 0.35	$ 1.44	$ 0.72
Weighted average shares of common stock and common stock equivalents:				
Basic..	8,888,999	8,789,376	8,864,120	8,787,197
Diluted..	9,184,195	8,883,651	9,121,108	8,862,505

</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	ACCUMULATED OTHER COMPREHENSIVE	CUMULATIVE	CUMULATIVE DISTRIBUTIONS TO
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL	INCOME	EARNINGS	STOCKHOLDERS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 2000.....	902,068	26,517	8,809,500	88	242,522	(89)	27,074	(80,448)
Comprehensive income:								
Net income before preferred dividend..................							7,361	
Reclassification adjustment due to adoption of EITF 99-20.....................	--	--	--	--	--	2,368	--	--
Net unrealized gain on assets available-for-sale.........	--	--	--	--	--	280	--	--
Total comprehensive income...	--	--	--	--	--	--	--	--
Issuance of common stock.......	--	--	87,338	1	1,128	--	--	--
Dividends declared:								
Preferred...................	--	--	--	--	--	--	--	(681)
Common......................	--	--	--	--	--	--	--	(4,448)
Balance, March 31, 2001........	902,068	26,517	8,896,838	89	243,650	2,559	34,435	(85,577)
Comprehensive income:								
Net income before preferred dividend..................							7,144	
Net unrealized gain on assets available-for-sale.........	--	--	--	--	--	132	--	--
Total comprehensive income...	--	--	--	--	--	--	--	--
Issuance of common stock.......	--	--	27,951	--	655	--	--	--
Dividends declared:								
Preferred...................	--	--	--	--	--	--	--	(681)
Common......................	--	--	--	--	--	--	--	(4,909)
Balance, June 30, 2001.........	902,068	26,517	8,924,789	89	244,305	2,691	41,579	(91,167)

<Caption>

	TOTAL
<S>	<C>
Balance, December 31, 2000	215,664
Comprehensive income:	
Net income before preferred dividend	7,361
Reclassification adjustment due to adoption of EITF 99-20	2,368
Net unrealized gain on assets available-for-sale	280
Total comprehensive income	10,009
Issuance of common stock	1,129
Dividends declared:	
Preferred	(681)
Common	(4,448)
Balance, March 31, 2001	221,673
Comprehensive income:	
Net income before preferred dividend	7,144
Net unrealized gain on assets available-for-sale	132
Total comprehensive income	7,276
Issuance of common stock	655
Dividends declared:	
Preferred	(681)
Common	(4,909)
Balance, June 30, 2001	224,014

</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>
<Caption>

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
Cash Flows From Operating Activities:				
Net income available to common stockholders before preferred dividend	$ 7,144	$ 3,767	$ 14,505	$ 7,731
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	2,319	457	3,610	1,588
Provision for credit losses	164	128	348	247
Non-cash stock compensation	108	--	251	--
Equity in losses of RWT Holdings, Inc.	--	531	--	1,099
Net unrealized and realized market value (gains) losses	413	1,359	(2,228)	2,583
Cumulative effect of adopting EITF 99-20	--	--	2,368	--
Purchases of mortgage loans held-for-sale	(77,714)	(9,800)	(77,714)	(35,534)
Proceeds from sales of mortgage loans held-for-sale	3,386	17,298	3,624	422,914
Principal payments on mortgage loans held-for-sale	255	4,906	2,189	19,193
Purchases of mortgage securities trading	--	(14,286)	(296,907)	(179,550)
Proceeds from sales of mortgage securities trading	162,753	27,937	170,716	77,309
Principal payments on mortgage securities trading	113,042	101,731	178,767	158,520
Net (purchases) sales of interest rate agreements	(115)	(1,002)	(773)	(885)
Decrease (increase) in accrued interest receivable	2,317	(1,119)	2,851	(2,795)
(Increase) decrease in principal receivable	(3,920)	101	(1,371)	(737)
(Increase) decrease in other assets	(586)	2,051	308	155
(Decrease) increase in accrued interest payable	(151)	267	(1,065)	520
Increase in accrued expenses and other liabilities	1,146	1,311	2,521	1,762

Net cash provided by operating activities	210,561	135,637	2,000	474,120
Cash Flows From Investing Activities:				
Purchases of mortgage loans held-for-investment	(100)	--	(100)	(384,328)
Proceeds from sales of mortgage loans held-for-investment	718	--	2,378	--
Principal payments on mortgage loans held-for-investment	86,617	56,827	147,396	92,703
Purchases of mortgage securities available-for-sale	(77,246)	(22,475)	(111,060)	(31,626)
Proceeds from sales of mortgage securities available-for-sale	1,772	--	4,806	--
Principal payments on mortgage securities available-for-sale	2,078	343	3,100	649
Net decrease in restricted cash	98	(1,176)	177	1,763
Loans to RWT Holdings, Inc., net of repayments	--	1,400	--	6,500
Increase in receivable from RWT Holdings, Inc	--	573	--	472
Net cash provided by (used in) investing activities	13,937	35,492	46,697	(313,867)
Cash Flows From Financing Activities:				
Net (repayments) borrowings on short-term debt	(131,371)	(115,762)	86,804	(446,922)
Proceeds from issuance of long-term debt	85	--	17,033	375,844
Repayments on long-term debt	(85,099)	(55,239)	(141,856)	(93,557)
Net proceeds from issuance of common stock	548	--	1,534	45
Dividends paid	(5,129)	(3,757)	(9,686)	(6,634)
Net cash used in financing activities	(220,966)	(174,758)	(46,171)	(171,224)
Net increase (decrease) in cash and cash equivalents	3,532	(3,629)	2,526	(10,971)
Cash and cash equivalents at beginning of period	14,477	12,539	15,483	19,881
Cash and cash equivalents at end of period	$ 18,009	$ 8,910	$ 18,009	$ 8,910
Supplemental disclosure of cash flow information:				
Cash paid for interest	$ 27,991	$ 34,647	$ 60,321	$ 68,917

</Table>

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

REDWOOD TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2001
(UNAUDITED)

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 June 30, 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 cash flows as of June 30, 2001 and 2000. These consolidated financial statements and notes thereto, are unaudited and should be read in conjunction with the Company's audited consolidated financial statements included in the Company's Form 10-K for the year ended December 31, 2000. The results for the six months ended June 30, 2001 are not necessarily indicative of the expected results for the year ended December 31, 2001.

The June 30, 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 June 30, 2001. Certain amounts for prior periods have been reclassified to conform to the June 30, 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 June 30, 2001 and December 31, 2000, there were no impaired mortgage loans.

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 during the quarter ended March 31, 2001 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 impairment 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" on the Consolidated Statement of Operations.

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."

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, may be recognized in income and the carrying value of the mortgage security may be adjusted. Under the provisions of EITF 99-20, other-than-temporary unrealized losses for certain mortgage securities 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 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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
	(IN THOUSANDS, EXCEPT SHARE DATA)			
<S>	<C>	<C>	<C>	<C>
NUMERATOR:				
Numerator for basic and diluted earnings per share --				

Net income before preferred dividend and change in accounting principle	$ 7,144	$ 3,767	$ 16,873	$ 7,731
Cash dividends on Class B preferred stock	(681)	(681)	(1,362)	(1,362)
Net income before change in accounting principle	6,463	3,086	15,511	6,369
Cumulative effect of adopting EITF 99-20	--	--	(2,368)	--
Basic and Diluted EPS -- Net income available to common stockholders	$ 6,463	$ 3,086	$ 13,143	$ 6,369
DENOMINATOR:				
Denominator for basic earnings per share				
Weighted average number of common shares outstanding during the period	8,888,999	8,789,376	8,864,120	8,787,197
Net effect of dilutive stock options	295,196	94,275	256,988	75,308
Denominator for diluted earnings per share	9,184,195	8,883,651	9,121,108	8,862,505
BASIC EARNINGS PER SHARE:				
Net income before change in accounting principle	$ 0.73	$ 0.35	$ 1.75	$ 0.72
Cumulative effect of adopting EITF 99-20	--	--	(0.27)	--
Net income per share	$ 0.73	$ 0.35	$ 1.48	$ 0.72
DILUTED EARNINGS PER SHARE:				
Net income before change in accounting principle	$ 0.70	$ 0.35	$ 1.70	$ 0.72
Cumulative effect of adopting EITF 99-20	--	--	(0.26)	--
Net income per share	$ 0.70	$ 0.35	$ 1.44	$ 0.72

</Table>

At June 30, 2001, the number of common equivalent shares issued by the Company that were anti-dilutive totaled 719,984 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 June 30, 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

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141 Business Combinations and SFAS 142 Goodwill and Other Intangible Assets. SFAS No. 141, among other things, eliminates the use of the pooling of interests method of accounting for business combinations. Under the provisions of SFAS No. 142, goodwill will no longer be amortized, but will be subject to a periodic test for impairment based upon fair values. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. SFAS No. 142 will be effective for the Company beginning January 1, 2002. The adoption of these statements is not expected to have a material effect on the Company's financial statements.

NOTE 3. MORTGAGE ASSETS

At June 30, 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 June 30, 2001 and December 31, 2000, the annualized effective yield after taking into account the amortization expense due to prepayments on the Mortgage Assets was 6.80% and 8.01%, respectively, based on the reported cost of the assets. At June 30, 2001, 77% of the Mortgage Assets owned by the Company were adjustable-rate mortgages, 16% were hybrid mortgages, and 7% 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 June 30, 2001 and December 31, 2000, the coupons on 54% 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 June 30, 2001 and December 31, 2000, the weighted average lifetime cap on the adjustable-rate Mortgage Assets was 11.50% and 11.43%, respectively.

At June 30, 2001 and December 31, 2000, Mortgage Assets consisted of the following:

NET INVESTMENT IN RESIDENTIAL CREDIT ENHANCEMENT INTERESTS

<Table>
<Caption>

	JUNE 30, 2001 MORTGAGE SECURITIES AVAILABLE-FOR-SALE	DECEMBER 31, 2000 MORTGAGE SECURITIES AVAILABLE-FOR-SALE
	(IN THOUSANDS)	
<S>	<C>	<C>
Current Face	$266,004	$124,878
Unamortized Discount	(31,824)	(16,883)
Portion Of Discount Designated As A Credit Reserve	(78,170)	(27,052)
Amortized Cost	156,010	80,943
Gross Unrealized Gains	4,603	2,646
Gross Unrealized Losses	(1,909)	(2,825)
Carrying Value	$158,704	$ 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, or may designate additional discount as reserve, thus lowering the realized yield. If future credit losses are less than the Company's original estimate, the yield over the remaining life of the security may be adjusted upward. At June 30, 2001 and December 31, 2000, the Company designated $78.2 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 during the quarter ended March 31, 2001 through the Consolidated 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.

During the three and six months ended June 30, 2001, the Company purchased residential credit enhancement interests of $61.2 million and $81.9 million, respectively. During the three and six months ended June 30, 2000, the Company purchased residential credit enhancement interests classified as available for sale of $22.5 million and $31.6 million, respectively. During both the three and six months ended June 30, 2001, the Company sold residential credit enhancement interests for proceeds of $1.8 million, resulting in no net gain or loss on the sales.

RESIDENTIAL RETAINED LOAN PORTFOLIO

<Table>
<Caption>

JUNE 30, 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....................	$79,890	$973,268	$1,053,158	$6,784	$1,115,386	$1,122,170
Unamortized Discount...........	(296)	--	(296)	(126)	--	(126)
Unamortized Premium............	558	12,170	12,728	--	13,767	13,767
Amortized Cost.................	80,152	985,438	1,065,590	6,658	1,129,153	1,135,811
Reserve for Credit Losses.......	--	(5,120)	(5,120)	--	(4,814)	(4,814)
Carrying Value..................	$80,152	$980,318	$1,060,470	$6,658	$1,124,339	$1,130,997

</Table>

The Company recognized gains of $0.1 million and losses of $0.1 million during the three and six months ended June 30, 2000 as a result of LOCOM adjustments on residential mortgage loans held-for-sale. No such losses were recorded during the three and six months ended June 30, 2001. During the three and six months ended June 30, 2001, the Company purchased residential retained loans classified as held-for-sale for $76.3 million. No such purchases were made during the three and six months ended June 30, 2000. During the six months ended June 30, 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 six months ended June 30, 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>

	JUNE 30, 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.............	$699,434	$26,348	$725,782	$751,449	$5,500	$756,949
Unamortized Discount......	(176)	(304)	(480)	(388)	(427)	(815)
Unamortized Premium.......	8,699	5,189	13,888	8,551	--	8,551
Unamortized Cost..........	707,957	31,233	739,190	759,612	5,073	764,685
Gross Unrealized Gains....	--	153	153	--	105	105
Gross Unrealized Losses...	--	(156)	(156)	--	(15)	(15)
Carrying Value...........	$707,957	$31,230	$739,187	$759,612	$5,163	$764,775
Agency....................	$437,560	--	$437,560	$521,204	--	$521,204
Non-Agency...............	270,397	31,230	301,627	238,408	5,163	243,571
Carrying Value...........	$707,957	$31,230	$739,187	$759,612	$5,163	$764,775

</Table>

For the three and six months ended June 30, 2001, the Company recognized net market value losses of $0.4 million and net market value gains of $0.4 million on mortgage securities classified as trading, respectively. For the three and six months ended June 30, 2000, the Company recognized net market losses of $0.9 million and $1.8 million on mortgage securities classified as trading, respectively.

During the six months ended June 30, 2001, the Company purchased investment portfolio securities classified as trading for $296.9 million. During the three and six months ended June 30, 2000, the Company purchased investment portfolio securities classified as trading for $14.2 million and $179.6 million, respectively. During the three and six months ended June 30, 2001, the Company sold investment portfolio securities classified as trading for proceeds of $162.8 million and $170.7 million, respectively. During the three and six months ended June 30, 2000, the Company sold investment portfolio securities classified as trading for proceeds of $27.9 million and $77.3 million, respectively.

During the three and six months ended June 30, 2001, the Company purchased investment portfolio securities classified as available-for-sale for $16.0 million and $29.2 million, respectively. No such purchases were made during the three and six months ended June 30, 2000. During the six months ended June 30, 2001, the Company sold investment portfolio 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 six months ended June 30, 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

	JUNE 30, 2001			DECEMBER 31, 2000		
	HELD-FOR-SALE	HELD-FOR-INVESTMENT	TOTAL	HELD-FOR-SALE	HELD-FOR-INVESTMENT	TOTAL
	(IN THOUSANDS)					
Current Face	$31,821	$36,144	$67,965	$34,275	$23,425	$57,700
Unamortized Discount	(644)	(278)	(922)	--	(531)	(531)
Carrying Value	$31,177	$35,866	$67,043	$34,275	$22,894	$57,169

During the three and six months ended June 30, 2001, the Company sold commercial mortgage loans classified as held-for-investment for sales proceeds of $0.7 million and $2.4, resulting in no net gain or loss on the sale. No such sales occurred during the three and six months ended June 30, 2000. During the three and six months ended June 30, 2001, the Company originated commercial retained loans classified as held-for-sale for $1.4 million. During the three and six months ended June 30, 2000, the Company originated commercial retained loans classified as held-for-sale for $9.8 million and $35.5 million, respectively.

During the six months ended June 30, 2000, Redwood Trust sold commercial mortgage loans to Redwood Commercial Funding ("RCF"), a subsidiary of Holdings, for proceeds of $25.3 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 June 30, 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 June 30, 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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2001	2000	2001	2000
	(IN THOUSANDS)			
Balance at beginning of period	$4,968	$4,244	$4,814	$4,125
Provision for credit losses	164	128	348	247
Charge-offs	(12)	(29)	(42)	(29)
Balance at end of period	$5,120	$4,343	$5,120	$4,343

There is no reserve for credit losses at June 30, 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:

<Table>
<Caption>

	JUNE 30, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
<S>	<C>	<C>
Residential Mortgage Loans:		
Residential Retained Loan Portfolio Held-For-Sale........	$ 78	$ 315
Residential Retained Loan Portfolio Held-For-Investment.................................	980,318	1,124,339
Restricted cash...	2,444	3,729
Accrued interest receivable..............................	4,985	7,010
Total Residential Collateral..............................	$ 987,825	$1,135,393
Commercial Mortgage Loans Held-For-Investment.............	$ 20,626	$ --
Total Long-Term Debt Collateral..........................	$1,008,451	$1,135,393

</Table>

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 and six months ended June 30, 2001, the Company recognized net market value gains of $0.1 million and net market value losses of $0.4 million on Interest Rate Agreements. During the three and six months ended June 30, 2000, the Company recognized net market value losses of $0.5 million and $0.7 million on Interest Rate Agreements. The market value gains and losses 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. The cash and collateral held by counterparties are included in "Restricted Cash" and "Mortgage Securities Trading" on the Consolidated Balance Sheets.

<Table>
<Caption>

	NOTIONAL AMOUNTS		CREDIT EXPOSURE	
	JUNE 30, 2001	DECEMBER 31, 2000	JUNE 30, 2001	DECEMBER 31, 2000
		(IN THOUSANDS)		
<S>	<C>	<C>	<C>	<C>
Interest Rate Options Purchased.........	$1,207,300	$1,490,300	--	--
Interest Rate Swaps.....................	55,000	5,000	$4,154	$2,814
Interest Rate Futures and Forwards......	133,000	506,600	863	948

Total	$1,395,300	$2,001,900	$5,017	$3,762

</Table>

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 June 30, 2001, the Company had $0.9 million of Short-Term Debt outstanding with a weighted-average borrowing rate of 4.45% and a weighted-average remaining maturity of 119 days. This debt was

collateralized with $0.9 million 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 June 30, 2001 and December 31, 2000, the Short-Term Debt had the following remaining maturities:

<Table>
<Caption>

	JUNE 30, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
<S>	<C>	<C>
Within 30 days	$129,765	$100,885
31 to 90 days	398,888	268,867
Over 90 days	332,573	386,470
Total Short-Term Debt	$861,226	$756,222

</Table>

For both the three and six months ended June 30, 2001, the average balance of Short-Term Debt was $0.9 billion with a weighted-average interest cost of 4.82% and 5.35%, respectively. For the three and six months ended June 30, 2000, the average balance of Short-Term Debt was $0.9 billion and $1.0 billion with a weighted-average interest cost of 6.47% and 6.34%, respectively. The maximum balance outstanding during the six months ended June 30, 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 six months ended June 30, 2001 and 2000.

In addition to the committed facilities listed below, the Company has uncommitted facilities with credit lines in excess of $4.4 billion at June 30, 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 June 30, 2001, the Company had borrowings under this facility of $31.2 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 June 30, 2001, the weighted average borrowing rate under this facility was 5.76%. 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 June 30, 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 June 30, 2001, the weighted average borrowing rate under this facility was 5.31%. This committed facility expired in July 2001 and was not renewed by the Company.

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 June 30, 2001, the Company had borrowings under these facilities of $36.3 million. Borrowings under these facilities bear interest based on a specified margin over LIBOR. At June 30, 2001, the weighted average borrowing rate under these facilities was 4.76%. 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. In May 2001, this facility was increased to $30 million. At June 30, 2001, the Company had borrowings under this facility of $29.9 million. Borrowings under this facility bear interest based on a specified margin over LIBOR. At June 30, 2001, the weighted average borrowing rate under this facility was 5.08%. 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 and six months ended June 30, 2001, 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 5.96% and 6.32%, respectively. For the three and six months ended June 30, 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 6.51%, respectively. At June 30, 2001 and December 31, 2000, accrued interest payable on Long-Term Debt was $2.3 million and $3.1 million, respectively, and is reflected as a component of Accrued Interest Payable on the Consolidated Balance Sheets. For both the three and six months ended June 30, 2001, the average balance of Long-Term Debt was $1.0 billion. For the three and six months ended June 30, 2001, the average balance of Long-Term Debt was $1.3 billion and $1.1 billion, respectively.

The components of the Long-Term Debt at June 30, 2001 and December 31, 2000 along with selected other information are summarized below:

<Table>
<Caption>

	JUNE 30, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
<S>	<C>	<C>
Residential Long-Term Debt	$ 954,054	$ 1,095,909
Commercial Long-Term Debt	17,033	--
Unamortized premium on Long-Term Debt	2,685	3,045
Deferred bond issuance costs	(2,407)	(3,119)
Total Long-Term Debt	$ 971,365	$ 1,095,835
Range of weighted-average interest rates, by series -- residential	4.45% to 6.35%	6.35% to 7.20%
Stated residential maturities	2017 - 2029	2017 - 2029
Number of residential series	4	4
Weighted-average interest rates -- commercial	7.13%	--
Stated commercial maturities	2002 - 2003	--
Number of commercial series	2	--

</Table>

NOTE 9. INCOME TAXES -- HOLDINGS

The current provision for income taxes for Holdings for the three and six months ended June 30, 2001 and 2000 was $3,200 and is a component of "Operating Expenses" on the Consolidated Statement of Operations. These amounts represent the minimum California franchise taxes. No additional tax provision has been recorded for the three and six months ended June 30, 2001 and 2000, as Holdings reported a loss in years prior to 2001, and during the first six 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 June 30, 2001 and December 31, 2000. At June 30, 2001 and December 31, 2000, the deferred tax assets and associated valuation allowances were approximately $9.9 million and $9.5 million, respectively. At June 30, 2001 and December 31, 2000, Holdings had net operating loss carryforwards of approximately $25.6 million and $24.6 million for federal tax purposes, and $11.2 million and $11.0 million for state tax purposes, respectively. The federal loss carryforwards and a portion of the state loss carryforwards expire between 2018 and 2021, while the largest portion of the state loss carryforwards expire between 2003 and 2006.

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 June 30, 2001 and December 31, 2000.

<Table>
<Caption>

	JUNE 30, 2001		DECEMBER 31, 2000	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Assets				
Mortgage Loans				
Residential: held-for-sale.......	$ 80,152	$ 80,152	$ 6,658	$ 6,658
Residential: held-for-investment...........	980,318	978,239	1,124,339	1,113,389
Commercial: held-for-sale........	31,177	31,177	34,275	34,275
Commercial: held-for-investment...........	35,866	35,866	22,894	22,894
Mortgage Securities				
Residential: trading............	707,957	707,957	759,612	759,612
Residential: available-for-sale............	31,230	31,230	85,927	85,927
Interest Rate Agreements............	79	79	66	66
Investment in RWT Holdings, Inc.....	--	--	1,899	1,989
Liabilities				
Short-Term Debt.....................	861,226	861,226	756,222	756,222
Long-Term Debt......................	971,365	968,203	1,095,835	1,085,368

</Table>

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 June 30, 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 and six months ended June 30, 2001 and 2000. At June 30, 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 June 30, 2001 and December 31, 2000, 437,975 and 476,854 shares of Common Stock, respectively, were available for grant. At June 30, 2001, 28,000 shares of restricted stock had been granted. No restricted stock had been granted prior to December 31, 2000. At June 30, 2001 and December 31, 2000, 324,152 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 and six months ended June 30, 2001, the Company accrued cash and stock DER expenses of $1.0 million and $1.7 million, respectively. For the three and six months ended June 30, 2000, the Company accrued cash and stock DER expenses of $0.5 million and $1.0 million, respectively. Stock DERs represent shares of stock which are issuable when the holders exercise the underlying stock options and are considered to be variable stock awards under the provisions of Accounting Principles Board ("APB") Opinion 25. For the three and six months ended June 30, 2001, the Company recognized variable stock option expense of $0.5 million and $0.7 million, respectively. 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 June 30, 2001 and December 31, 2000, there were 170,318 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 June 30, 2001 and December 31, 2000, there were 1,159,372 and 1,180,797 unexercised options with cash DERs under the Plan, respectively. At June 30, 2001 and December 31, 2000, there were 150,019 and 147,550 outstanding stock options that did not have DERs, respectively.

A summary of the status of the Company's stock options issued under the Plan as of June 30 and changes during the three months ending on that date is presented below.

<Table>
<Caption>

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
	(IN THOUSANDS, EXCEPT SHARE DATA)			
<S>	<C>	<C>	<C>	<C>
Outstanding options at beginning of period	1,476,381	$22.40	1,494,798	$22.32
Options granted	10,469	$18.16	14,469	$18.67
Options exercised	--	--	(25,967)	$14.00
Options canceled	(11,000)	$23.44	(11,500)	$23.25
Dividend equivalent rights earned	3,859	--	7,909	--
Outstanding options at June 30, 2001	1,479,709	$22.30	1,479,709	$22.30

</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 June 30, 2001 and 2000. At June 30, 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 June 30, 2001, the Company had entered into commitments to purchase $19 million of residential mortgage loans for settlement during July 2001. At June 30, 2001, the Company has committed to fund an additional $4 million on its commercial mortgage loans to existing borrowers, provided the borrowers meet certain conditions.

At June 30, 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 $3.2 million and is expected to be recognized as follows: 2001 -- $0.5 million; 2002 -- $0.7 million; 2003 -- $0.7 million; 2004 -- $0.6 million; 2005 -- $0.5 million; 2006 -- $0.2 million.

NOTE 13. SUBSEQUENT EVENTS

In July 2001, the Company completed a secondary offering of 1,092,500 shares of common stock for net proceeds of $24 million to fund the expansion of its residential loan finance business.

On August 9, 2001, the Company's Board of Directors declared both a special and a regular common stock dividend for the third quarter of 2001. The special third quarter cash dividend of $0.18 per common share is payable on August 31, 2001 to shareholders of record on August 20, 2001. The regular quarterly cash dividend for the third quarter of $0.57 per common share is payable on October 22, 2001 to shareholders of record as of September 28, 2001. The Board of Directors also declared the third quarter preferred dividend of $0.755 per share, payable on October 22, 2001, to preferred shareholders of record as of September 28, 2001.

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. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, any forward-looking events discussed herein might not occur. 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 for the year ended December 31, 2000. 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.

This Form 10-Q contains statistics and other data that in some cases have been obtained from, or compiled from, information made available by servicing entities and information service providers. In addition, some of the historical presentations contained herein have been restated to conform to current formats.

REDWOOD TRUST

Redwood Trust is a real estate finance company specializing in owning, financing, and credit enhancing high-quality jumbo residential mortgage loans nationwide. Jumbo residential loans have mortgage balances that exceed the financing limit imposed on Fannie Mae and Freddie Mac, both of which are United States government-sponsored real estate finance entities. Most of the loans that we finance have mortgage loan balances between $275,000 and $600,000.

We finance high-quality jumbo loans in two ways -- through our residential credit enhancement portfolio and our residential retained loan portfolio. In our residential credit enhancement portfolio, we enable the securitization and funding of mortgage loans in the capital markets by committing our capital to partially credit enhance the mortgage loans. We do this by structuring and acquiring subordinated credit enhancement interests that are created at the time the mortgage loans are securitized. After we have credit enhanced these mortgage loans, collateralized mortgage-backed securities can be created with investment grade debt ratings and then sold into the global capital markets to fund the underlying mortgages. In essence, we perform the equivalent of a guarantee or insurance function with respect to these mortgage loans. At June 30, 2001, the aggregate principal value of the loans we credit enhanced in our credit enhancement portfolio was $38 billion.

In our residential retained mortgage loan portfolio, we acquire mortgage loans and hold them on our balance sheet to earn interest income. We typically fund the purchase of these mortgage loans through the issuance of long-term amortizing debt. At June 30, 2001, the aggregate principal value of loans in our residential retained loan portfolio was $1 billion.

We have elected and anticipate that we will continue to be organized as a real estate investment trust ("REIT"). As a REIT, we distribute substantially all of our net taxable earnings to stockholders as dividends. As long as we retain our REIT status, we will not pay most types of corporate income taxes.

RESULTS OF OPERATIONS

Earnings Per Share Summary

Core earnings were $0.80 per share for the second quarter of 2001, an increase of 57% over second quarter 2000 core earnings of $0.51 per share. Reported earnings per share for the second quarter of 2001 doubled to $0.70 from second quarter 2000 reported earnings per share of $0.35. Reported earnings include mark-to-market adjustments to certain assets, hedges, and variable stock options.

Core earnings for the first six months of 2001 were $1.53 per share, an increase of 50% over core earnings for the first six months of 2000 of $1.02 per share.

Reported earnings for the first six months in 2001 doubled to $1.44 per share from the $0.72 per share we reported for the first six months of 2000.

Our regular common stock dividend was $0.50 for the first quarter of 2001 and $0.55 per share and for the second quarter of 2001. For the third quarter of 2001, the Board of Directors at its meeting on August 9, 2001, declared both a regular cash dividend of $0.57 per common share and a special cash dividend of $0.18 per common share.

Net Interest Income After Credit Expenses

Net interest income after credit expenses rose from $7.9 million in the second quarter of 2000 to $11.4 million in the second quarter of 2001. We benefited from our continuing strategy of increasing our high-quality jumbo residential mortgage loan business, a business where we believe we have a solid competitive position and favorable long-term market trends. We also benefited from rapidly falling interest rates in the second quarter of 2001, as our cost of funds declined faster than our asset yields. Net interest income divided by average equity increased from 14.78% in the second quarter of 2000 to 20.76% in the second 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 have allowed for the possibility of increased margins on a temporary basis following periods of short-term interest rate decline. This allowed us to benefit in the first half of 2001 from the recent fall in short-term interest rates. We currently expect that earnings per share in the second half of 2001 may decline from the $1.53 per share of core earnings we generated in the first half of 2001 as the exceptional benefit we are currently experiencing from falling short-term interest rates may prove to be temporary.

The ongoing changes we continue to make in our product mix, emphasizing residential loan products rather than the mortgage securities in our investment portfolio, are designed to increase our normalized, sustainable, long-term rate of earnings, cash flow, and dividends.

TABLE 1
NET INTEREST INCOME
(ALL DOLLARS IN THOUSANDS)

	TOTAL INTEREST INCOME REVENUES AFTER CREDIT PROVISIONS	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
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%
Q2: 2001	38,453	(27,010)	11,443	7.18%	5.45%	1.73%	2.06%	20.76%
Six Months: 2000	$85,827	$(70,064)	$15,763	7.39%	6.48%	0.91%	1.32%	14.77%
Six Months: 2001	80,090	(58,423)	21,667	7.45%	5.90%	1.55%	1.95%	19.80%

Revenues Summary

Interest income revenues (after credit expenses) declined from $43.0 million in the second quarter of 2000 to $38.5 million in the second quarter of 2001. Average earning assets yields decreased from 7.54% to 7.18% with falling interest rates, and our average balance of earning assets (as reported on-balance sheet) fell from $2.3 billion to $2.1 billion. Revenues of $80.1 million for the first six months of 2001 were lower than revenues of $85.8 million in the first six months of 2000 due to lower average balance of earning assets.

If we continue to shift our product mix towards our credit enhancement portfolio, our reported assets and revenues may continue to decline. Recent declines in short-term interest rates may also reduce our revenue levels as our adjustable rate asset yields adjust to lower index levels. However, we would also expect that borrowings and interest expenses would decline, and that the net result may be an increase in net interest income over time.

TABLE 2
TOTAL INTEREST INCOME AND YIELDS
(ALL DOLLARS IN THOUSANDS)

	AVERAGE EARNING ASSETS	COUPON INCOME	NET PREMIUM AMORTIZATION EXPENSE	RESIDENTIAL RETAINED PORTFOLIO CREDIT PROVISION EXPENSE	TOTAL INTEREST INCOME REVENUES	EARNING ASSET YIELD
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%
Q2: 2001	2,142,496	40,502	(1,885)	(164)	38,453	7.18%
Six Months: 2000	$2,323,396	$86,551	$ (477)	$(247)	$85,827	7.39%
Six Months: 2001	2,149,579	83,192	(2,754)	(348)	80,090	7.45%

To provide a greater level of detail on our revenue trends, we discuss revenue and portfolio characteristics by product line below. Each of our product lines is a component of our single business segment of real estate finance.

Residential Credit Enhancement Portfolio

The balance of residential loans that we credit enhance increased from $27 billion to $38 billion during the second quarter of 2001. These loans do not appear on our reported balance sheet; only our net investment in the credit enhancement interests for these loans appear on our balance sheet. Credit enhancement revenue increased to $3.4 million in the second quarter of 2001 from $2.1 million in the second quarter of 2000 as our net investment in credit enhancement assets increased. If favorable market conditions continue, we expect to pursue growth in this portfolio throughout the year. However, asset growth was exceptional in the second quarter of 2001 as we closed several large credit enhancement transactions involving high-quality seasoned jumbo residential loans. We would not normally expect to continue future growth at this rate.

At June 30, 2001, we owned $266 million face value of credit enhancement interests at a cost basis of $159 million. Of the $107 million difference between principal value and our cost, $78 million is designated as credit reserve and $29 million is designated as a purchase discount to be amortized into income over time.

Our credit enhancement portfolio yield after the effect of credit reserves was 11.97% during the second quarter of 2001, a decline from 16.07% in the second quarter of 2000. This is due primarily to the acquisition of an increased proportion of third loss interests that have lower yields than first or second loss interests due to their lower risk levels. For the same reason, yields for this portfolio fell from 16.43% during the first six months of 2000 to 12.11% during the first six months of 2001.

We continue to establish what we believe to be an appropriate level of credit reserves upon acquisition of these assets. If future credit results are satisfactory, we may not need all of these reserves. Should this be determined, we will then designate a portion of our internal reserves as discount rather than credit reserve, thus increasing future discount amortization income and future asset yields.

TABLE 3
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>
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	12.32%
Q2: 2001............	184,472	(48,845)	(21,920)	113,707	3,242	161	3,403	11.97%
Six Months: 2000.....	$ 66,806	$(13,964)	$ (7,206)	$ 45,636	$2,460	$1,290	$3,750	16.43%
Six Months: 2001.....	160,106	(40,178)	(20,100)	99,828	5,758	287	6,045	12.11%

</Table>

Credit losses for the entire $38 billion portfolio that we credit enhanced at June 30, 2001 totaled $1.0 million in the second quarter of 2001. The annualized rate of credit loss was 1 basis point (0.01%) of the portfolio. Of this loss, $0.8 million was borne by the external credit enhancements to our positions and $0.2 million was incurred by us and charged against our internal reserves. At quarter-end, we had $91 million of external credit enhancements and $78 million of internal credit reserves for this portfolio. External credit reserves serve to protect us from credit losses on a specific asset basis and represent the principal value of first and second loss interests that are junior to us and are owned by others. Total reserves of $169 million represented 44 basis points (0.44%) of our credit enhancement portfolio of $38 billion. Reserves, credit protections, and risks are specific to each credit-enhancement interest.

Delinquencies (over 90 days, foreclosure, bankruptcy, and REO) in our credit enhancement portfolio increased from 0.23% of the current balances at December 31, 2000 to 0.26% at June 30, 2001. This increase was largely the result of acquisitions of credit enhancement interests on seasoned loan pools that had

delinquency levels higher than those of our average portfolio. We expect delinquency and loss rates for our whole loan portfolio to continue to increase from their modest levels, given the weakening economy and the natural seasoning pattern of these loans. Potential future acquisitions of seasoned pools of loans may also increase our average delinquency rate.

TABLE 4
TOTAL RESIDENTIAL CREDIT ENHANCEMENT PORTFOLIO -- CREDIT RESULTS
(AT PERIOD END, ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

	UNDERLYING MORTGAGE	DELINQUENCIES	REDWOOD'S SHARE OF CREDIT	LOSSES TO EXTERNAL CREDIT	TOTAL CREDIT	TOTAL CREDIT LOSSES AS % OF LOANS

	LOANS	$	%	LOSSES	ENHANCEMENT	LOSSES	(ANNUALIZED)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q2: 2000................	$20,925,931	$45,999	0.22%	$(187)	$(1,350)	$(1,537)	0.03%
Q3: 2000................	21,609,785	58,102	0.27%	(245)	(345)	(590)	0.01%
Q4: 2000................	22,633,860	51,709	0.23%	(56)	(1,512)	(1,568)	0.03%
Q1: 2001................	27,081,361	63,893	0.24%	(55)	(550)	(605)	0.01%
Q2: 2001................	38,278,631	98,287	0.26%	(196)	(824)	(1,020)	0.01%
Six Months: 2000.........	$20,925,931	$45,999	0.22%	$(457)	$(1,893)	$(2,350)	0.03%
Six Months: 2001.........	38,278,631	98,287	0.26%	(251)	(1,374)	(1,625)	0.01%

</Table>

Most of the loans we credit enhance are "A+" quality loans. We refer to loans as A+ quality when they generally meet the secondary mortgage market standards for top quality loans. We also credit enhance a smaller amount of "Alt-A" loans. Generally, Alt-A loans are A-quality loans made to A-quality borrowers that have specific requirements that are exceptions to standard A+ jumbo underwriting criteria. Alt-A loan pools, for instance, may contain higher levels of self-employed borrowers, limited documentation loans, second homes, investor properties, and 2-4 family properties. The following two tables present the credit performance for these two subsets of our total credit enhancement portfolio.

TABLE 5
CREDIT ENHANCEMENT PORTFOLIO - CREDIT RESULTS FOR ALT-A LOANS
(AT PERIOD END, ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

	UNDERLYING MORTGAGE LOANS	DELINQUENCIES $	DELINQUENCIES %	REDWOOD'S SHARE OF CREDIT LOSSES	LOSSES TO EXTERNAL CREDIT ENHANCEMENT	TOTAL CREDIT LOSSES	TOTAL CREDIT LOSSES AS % OF LOANS (ANNUALIZED)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q2: 2000....................	$649,090	$32,981	5.08%	$(181)	$(1,329)	$(1,510)	0.93%
Q3: 2000....................	613,682	36,010	5.87%	(241)	(277)	(518)	0.34%
Q4: 2000....................	562,696	28,990	5.15%	(54)	(858)	(912)	0.65%
Q1: 2001....................	512,025	26,836	5.24%	(53)	(546)	(599)	0.47%
Q2: 2001....................	439,077	25,754	5.87%	(184)	(348)	(532)	0.48%
Six Months: 2000...........	$649,090	$32,981	5.08%	$(450)	$(1,869)	$(2,319)	0.71%
Six Months: 2001...........	439,077	25,574	5.87%	(237)	(894)	(1,131)	0.52%

</Table>

Delinquencies as a percentage of current loan balances for Alt-A loans appear high in part because these are highly seasoned pools where most of the original loans in these pools have prepaid. Credit losses in these pools have been declining. Our total internal and external credit reserves for this sub-set of our credit-enhancement portfolio were $22.2 million at June 30, 2001.

For the A+ loans in our credit enhancement portfolio, delinquencies as a percentage of current loan balances rose slightly in the second quarter of 2001 largely due to the acquisition of credit-enhancement interests in seasoned portfolios.

TABLE 6
CREDIT ENHANCEMENT PORTFOLIO -- CREDIT RESULTS FOR A+ LOANS
(AT PERIOD END, ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

	UNDERLYING MORTGAGE LOANS	DELINQUENCIES $	DELINQUENCIES %	REDWOOD'S SHARE OF CREDIT LOSSES	LOSSES TO EXTERNAL CREDIT ENHANCEMENT	TOTAL CREDIT LOSSES	TOTAL CREDIT LOSSES AS % OF LOANS (ANNUALIZED)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q2: 2000..................	$20,276,841	$13,018	0.06%	$ (6)	$ (21)	$ (27)	0.00%
Q3: 2000..................	20,996,103	22,092	0.11%	(4)	(68)	(72)	0.00%
Q4: 2000..................	22,071,164	22,719	0.10%	(2)	(654)	(656)	0.01%
Q1: 2001..................	26,569,336	37,057	0.14%	(2)	(4)	(6)	0.00%
Q2: 2001..................	37,839,554	72,533	0.19%	(12)	(476)	(488)	0.01%
Six Months: 2000..........	$20,276,841	$13,018	0.06%	$ (7)	$ (24)	$ (31)	0.00%
Six Months: 2001..........	37,839,554	72,533	0.19%	(14)	(480)	(494)	0.01%

</Table>

At June 30, 2001, we credit enhanced over 105,700 loans (with a principal value of $38 billion) in our total credit enhancement portfolio. Of these, 61% were fixed-rate loans, 20% were hybrid loans (loans that become adjustable after a 3 to 10 year fixed rate period), and 19% were adjustable-rate loans. The average size of the loans that we credit-enhanced was $362,100. At June 30, 2001, loans with principal balances of $600,000 or less comprised 92% of the total number of such loans and 81% of the total balance of such loans. We credit-enhanced 1,269 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 $1.7 billion. Loans over $1 million were 1% of the total number of loans and 4% of the total balance of loans that we credit-enhanced at quarter-end.

TABLE 7
CREDIT ENHANCEMENT PORTFOLIO RESERVES
(AT PERIOD END, ALL DOLLARS IN THOUSANDS)

	JUN. 2000	SEP. 2000	DEC. 2000	MAR. 2001	JUN. 2001
Total Credit Enhancement Portfolio					
Internal Credit Reserves	$ 20,829	$ 22,139	$ 27,052	$ 35,722	$ 78,170
External Credit Enhancement	79,403	78,564	86,840	86,600	91,004
Total Credit Protection	$100,232	$100,703	$113,892	$122,322	$169,174
As % of Total Portfolio	0.48%	0.47%	0.50%	0.45%	0.44%
"Alt-A" Portfolio					
Internal Credit Reserves	$ 4,128	$ 3,925	$ 3,789	$ 4,565	$ 4,061
External Credit Enhancement	25,315	24,493	22,011	20,250	18,098
Total Credit Protection	$ 29,443	$ 28,418	$ 25,800	$ 24,815	$ 22,159
As % of "Alt-A" Portfolio	4.54%	4.63%	4.59%	4.85%	5.05%
"A+" Portfolio					
Internal Credit Reserves	$ 16,701	$ 18,214	$ 23,263	$ 31,157	$ 74,109
External Credit Enhancement	54,088	54,071	64,829	66,350	72,906
Total Credit Protection	$ 70,789	$ 72,285	$ 88,092	$ 97,507	$147,015
As % of "A+" Portfolio	0.35%	0.34%	0.40%	0.37%	0.39%

The geographic dispersion of our credit enhancement portfolio generally mirrors that of the jumbo residential market as a whole. At June 30, 2001, our loans were most concentrated in the following states: California 54%, New York 5%, New Jersey 3%, Texas 3%, and Massachusetts 3%. No other state had more than 3%.

Most of the loans that we credit enhance are seasoned. On average, our credit-enhanced loans have 31 months of seasoning. 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. Of the loans we credit enhanced at June 30, 2001, 21% were originated in year 2001, 14% were originated in 2000, and 65% were originated in 1999 or earlier.

For 75% of the loans in our portfolio, a FICO credit score was obtained at origination and is available. For these loans, the average FICO score was 723. Borrowers with FICO scores over 720 comprised 58% of the portfolio, those with scores between 680 and 720 comprised 22%, those with scores between 620 and 680 comprised 17%, and those with scores below 620 comprised 3% of our credit enhancement portfolio.

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 at origination on these loans is substantially reduced. Our average effective LTV at origination for all the loans we credit enhance (including the effect of PMI, pledged collateral, and other credit enhancements) was 71%. Given housing appreciation and loan amortization, we estimate the average current effective LTV for these loans is roughly 53%.

For the loans that we credit enhance where the property is in Northern California (26% of the total portfolio), at June 30, 2001 the average loan balance was $386,200, the average FICO score was 724, and the average LTV at origination was 71%. On average, these Northern California loans have 36 months of seasoning, with 22% originated in year 2001, 14% in year 2000, and 64% in years 1999 or earlier. At June 30, 2001, Northern California loans with principal balances of $600,000 or less comprised 91% of the total number of Northern California loans and 81% of the total balance of such loans. At June 30, 2001, 320 of such loans had principal balances in excess of $1 million; these loans had an average size of $1.4 million and a total loan balance of $450 million. They represented 1% of the total number of Northern California loans and 5% of the total balance of Northern California loans. Delinquencies in our Northern California residential credit enhancement portfolio at June 30, 2001 were 0.08% of current loan balance.

For the 28% of our loans where the homes are located in Southern California, the average loan balance at June 30, 2001 was $383,600, the average

FICO score was 718, and the average LTV at origination was 73%. These Southern California loans have 44 months of seasoning, on average, with 17% originated in year 2001, 13% in year 2000, and 70% in years 1999 or earlier. At June 30, 2001, Southern California loans with principal balances of $600,000 or less comprised 90% of the total number of loans and 77% of the total balance of loans. At June 30, 2001, 414 of these loans had principal balances in excess of $1 million; these loans had an average size of $1.4 million and a total loan balance of $595 million. They represented 2% of the total number of Southern California loans and 6% of the total balance of Southern California loans. Delinquencies in our Southern California residential credit enhancement portfolio at June 30, 2001 were 0.24% of current loan balance.

TABLE 8
CREDIT ENHANCEMENT PORTFOLIO - UNDERLYING COLLATERAL CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

<S>	JUN. 2000 <C>	SEP. 2000 <C>	DEC. 2000 <C>	MAR. 2001 <C>	JUN. 2001 <C>
Credit enhancement portfolio..........	$20,925,931	$21,609,785	$22,633,860	$27,081,361	$38,278,631
Number of credit-enhanced loans........	59,779	61,756	63,675	77,011	105,721
Adjustable %..........................	36%	34%	35%	28%	19%
Hybrid %..............................	3%	3%	7%	11%	20%
Fixed %...............................	61%	63%	58%	61%	61%
First loss position, principal value...	$ 28,262	$ 30,782	$ 34,959	$ 41,156	$ 76,386
Second loss position, principal value...............................	18,089	20,597	30,703	37,197	67,700
Third loss position, principal value...	49,280	54,793	59,216	76,880	121,918
Total principal value..................	$ 95,631	$ 106,172	$ 124,878	$ 155,233	$ 266,004
First loss position, net investment....	$ 8,666	$ 9,231	$ 12,080	$ 13,191	$ 18,956
Second loss position, net investment...	12,700	14,168	21,109	25,106	43,733
Third loss position, net investment....	36,527	41,719	47,575	62,552	96,015
Net investment........................	$ 57,893	$ 65,118	$ 80,764	$ 100,849	$ 158,704
Principal value (face value)...........	$ 95,631	$ 106,172	$ 124,878	$ 155,233	$ 266,004
Internal credit reserves...............	(21,829)	(23,139)	(27,052)	(35,722)	(78,170)
Premium/(Discount) to be amortized.....	(15,909)	(17,915)	(17,062)	(18,662)	(29,130)
Net investment........................	$ 57,893	$ 65,118	$ 80,764	$ 100,849	$ 158,704
California %..........................	52%	50%	50%	47%	54%
New York..............................	6%	6%	6%	6%	5%
New Jersey............................	3%	4%	4%	4%	3%
Massachusetts.........................	3%	3%	3%	4%	3%
Texas.................................	3%	3%	3%	4%	3%
Other states..........................	33%	34%	34%	35%	32%
Year 2001 Origination.................	0%	0%	0%	7%	21%
Year 2000 Origination.................	5%	10%	19%	21%	14%
Year 1999 Origination.................	39%	38%	35%	29%	36%
Year 1998 Origination.................	18%	17%	16%	18%	13%
Year 1997 Origination.................	1%	1%	1%	1%	1%
Year 1996 or earlier Origination.......	37%	34%	29%	24%	15%

</Table>

Residential Retained Loan Portfolio

In conjunction with declining yields and a decline in total loan balances, revenues in our residential retained loan portfolio declined over the last year from $23.0 million in the second quarter of 2000 to $16.3 million in the second quarter of 2001. The size of the portfolio was lower due to principal repayments not being completely replaced by new purchases. Yields fell during this time period due to falling interest rates. Late in the second quarter of 2001, we acquired $76 million of high-quality jumbo residential whole loans. We have acquired additional residential whole loans in the third quarter of 2001 and continue to evaluate several additional acquisition opportunities. Due to these acquisitions, revenues in this portfolio may increase over the next few quarters, in spite of expected falling yields on our existing portfolio as a result of the recent decline in short-term interest rates.

TABLE 9
RESIDENTIAL RETAINED PORTFOLIO INTEREST INCOME AND YIELDS
(ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

	AVERAGE	AVERAGE NET	AVERAGE	ANNUAL MORTGAGE PREPAY		NET PREMIUM	CREDIT	TOTAL INTEREST

	PRINCIPAL BALANCE	PREMIUM BALANCE	CREDIT RESERVE	RATE (CPR)	COUPON INCOME	AMORTIZATION EXPENSE	PROVISION EXPENSE	INCOME REVENUES	YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
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%
Q2: 2001............	1,007,227	12,747	(5,051)	24%	17,492	(1,065)	(164)	16,263	6.41%
Six Months: 2000.....	$1,306,884	$15,717	$(4,239)	15%	$48,026	$(1,155)	$(247)	$46,624	7.07%
Six Months: 2001.....	1,045,373	13,131	(4,974)	23%	37,863	(1,550)	(348)	35,965	6.83%

</Table>

Credit losses were $12,000 in this portfolio in the second quarter of 2001. We experienced an average 14% loss severity (the percentage of our liquidated loan balances that became credit losses upon liquidation, including all foregone interest). Our annualized credit loss rate was less than 1 basis point (0.01%) of current portfolio balances. We charged our $12,000 loss against our credit reserve for this portfolio, which ended the quarter at $5.1 million (0.48% of the portfolio). Delinquencies in this portfolio decreased to 0.46% of the portfolio from 0.50% at the end of 2000. We expect that delinquencies and losses on the current portfolio may increase from their current levels as a result of a weaker economy and the further seasoning of these loans.

TABLE 10
RESIDENTIAL RETAINED PORTFOLIO -- CREDIT RESULTS
(AT PERIOD END, ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

	ENDING BALANCE	DELINQUENT LOANS	DELINQUENT LOAN %	LOSS SEVERITY ON LIQUIDATED LOANS	REALIZED CREDIT LOSSES	ANNUALIZED CREDIT LOSSES AS % OF LOANS	ENDING CREDIT RESERVE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q2: 2000.............	$1,267,780	$4,968	0.39%	9%	$(42)	0.01%	4,330
Q3: 2000.............	1,186,799	4,330	0.36%	0%	0	0.00%	4,570
Q4: 2000.............	1,130,997	5,667	0.50%	0%	0	0.00%	4,814
Q1: 2001.............	1,071,819	6,371	0.59%	13%	(30)	0.01%	4,968
Q2: 2001.............	1,060,470	4,913	0.46%	14%	(12)	0.00%	5,120
Six Months: 2000......	$1,267,780	$4,968	0.39%	9%	$(42)	0.00%	$4,330
Six Months: 2001......	1,060,470	4,913	0.46%	13%	(42)	0.01%	5,120

</Table>

At June 30, 2001, we owned 3,306 residential loans with a total value of $1.1 billion. These were all "A" quality loans at origination. Of the total, 73% were adjustable rate loans and 27% were hybrid loans. Our hybrid loans have fixed rate coupons until December 2002, on average. They will then become adjustable rate loans. The average loan size of our retained portfolio was $320,800. At June 30, 2001, retained loans with principal balances of $600,000 or less comprised 89% of the total number of such loans and 68% of the total balance of such loans. We owned 78 loans with a loan balance over $1 million; the average size of these loans was $1.5 million. Loans with balances over $1 million made up 2% of the loans and 11% of the balances of our total retained loan portfolio. Northern California loans were 13% of the total and Southern California loans were 10% of the total. Loans originated in 1999 or earlier were 93% of the total. 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 68%. Given housing appreciation and loan amortization, we estimate the current effective LTV of our retained loan portfolio is roughly 54%.

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. Our exposure to long-term financed loans is limited to our investment in Sequoia, which, at June 30, 2001, was $32 million or 3.3% of the loan balances financed with long-term debt. Short-term funded residential mortgage loans retained at June 30, 2001 were $80 million. Our current intention is to replace the short-term funding of these retained loans with long-term debt through a Sequoia transaction currently scheduled for the fourth quarter of

2001.

TABLE 11
RETAINED RESIDENTIAL PORTFOLIO -- LOAN CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

	JUN. 2000	SEP. 2000	DEC. 2000	MAR. 2001	JUN. 2001
Principal Value (Face Value)	$1,257,108	$1,177,111	$1,122,170	$1,063,633	$1,053,158
Internal Credit Reserves	(4,342)	(4,573)	(4,814)	(4,968)	(5,120)
Premium/(Discount) to be amortized	15,014	14,261	13,641	13,154	12,432
Retained Residential Loans	$1,267,780	$1,186,799	$1,130,997	$1,071,819	$1,060,470
Number of loans	4,021	3,804	3,633	3,433	3,306
Average loan size	$ 315	$ 312	$ 311	$ 312	$ 321
Adjustable %	71%	71%	71%	71%	73%
Hybrid %	29%	29%	29%	29%	27%
Fixed %	0%	0%	0%	0%	0%
California %	25%	25%	25%	24%	23%
Florida	9%	9%	9%	9%	9%
New York	8%	8%	8%	8%	9%
New Jersey	5%	5%	5%	5%	6%
Texas	5%	5%	5%	5%	5%
Georgia	5%	5%	5%	5%	4%
Other states	43%	43%	43%	44%	44%
Year 2001 origination	0%	0%	0%	0%	7%
Year 2000 origination	0%	0%	0%	0%	0%
Year 1999 origination	19%	19%	19%	18%	17%
Year 1998 origination	32%	32%	32%	32%	29%
Year 1997 origination	37%	37%	37%	38%	36%
Year 1996 or earlier origination	12%	12%	12%	12%	11%

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 12
RESIDENTIAL LOAN PORTFOLIO -- CREDIT PROTECTION
(ALL DOLLARS IN THOUSANDS)

	TOTAL RESIDENTIAL LOANS	REDWOOD'S RESIDENTIAL CREDIT RESERVE	EXTERNAL CREDIT ENHANCEMENT	TOTAL CREDIT PROTECTION	AS % OF TOTAL RESIDENTIAL LOANS
Jun. 2000	$22,193,711	$25,159	$79,403	$104,562	0.47%
Sep. 2000	22,796,584	26,709	78,564	105,273	0.46%
Dec. 2000	23,764,857	31,866	86,840	118,706	0.50%
Mar. 2001	28,153,180	40,690	86,600	127,290	0.45%
Jun. 2001	39,339,101	83,290	91,004	174,294	0.44%

TABLE 13
RESIDENTIAL LOAN PORTFOLIO -- CREDIT PERFORMANCE
(ALL DOLLARS IN THOUSANDS)

	DELINQUENCIES	AS % OF TOTAL RESIDENTIAL LOANS	REDWOOD'S SHARE OF CREDIT LOSSES	LOSSES TO EXTERNAL CREDIT ENHANCEMENT	TOTAL CREDIT LOSSES	TOTAL CREDIT LOSSES AS % OF LOANS (ANNUALIZED)
Q2: 2000	$ 50,967	0.23%	$(229)	$(1,350)	$(1,579)	0.03%
Q3: 2000	62,432	0.27%	(245)	(345)	(590)	0.01%
Q4: 2000	57,376	0.24%	(56)	(1,512)	(1,568)	0.03%
Q1: 2001	70,264	0.25%	(85)	(550)	(635)	0.01%
Q2: 2001	103,200	0.26%	(208)	(824)	(1,032)	0.01%
Six Months: 2000	$ 50,967	0.23%	$(499)	$(1,893)	$(2,392)	0.02%

Six Months: 2001..........	103,200	0.26%	(293)	(1,374)	(1,667)	0.01%

</Table>

Investment Portfolio

Our investment portfolio, which consists primarily of AAA and AA rated mortgage securities, was reduced by $0.3 million from March 31, 2001 to June 30, 2001, reflecting our long-term strategy of emphasizing loan products. The average balance of our investment portfolio during the second quarter of 2001, however, was higher than in recent quarters, due to the timing of various acquisitions and sales of assets within this portfolio. We may increase the size of our investment portfolio on a temporary basis if market conditions change or if we raise new equity capital.

The yields on this portfolio fell during the second quarter of 2001 due to declining interest rates and faster prepayment speeds. We expect the coupon rates to continue to decrease over the remainder of 2001 as coupons reset as a result of lower short-term interest rates. Prepayment speeds may continue to be high, further suppressing yields in this portfolio.

TABLE 14
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>
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%
Q2: 2001................	910,793	14,013	31%	17,648	(1,086)	16,562	7.16%
Six Months: 2000........	$923,283	$ 7,671	20%	$34,872	$ (613)	$34,259	7.36%
Six Months: 2001........	892,651	12,099	25%	35,282	(1,672)	33,610	7.43%

</Table>

The majority of our investment portfolio consists of residential adjustable-rate securities. The table below presents our investment portfolio by asset category.

TABLE 15
INVESTMENT PORTFOLIO CHARACTERISTICS
(RESIDENTIAL MORTGAGE-BACKED SECURITIES, UNLESS NOTED)
(ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

	CREDIT RATING	JUN. 2000	SEP. 2000	DEC. 2000	MAR. 2001	JUN. 2001
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Agency Adjustable.............	"AAA"	$618,964	$624,918	$532,578	$ 488,735	$437,560
Jumbo Adjustable..............	AAA or AA	214,470	200,037	191,047	475,947	267,893
Jumbo Short Fixed CMOs........	AAA or AA	14,260	13,843	0	0	0
Home Equity Floaters..........	AAA or AA	23,015	23,015	23,015	19,277	14,600
Home Equity Fixed.............	AAA or AA	12,110	12,314	17,044	13,062	13,026
Interest-Only.................	AAA	233	216	113	71	60
Interest-Only -- Commercial...	AAA	0	0	0	2,534	5,082
CBO Equity -- Mixed...........	B or NR	0	0	978	986	966
Total Investment Portfolio....		$883,052	$874,343	$764,775	$1,000,612	$739,187
Realized Credit Loses During the Quarter.................		$ 0	$ 0	$ 0	$ 0	$ 0

</Table>

Commercial Retained Loan Portfolio

Our commercial loan portfolio decreased from December 31, 2000 to June 30, 2001 due to loan sales and payoffs. We may acquire additional commercial assets this year. Unless we make additional acquisitions, portfolio balances should continue to decline as loans pay off or we sell some assets. Our yield on our commercial mortgage loans increased primarily due to earlier than expected payoffs, allowing us to recognize deferred origination fees.

TABLE 16
COMMERCIAL PORTFOLIO INTEREST INCOME AND YIELDS

(ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

<S>	AVERAGE PRINCIPAL VALUE <C>	AVERAGE NET DISCOUNT BALANCE <C>	COUPON INCOME <C>	DISCOUNT AMORTIZATION INCOME <C>	CREDIT PROVISION EXPENSE <C>	TOTAL INTEREST INCOME <C>	YIELD <C>
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%
Q2: 2001.............	70,279	(878)	1,857	104	0	1,961	11.30%
Six Months: 2000......	$12,064	$ (22)	$ 604	$ 0	$0	$ 604	10.03%
Six Months: 2001......	72,048	(1,042)	3,714	180	0	3,894	10.97%

</Table>

To date, we have not experienced delinquencies or credit losses in our commercial loan portfolio. We have not established a 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.

Our goal is to secure long-term, non-recourse debt for our commercial mortgage loans. We accomplished this by obtaining $17 million of debt for $21 million of our loans in the first half of 2001. We are currently funding the remaining loans with a combination of equity and short and medium-term credit facilities. We continue to seek more permanent funding for this portfolio.

TABLE 17
COMMERCIAL PORTFOLIO LOAN CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

<S>	JUN. 2000 <C>	SEP. 2000 <C>	DEC. 2000 <C>	MAR. 2001 <C>	JUN. 2001 <C>
Total Commercial*......................	$52,282	$64,641	$76,082	$70,077	$67,043
Number of Loans........................	14	17	20	18	16
Average Loan Size......................	$ 3,734	$ 3,802	$ 3,804	$ 3,893	$ 4,190
Serious Delinquency $..................	$ 0	$ 0	$ 0	$ 0	$ 0
Realized Credit losses.................	$ 0	$ 0	$ 0	$ 0	$ 0
California %...........................	61%	69%	73%	71%	68%

</Table>

- ---------------
* Includes loans held at RWT Holdings, Inc., which was consolidated with our financials as of January 1, 2001.

Interest Expense

Total interest expense declined over the last year from $35.1 million in the second quarter of 2000 to $27.0 million in the second quarter of 2001. This sharp decline was due to the rapid and significant fall in short-term interest rates. For instance, the one-month LIBOR interest rate, which averaged 6.47% during the second quarter of 2000, decreased from 6.56% to 3.86% during the first half of 2001 and averaged 4.27% during the second quarter of 2001. As a result, our cost of funds decreased to 5.45% for the second quarter of 2001 from 6.62% for the second quarter of 2000. Similarly, our cost of funds for the first six months of 2001 was 5.90%, a decrease from our cost of funds of 6.48% in the first six months of 2000.

TABLE 18
INTEREST EXPENSE
(ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

LONG LONG SHORT SHORT TOTAL
TOTAL
AVERAGE TERM TERM AVERAGE TERM TERM INTEREST COST
OF
LONG DEBT DEBT SHORT DEBT DEBT EXPENSE
FUNDS
TERM INTEREST COST OF TERM INTEREST COST OF COST OF AND
AND

	DEBT	EXPENSE	FUNDS	DEBT	EXPENSE	FUNDS	HEDGING	HEDGING	HEDGING
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%
Q2: 2001............	1,018,646	15,167	5.96%	964,543	11,625	4.82%	0.04%	27,010	5.45%
Six Months: 2000.....	$1,115,598	$36,286	6.51%	$1,045,315	$33,151	6.34%	0.06%	$70,064	6.48%
Six Months: 2001.....	1,044,925	33,005	6.32%	937,140	25,069	5.35%	0.04%	58,423	5.90%

</Table>

Short-term debt average balances rose slightly during the first half of 2001 to fund temporary increases in our investment portfolio. However, short-term debt outstanding at $0.9 billion at June 30, 2001 was lower than the outstanding balance of $1.0 billion at March 31, 2001. Short-term debt may increase temporarily in the second half of 2001 as we acquire residential whole loans in anticipation of a future securitization and these increases offset a projected decline in our investment portfolio.

All of our long-term non-recourse debt for our residential loans was issued through our special purpose financing subsidiary, Sequoia Mortgage Funding Corporation ("Sequoia"). Long-term debt declined during the second quarter of 2001 as a result of principal repayments received in our residential retained portfolio. We issued $17 million of new long-term debt during the first half to fund two of our commercial loans to maturity. We hope to issue more long-term debt in the fourth quarter of 2001. In the second quarter of 2001, Fitch IBCA rating agency upgraded the credit ratings on three of our debt issues, Sequoia 3 M1 to M3.

TABLE 19
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 JUNE 30, 2001	INTEREST RATE AT JUNE 30, 2001
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	257,871	6.46%
Sequoia 2 A2.........	AAA	11/6/97	156,600	1m LIBOR	3/30/29	2004	68,149	4.15%
Sequoia 3 A1.........	AAA	6/26/98	225,459	Fixed to 12/02	5/31/28	Retired	0	N/A
Sequoia 3 A2.........	AAA	6/26/98	95,000	Fixed to 12/02	5/31/28	Retired	0	N/A
Sequoia 3 A3.........	AAA	6/26/98	164,200	Fixed to 12/02	5/31/28	2002	122,990	6.35%
Sequoia 3 A4.........	AAA	6/26/98	121,923	Fixed to 12/02	5/31/28	2002	121,923	6.25%
Sequoia 3 M1.........	AA/AAA	6/26/98	16,127	Fixed to 12/02	5/31/28	2002	16,127	6.80%
Sequoia 3 M2.........	A/AA	6/26/98	7,741	Fixed to 12/02	5/31/28	2002	7,741	6.80%
Sequoia 3 M3.........	BBB/A	6/26/98	4,838	Fixed to 12/02	5/31/28	2002	4,838	6.80%
Sequoia 1A A1........	AAA	5/4/99	157,266	1m LIBOR	2/15/28	2003	72,761	4.46%
Sequoia 4 A..........	AAA	3/21/00	377,119	1m LIBOR	8/31/24	2008	281,654	4.19%
Commercial 1.........	N/A	3/30/01	8,713	1m LIBOR	11/1/02	N/A	8,713	

7.13%

Commercial 2.........	N/A	3/30/01	8,320	1m LIBOR	10/1/03	N/A	8,320	7.13%
			----------				--------	
Total Long-Term Debt..............			$2,470,213				$971,087	5.47%

</Table>

Operating Expenses

Core operating expenses (including Holdings on an as-if consolidated basis in 2000, while excluding closed business units and mark to market adjustments related to variable stock options) were $3.4 million in the second quarter of 2001, $3.0 million in the first quarter of 2001, and $2.8 million in the second quarter of 2000. Fixed expenses remained relatively constant during these periods. Higher performance-based compensation incurred as a result of increased profitability and accounted for most of the increase in operating costs during the 2001 periods.

TABLE 20
OPERATING EXPENSES
(ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

	REDWOOD AND HOLDINGS COMBINED	CLOSED BUSINESS UNITS	VARIABLE STOCK OPTION MARK-TO-MARKET ADJUSTMENTS	CORE TOTAL	CORE FIXED	CORE VARIABLE	CORE TOTAL EXPENSE/ EQUITY	CORE FIXED EXPENSE/ EQUITY	CORE VARIABLE EXPENSE/ EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q2: 2000............	$2,823	$ 0	$ 0	$2,823	$1,703	$1,120	5.30%	3.20%	2.10%
Q3: 2000............	2,597	0	0	2,597	1,833	764	4.87%	3.44%	1.43%
Q4: 2000............	1,798	0	0	1,798	1,401	397	3.34%	2.60%	0.74%
Q1: 2001............	3,136	0	156	2,980	1,561	1,419	5.49%	2.88%	2.61%
Q2: 2001............	3,886	0	508	3,378	1,754	1,624	6.13%	3.18%	2.95%
Six Months: 2000.....	$5,822	$197	$ 0	$5,625	$3,421	$2,204	5.27%	3.21%	2.06%
Six Months: 2001.....	7,022	0	664	6,358	3,315	3,043	5.81%	3.03%	2.78%

</Table>

We believe that a portion of our operating expenses will remain relatively fixed in the event that we increase our equity capital base and increase our real estate finance activities over the next year. Thus, as we

grow, we would expect our ratio of fixed core operating expenses to equity to decline. This operating leverage would potentially benefit our earnings and dividends per share.

Core Earnings

Core earnings are earnings from ongoing operations before mark-to-market adjustments on certain assets, hedges, and variable stock options.

Our core earnings were $0.80 per share in the second quarter of 2001, an increase of 57% from the $0.51 per share we earned in the second quarter of 2000. For the first six months of 2001, core earnings were $1.53 per share, an increase of 50% from the $1.02 per share in core earnings generated in the first six months 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 in 2000).

TABLE 21
CORE EARNINGS AND GAAP EARNINGS
PRESENTED AS IF HOLDINGS WAS CONSOLIDATED IN ALL QUARTERS
(ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

	CORE EARNINGS	CERTAIN ASSET AND HEDGES MARK-TO-MARKET ADJUSTMENTS	VARIABLE STOCK OPTION MARK-TO-MARKET ADJUSTMENTS	CLOSED BUSINESS UNITS	REPORTED GAAP EARNINGS	AVERAGE DILUTED SHARES	CORE EARNINGS PER SHARE	REPORTED GAAP EARNINGS PER SHARE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q2: 2000.............	$ 4,495	$(1,452)	$ 0	$ 43	$ 3,086	8,883,651	$0.51	$0.35
Q3: 2000.............	3,951	927	0	0	4,878	8,908,399	0.44	0.55
Q4: 2000.............	5,603	(640)	0	0	4,963	8,962,950	0.62	0.55
Q1: 2001.............	6,563	273	(156)	0	6,680	9,065,221	0.73	0.74
Q2: 2001.............	7,384	(413)	(508)	0	6,463	9,184,195	0.80	0.70
Six Months: 2000......	$ 9,031	$(2,616)	$ 0	$(46)	$ 6,369	8,862,505	$1.02	$0.72
Six Months: 2001......	13,947	(140)	(664)	0	13,143	9,121,018	1.53	1.44

</Table>

For the remainder of 2001, we currently expect net interest income and core earnings to be strong but to decline from first half 2001 levels due to an expected decrease in the rate at which short-term interest rates have been falling. Long-term earnings trends, we believe, are likely to be driven more by credit results, growth, and competition factors in the jumbo residential markets than by interest rate factors.

Core earnings are 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 on certain assets, hedges, and variable stock options. Management believes that core earnings provide relevant and useful information regarding our 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.

Mark-to-Market Adjustments

Mark-to-market adjustments on certain of our assets, hedges, and variable stock options reduced reported net income by $0.9 million, or $0.10 per share, in the second quarter of 2001 and $0.8 million, or $0.09 per share, in the first half of 2001. The largest negative mark-to-market adjustments in the first half were $0.7 million for variable stock options as a result of an increase in our common stock price and $2.4 million as a result of the cumulative effect of the adoption of new accounting rules under EITF 99-20. The value of our mark-to-market assets and hedges increased by $2.2 million during the first half of 2001, generally as a result of falling interest rates.

Negative mark-to-market adjustments of $1.5 million ($0.16 per share) for the second quarter of 2000 and $2.6 million ($0.30 per share) for the first half of 2000 reflect decreases in the market values of our mark-to-market assets and hedges, generally as a result of rising interest rates during these periods.

TABLE 22
MARKET VALUE ADJUSTMENTS
PRESENTED AS IF HOLDINGS WAS CONSOLIDATED IN ALL QUARTERS
(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<Table>
<Caption>

	CERTAIN ASSET AND HEDGES MARK-TO-MARKET ADJUSTMENTS	CUMULATIVE EFFECT UPON ADOPTING EITF 99-20	VARIABLE STOCK OPTION MARK-TO-MARKET ADJUSTMENTS	TOTAL MARK-TO-MARKET ADJUSTMENTS	TOTAL MARK-TO-MARKET ADJUSTMENTS PER SHARE
<S>	<C>	<C>	<C>	<C>	<C>
Q2: 2000..............................	$(1,452)	$ 0	$ 0	$(1,452)	$(0.16)
Q3: 2000..............................	927	0	0	927	0.10
Q4: 2000..............................	(640)	0	0	(640)	(0.07)
Q1: 2001..............................	2,641	(2,368)	(156)	117	0.01
Q2: 2001..............................	(413)	0	(508)	(921)	(0.10)
Six Months: 2000......................	$(2,616)	$ 0	$ 0	$(2,616)	$(0.30)
Six Months: 2001......................	2,228	(2,368)	(664)	(804)	(0.09)

</Table>

Shareholder Wealth

In the 6.8 years since the commencement of operations at 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 paid, plus a measure of 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 actual shareholder returns.

Book value per share was $11.67 in September 1994 when Redwood commenced operations. We increased book value to $22.13 per share at June 30, 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 many of our assets through our balance sheet, reported book value is a good approximation of tangible value in the company. Cumulative dividends paid during this period were $8.37 per share, and reinvestment earnings on those dividends were $5.04 per share. Thus, cumulatively, shareholder wealth has increased from $11.67 per share to $35.54 per share during this nearly 6.8-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 23
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
Jun. 01	22.13	1.05	8.37	5.04	35.54

</Table>

Taxable Income and Dividends

Our REIT taxable income excludes taxable income earned at our non-REIT subsidiary, Holdings. REIT taxable income differs from reported GAAP income in many material respects; trends in taxable income may differ from trends in core or reported GAAP income. All taxable income results quoted herein should be considered to be current estimates subject to revision.

We generally intend to distribute as preferred and common stock dividends 100% of our REIT taxable income over time. In order to avoid excise taxes under the REIT tax rules, we anticipate that we will typically seek to declare dividends within each calendar year (including the fourth quarter dividends which are declared in fourth quarter and paid in the following year) equal to at least 85% of REIT taxable income earned during that calendar year plus 100% of the excess of cumulative REIT taxable income over cumulative dividend distributions from the prior year. Our undistributed taxable income (the excess of cumulative REIT taxable income over cumulative dividend distributions) at December 31, 2000 was $2 million.

For year 2001, through the second quarter, we have declared $10.7 million in preferred and common stock dividends. On August 9, 2001, our Board of Directors declared an increase in our regular quarterly common stock dividend rate for the third quarter of 2001 to $0.57 per share. This dividend is payable on October 22, 2001 to shareholders of record on September 28, 2001. On August 9, 2001, our Board of Directors also declared a special dividend of $0.18 per common share to be paid on August 31, 2001 to shareholders of record on August 20, 2001. We currently estimate that the third quarter dividends on our preferred and common stock will total $8.2 million, assuming we do not issue additional equity prior to September 28, 2001.

In years such as 2001, when REIT taxable income levels may be exceptional, the Board may declare one or more special dividends in order to meet the annual minimum dividend distribution requirements necessary under the REIT rules to avoid excise taxes while at the same time maintaining a regular common stock dividend rate at a rate that we believe is likely to be sustainable, given our anticipated normalized levels of cash flow generation for the reasonably foreseeable future.

Our dividend policy with respect to our common stock is subject to revision at the discretion of the Board of Directors. Each distribution will be made at the discretion of the Board of Directors and will depend on our taxable and GAAP earnings, our cash flows and overall financial condition, maintenance of REIT status, and such other factors as the Board of Directors deems relevant. No dividends will be paid or set apart for payment on shares of our common stock unless full cumulative dividends have been paid on our Class B 9.74% Cumulative Convertible Preferred Stock. As of June 30, 2001, full cumulative dividends have been paid on preferred stock. On August 9, 2001, our Board of Directors declared a preferred dividend of $0.755 per share for the third quarter of 2001, payable on October 22, 2001 to preferred shareholders of record on September 28, 2001.

Distributions to our stockholders will generally be subject to tax as ordinary income, although a portion of such distributions may be designated by us as capital gain or may constitute a tax-free return of capital. Our Board of Directors may elect to maintain a steady dividend rate during periods of fluctuating taxable income. In such event, the Board may choose to declare dividends that include a return of capital. We will annually furnish to each stockholder a statement setting forth distributions paid during the preceding year and their characterization as ordinary income, capital gains or return of capital. For a discussion of the Federal income tax treatment of our distributions, see "Federal Income Tax Considerations -- Taxation of Holders of Redwood Trust's Common Stock" in our Year 2000 Annual Report Form 10-K.

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 second quarter of 2001, cash flow from operations was $9.5 million, consisting of earnings of $6.5 million plus non-cash depreciation, amortization, compensation, and mark-to-market adjustments of $3.0 million. Our free cash flow, after changes in working capital, property, plant, equipment, and other non-earning assets, was $8.4 million. In addition, we issued $0.5 million in new common stock during the quarter. We used the available cash from these sources to fund our common stock dividend of $4.4 million and to increase our investment in our portfolio activities by $4.5 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 our free cash flow (see the discussion on "Taxable Income and Dividends" above).

TABLE 24
CASH FLOW
(ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

	CASH FLOW FROM OPERATIONS	CHANGES IN WORKING CAPITAL AND OTHER ASSETS	FREE CASH FLOW	INVESTMENT IN HOLDINGS	COMMON DIVIDENDS	(PURCHASE)/ SALE OF STOCK	FUNDS AVAILABLE FOR PORTFOLIO INVESTING
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
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	4,536	12,542	0	(3,876)	986	9,652
Q2: 2001..................	9,467	(1,096)	8,371	0	(4,448)	548	4,471
Six Months: 2000...........	$11,886	$ 668	$12,554	$6,972	$(5,272)	$ 45	$14,299
Six Months: 2001...........	17,492	3,421	20,913	0	(8,324)	1,534	14,123

</Table>

At June 30, 2001, we have 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 half of 2001. Outstanding borrowings under these agreements were $0.8 billion at June 30, 2001, an increase from $0.7 billion at year-end 2000 due to net acquisitions in our investment portfolio, but a decrease from the $0.9 billion at March 31, 2001 due to paydowns and sales.

We had three committed borrowing facilities for residential assets totaling $90 million and two borrowing facilities for commercial assets totaling $100 million at June 30, 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 $105 million at June 30, 2001, an increase from the $88 million at December 31, 2000, due to net acquisitions in our credit enhancement portfolio.

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 half of 2001. At June 30, 2001, we had $47 million of unrestricted cash and highly liquid (unpledged) assets available to meet potential liquidity needs. Total available liquidity equaled 5% of our short-term 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 $1.0 billion of long-term debt on our June 30, 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 to fund residential loans 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 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 $224 million thus far in 2001 as a result of asset appreciation, retention of cash flow, and stock issuance of $2 million (through our dividend reinvestment program and exercises of stock options). We raised $24 million of new equity capital in July of 2001. We seek to raise additional equity capital in the future when opportunities to expand our business are attractive and when such issuance is likely to benefit long-term 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 June 30, 2001, our minimum capital amounts were: 63% of residential credit enhancement portfolio interests; 100% of net retained interests in residential loan portfolio after long-term debt issuance (Sequoia equity); 7% of short-term debt funded residential whole loans; 9% of investment portfolio securities; and 28% of commercial loan portfolio.

Our total risk-adjusted capital guideline amount for assets on our balance sheet was $221 million (11% of asset balances) at June 30, 2001. Capital required for outstanding commitments at June 30, 2001 for asset purchases settling later in 2001 was $3 million. At June 30, 2001, we were fully utilizing our capital as our total capital available and our total capital committed were both $224 million.

At June 30, 2001, our capital base of $224 million supported at-risk assets (excluding long-term funded residential loans owned by financing trusts) of $1.0 billion funded with short-term debt of $0.9 billion. Excluding non-recourse debt and related assets, our equity-to-assets ratio was 22% and our debt to equity ratio was 3.8 times. 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 an 18% to 22% range. 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.

TABLE 25
RECOURSE ASSETS
(ALL DOLLARS IN THOUSANDS)

	AT RISK ASSETS	RECOURSE DEBT	EQUITY	EQUITY TO AT-RISK ASSETS	RECOURSE DEBT TO EQUITY
Jun. 2000	$1,026,281	$806,643	$208,384	20.3%	3.9X
Sep. 2000	1,043,621	822,389	210,664	20.2%	3.9X
Dec. 2000	983,097	756,222	215,663	21.9%	3.5X
Mar. 2001	1,226,951	992,597	221,671	18.2%	4.5X
Jun. 2001	1,009,885	861,226	224,014	22.2%	3.8X

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 a high, steady, and rising dividend and 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 take.

Market Value Risk

At June 30, 2001, we owned mortgage securities and loans totaling $0.8 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, 97% had adjustable-rate coupons and 3% had fixed-rate coupons. All of our $1.4 billion in notional amounts of interest rate agreements are marked-to-market for income statement purposes. Market value fluctuations for all of our assets and interest rate agreements not only affect our reported earnings, but also can affect our liquidity, especially to the extent these assets are funded with short-term borrowings.

At June 30, 2001, we owned $0.2 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 June 30, 2001, the interest rate characteristics of our assets funded with debt generally matched the interest rate characteristics of our liabilities.

Adjustable rate assets are generally matched with floating rate debt. Asset yields may adjust to market conditions more slowly than the cost of floating rate debt, thus potentially creating a temporary decrease in margins when short-term interest rates rise and potentially creating a temporary increase in margins when short-term interest rates fall (as occurred in the first half of 2001). With respect to any single change in short-term interest rates, margins on adjustable rate assets funded with floating rate debt should, in most such circumstances, largely return to "normalized" levels within six months.

Periodic caps on some of our adjustable rate assets may magnify and extend such negative and positive trends in the event of a large and rapid increase or decrease in short-term interest rates. A portion of our assets and liabilities have maximum rate life caps; since life cap assets exceed similar liabilities, margins may decline for extended periods of time if short-term interest rates were to rise well above current levels.

Our remaining assets, after matching like assets with like liabilities, are funded with equity. Our equity effectively funded a mixture of adjustable, hybrid, and fixed rate assets at June 30, 2001. In order to further

stabilize earnings through periods of fluctuating interest rates, we have been increasing the portion of our equity-funded assets that have fixed rate or hybrid coupons. At June 30, 2001, 94% of our equity effectively funded such assets.

The table below shows the effective matching of our portfolios at June 30, 2001 without giving effect to interest rate agreement hedges. In this table, assets are matched with like liabilities, not necessarily with the liabilities that are actually secured by that asset type.

TABLE 26
ASSET/LIABILITY MATCHING
(ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

ASSET TYPE	ASSET AMOUNT	ONE MONTH LIBOR LIABILITIES	ONE YEAR TREASURY LIABILITIES	HYBRID LIABILITIES	NON-INTEREST BEARING LIABILITIES	EQUITY	TOTAL LIABILITIES AND EQUITY
Cash (unrestricted).........	$ 18,009	$ 18,009	$ 0	$ 0	$ 0	$ 0	$ 18,009
One Month LIBOR............	477,398	477,398	0	0	0	0	477,398
Six Month LIBOR............	511,532	511,532	0	0	0	0	511,532
COFI/Other ARM.............	106,993	106,993	0	0	0	0	106,993
One Year Treasury..........	459,262	186,703	258,689	0	0	13,870	459,262
Hybrid.....................	324,784	0	0	273,267	0	51,517	324,784
Fixed......................	145,435	0	0	0	0	145,435	145,435
Other Assets/Liabilities....	30,075	0	0	0	16,883	13,192	30,075
Total......................	$2,073,488	$1,300,635	$258,689	$273,267	$16,883	$224,014	$2,073,488

</Table>

As we reduce our leverage, short-term debt, and interest rate exposure by reducing our investment portfolio and increasing our emphasis on loan products, and as we move more closely towards achieving our desired asset/liability mix on-balance sheet, we have been reducing our hedging activities. In the second and third quarters of 2001, we sold most of our remaining interest rate agreements that had economic value. We intend to continue to use interest rate agreements as part of our asset/liability strategy in the future, but we do not currently require hedging instruments to meet our asset/liability objectives.

Changes in interest rates can have many affects on our business aside from those discussed in this section, including affecting our liquidity, market values, and mortgage prepayment rates.

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 June 30, 2001, we had $0.9 billion of short-term debt.

Prepayment Risk

One measure of prepayment risk is the amount of net premium or discount balance that we carry on our balance sheet. We had a net discount balance of $7.2 million at June 30, 2001 and a net premium balance of $4.0 million at December 31, 2000. However, in some cases our gross premium levels may be a better measure of our risks relating to faster mortgage prepayment levels. The gross premium on our balance increased in the first half of 2001, from $25 million to $29 million, as a result of acquisitions and positive mark-to-market adjustments. Our gross discount balance also increased during the first half of 2001, from $21 million to $36 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 changes prepayment rates than are the yields of our discount assets.

TABLE 27
UNAMORTIZED PREMIUM AND DISCOUNT BALANCES
(ALL DOLLARS IN THOUSANDS)

<Table>
<Caption>

AVERAGE NET

	GROSS PREMIUM	GROSS DISCOUNT	NET PREMIUM/ DISCOUNT	MORTGAGE PREPAYMENT SPEED (CPR)	PREMIUM AMORTIZATION EXPENSE
Q2: 2000	$29,068	$(17,602)	$11,466	17%	$ 45
Q3: 2000	29,202	(20,223)	8,979	17%	(1,040)
Q4: 2000	25,437	(21,400)	4,037	21%	(818)
Q1: 2001	29,598	(25,809)	3,789	20%	(869)
Q2: 2001	29,046	(36,230)	(7,184)	29%	(1,885)
Six Months: 2000	$29,068	$(17,602)	$11,466	17%	$ (477)
Six Months: 2001	29,046	(36,230)	(7,184)	26%	(2,754)

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. Thus, the timing and recognition amount 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 as our estimate of losses changes. For our investment portfolio, most of the assets do not have material credit risk, and, thus, no credit reserves are 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, commercial mortgage whole loans, and retained commercial mortgage junior participants 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.

In recent quarters, our total guideline equity-to-assets 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 June 30, 2001, there were no pending material 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

(a) The Annual Meeting of Shareholders of the Company was held on May 3, 2001.

(b) The following matters were voted on at the Annual Meeting:

<Table>
<Caption>

	VOTES		
	FOR	AGAINST	ABSTAIN
<S>	<C>	<C>	<C>
1. Election of Directors:			
Richard D. Baum	7,908,734	100,354	--
Mariann Byerwalter	7,905,902	103,186	--
David L. Tyler	7,908,784	100,304	--

</Table>

The following Directors' terms of office continue after the meeting:

Thomas C. Brown
George E. Bull
Thomas F. Farb
Douglas B. Hansen
Charles J. Toeniskoetter

<Table>

<Caption>

	VOTES		
	FOR	AGAINST	ABSTAIN
2. Ratification of PricewaterhouseCoopers LLP as the Company's independent public accountants for the fiscal year ending December 31, 2001	8,002,496	4,658	1,934

</Table>

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 3.3.3 Amended and Restated Bylaws, amended June 21, 2001.

Exhibit 11.1 to Part I -- Computation of Earnings Per Share for the three and six months ended June 30, 2001 and June 30, 2000.

(b) Reports

None

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: August 13, 2001

By: /s/ DOUGLAS B. HANSEN

Douglas B. Hansen
President
(authorized officer of registrant)

Dated: August 13, 2001

By: /s/ HAROLD F. ZAGUNIS

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

EXHIBIT 3.3.3

BYLAWS

OF

REDWOOD TRUST, INC.

June 21, 2001

ARTICLE I

STOCKHOLDERS

SECTION 1. Annual Meeting. The Corporation shall hold an annual meeting of its stockholders to elect directors and transact any other business within its power, either at 10:00 a.m. on the last day of April in each year if not a legal holiday, or at such other time on such other day falling on or before the 30th day thereafter as shall be set by the Board of Directors. Except as the Charter or statute provides otherwise, any business may be considered at an annual meeting without the purpose of the meeting having been specified in the notice. Failure to hold an annual meeting does not invalidate the Corporation's existence or affect any otherwise valid corporate acts. Meetings of stockholders shall be held at the principal office of the Corporation or at such other place in the United States as is set forth from time to time by the Board of Directors.

SECTION 2. Special Meetings. Special meetings of the stockholders for any purpose or purposes may be called at any time by the President, by the Chairman of the Board of Directors, by a majority of the Board of Directors, by a majority of the Independent Directors (as defined in Section 1 of Article II hereof), or by stockholders entitled to cast at least twenty-five percent (25%) of the votes which all stockholders are entitled to cast at the particular meeting, upon written request addressed to the Secretary and then only as may be required by law.

SECTION 3. Notices. Notice of the annual meeting and of any special meeting of stockholders shall, at least ten days but not more than ninety days prior to the date thereof, be given to each stockholder entitled to vote thereat and each other stockholder entitled to notice of the meeting. Notice is given to a stockholder when it is personally delivered to it, left at its residence or usual place of business, or mailed to it at its address as it appears on the records of the Corporation. Notwithstanding the foregoing provisions, each person who is entitled to notice waives notice if, before or after the meeting, such stockholder signs a waiver of notice which is filed with the records of the stockholders' meeting, or is present at the meeting in person or by proxy. Every notice of an annual meeting or a special meeting shall state the time and place of the meeting. If the meeting is a special meeting or notice of the purpose or purposes is required by statute, the notice shall also briefly state the purpose or purposes thereof, and no business, other than that specified in such notice and matters germane thereto, shall be transacted at the meeting without further notice to stockholders not present in person or by proxy.

SECTION 4. Quorum; Manner of Acting and Adjournment. Unless statute or the Charter provides otherwise, at a meeting of stockholders the presence in person or by proxy of stockholders entitled to cast a majority of all the votes entitled to be cast at the meeting constitutes a quorum, and a majority of all the votes cast at a meeting at which a quorum is present is sufficient to approve any matter which properly comes before the meeting, except that a plurality of all the votes cast at a meeting at which a quorum is present is sufficient to elect a director.

Whether or not a quorum is present, a meeting of stockholders convened on the date for which it was called may be adjourned from time to time without further notice by a majority vote of the stockholders present in person or by proxy to a date not more than 120 days after the original record date. Any business which might have been transacted at the meeting as originally notified may be deferred and transacted at any such adjourned meeting at which a quorum shall be present.

SECTION 5. Organization. At every meeting of the stockholders, the Chairman of the Board, if there be one, shall conduct the meeting or, in the case of vacancy in office or absence of the Chairman of the Board, one of the following officers present shall conduct the meeting in the order stated: the Vice Chairman of the Board, if there be one, the President, the Vice Presidents in their order of rank and seniority, or a Chairman chosen by the stockholders entitled to cast a majority of the votes which all stockholders present in person or by proxy are entitled to cast, shall act as Chairman, and the Secretary or, in his or her absence, an assistant secretary, or in the absence of both Secretary and assistant secretaries, a person appointed by the Chairman, shall act as Secretary.

SECTION 6. Voting. Unless the Charter provides for a greater or lesser number of votes per share or limits or denies voting rights, each outstanding share of stock, regardless of class, is entitled to one vote on each matter submitted to a vote at a meeting of stockholders. In all elections for directors, each share of stock may be voted for as many individuals as there are directors to be elected and for whose election the share is entitled to be voted, but cumulative voting is not permitted.

SECTION 7. Proxies. A stockholder may vote the stock the stockholder owns of record either in person or by proxy. A stockholder may sign a writing authorizing another person to act as proxy. Signing may be accomplished by the stockholder or the stockholder's authorized agent signing the writing or causing the stockholder's signature to be affixed to the writing by any reasonable means, including facsimile signature. A stockholder may authorize another person to act as proxy by transmitting, or authorizing the transmission of, a telegram, cablegram, datagram, or other means of electronic transmission to the person authorized to act as proxy or to a proxy solicitation firm, proxy support service organization, or other person authorized by the person who will act as proxy to receive the transmission. Unless a proxy provides otherwise, it is not valid more than 11 months after its date. A proxy is revocable by a stockholder at any time without condition or qualification unless the proxy states that it is irrevocable and the proxy is coupled with an interest. A proxy may be made irrevocable for so long as it is coupled with an interest. The interest with which a proxy may be coupled includes an interest in the stock to be voted under the proxy or another general interest in the Corporation or its assets or liabilities.

SECTION 8. Voting Lists. At each meeting of stockholders, a full, true and complete list of all stockholders entitled to vote at such meeting, showing the number and class of shares held by each and certified by the transfer agent for such class or by the Secretary, shall be furnished by the Secretary.

SECTION 9. Conduct of Business. Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation's notice of meeting, (b) by or at the direction of the Board of Directors or (c) by any stockholder of the Corporation who was a stockholder of record at the time of giving notice provided for in Article I, Section 10, who is entitled to vote at the meeting and who complied with the notice procedures set forth in Article I, Section 10. The chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section and Article I, Section 10, and, if any proposed nomination or business is not in compliance with this Section and Article I, Section 10, to declare that such defective nomination or proposal be disregarded.

SECTION 10. Stockholder Proposals. For any stockholder proposal to be presented in connection with an annual meeting of stockholders of the Corporation (other than proposals made under Rule 14a-8 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including any proposal relating to the nomination of a director to be elected to the Board of Directors of the Corporation, the stockholder putting forth such proposal must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and of the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made, (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

ARTICLE II

DIRECTORS

SECTION 1. Number, Classification, Election and Term. The affairs of the Corporation shall be under the direction and control of a Board of Directors which shall be initially composed of three (3) members who shall hold office until its successors are duly chosen and qualified. The directors shall be divided into three Classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. The term of the initial Class I directors shall terminate on the date of the annual meeting of stockholders held in 1995; the term of the initial Class II directors shall terminate on the date of the annual meeting of stockholders held in 1996; and the term of the initial Class III directors shall terminate on the date of the annual meeting of stockholders held in 1997. At each annual meeting of stockholders beginning in 1995, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. The number of directors shall be increased or decreased from time to time by vote of a majority of the entire Board of Directors; provided, however, that the number of directors may not exceed fifteen (15) nor be less than three (3) except as permitted by law. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in

each class as nearly equal as possible. A director elected by stockholders shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

At all times subsequent to the first closing in the Corporation's initial private placement of its Capital Stock (the "Private Placement"), except in the case of a vacancy, a majority of the Board of Directors shall be Independent Directors (as hereinafter defined). For the purposes of these Bylaws, "Independent Director" shall mean a director of the Corporation who is not an officer or employee of the Corporation, any subsidiary of the Corporation or of George E. Bull, III Capital Management, Inc. Directors need not be stockholders in the Corporation.

Whenever the holders of any one or more series of preferred stock of the Corporation shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the Board of Directors shall consist of said directors so elected in addition to the number of directors fixed as provided above in the first paragraph of this Section 1. Notwithstanding the foregoing, and except as otherwise may be required by law, whenever the holders of any one or more series of preferred stock of the Corporation shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the terms of the director or directors elected by such holders shall expire at the next succeeding annual meeting of stockholders.

SECTION 2. Function of Directors. The business and affairs of the Corporation shall be managed under the direction of the Board of Directors. All the powers of the Corporation are vested in and shall be exercised by or under the authority of the Board of Directors except as otherwise prescribed by statute, by the Charter or by these Bylaws.

SECTION 3. Vacancies. Subject to the rights of the holders of any class of stock separately entitled to one or more directors, any vacancy occurring on the Board of Directors for any cause other than by reason of an increase in the number of directors may, subject to the provisions of Section 5, be filled by a majority of the remaining members of the Board of Directors, regardless of whether such majority of the remaining members of the Board of Directors is less than a quorum; provided, however, that if the Corporation has completed its Private Placement and, in accordance with Section 1, a majority of the Board of Directors are required to be Independent Directors, then Independent Directors shall nominate replacements for vacancies among the Independent Directors, which replacements must be elected by a majority of the directors, including a majority of the Independent Directors. Subject to the rights of the holders of any class of stock separately entitled to elect one or more directors, any vacancy occurring by reason of an increase in the number of directors may be filled by action of a majority of the entire Board of Directors including, following the Private Placement, a majority of the Independent Directors. The stockholders may fill any vacancy occurring on the Board of Directors for any reason, subject to the requirement for Independent Directors, if applicable. If the stockholders of any class or series are entitled separately to elect one or more directors, a majority of the remaining directors elected by that class or series or the sole remaining director elected by that class or series may fill any vacancy among the number of directors elected by that class or series. A director elected by the Board of Directors to fill a vacancy shall be elected to hold office until the next annual meeting of stockholders or until his successor is elected and qualified.

SECTION 4. Resignations. Any director or member of a committee may resign at any time. Such resignation shall be made in writing and shall take effect at the time specified therein, or if no time be specified, at the time of the receipt by the Chairman of the Board, the President or the Secretary. Acceptance of a resignation shall not be necessary to make it effective.

SECTION 5. Removal. Unless statute or the Charter provide otherwise, and subject to the rights of the holders of any class separately entitled to elect one or more directors, at any meeting of stockholders duly called and at which a quorum is present, the stockholders may, by the affirmative vote of the holders of a majority of the votes entitled to be cast thereon, remove any director or directors from office with or without cause, and may elect a successor or successors to fill any resulting vacancies for the unexpired terms of removed directors; provided, however, that at all times subsequent to the Corporation's Private Placement, a majority of the Board of Directors shall be Independent Directors.

SECTION 6. Committees of the Board of Directors. The Board of Directors may appoint from among its members an Executive Committee, an Audit Committee, a Compensation Committee and other committees composed of one or more directors and delegate to these committees any of the powers of the Board of Directors, except the power to authorize dividends of stock, elect directors, issue stock other than as expressly provided in this section, recommend to the stockholders any action which requires stockholder approval, amend these Bylaws, or approve any merger or share exchange which does not require stockholder approval. At least a majority of all committees of the Board shall be comprised of Independent Directors. During the time any shares of stock of the Corporation are quoted on the Nasdaq National Market or listed on a national securities exchange, the Board of Directors shall appoint an audit committee comprised of not less than two members, all of whom are Independent Directors. If the Board of Directors has given general authorization for the issuance of stock providing for or establishing a method or procedure for determining the maximum number of shares to be issued, a committee of the Board, in accordance with that general authorization or any stock option or other plan or program adopted by the Board of Directors, may authorize or fix the terms of stock subject to classification or reclassification and the terms on which any stock may be issued, including all terms and conditions required or permitted to be established or authorized by the Board of Directors.

Each committee may fix rules of procedure for its business. One-third of the members of a committee shall constitute a quorum for the transaction of business and the act of a majority of those present at a meeting at which a quorum is present shall be the act of the committee. The members of a committee present at any meeting, whether or not they constitute a quorum, may appoint a director to act in the place of an absent member; provided, however, that in the event of the absence or disqualification of any Independent Director, such appointee shall be an Independent Director. Any action required or permitted to be taken at a meeting of a committee may be taken without a meeting, if an unanimous written consent which sets forth the action is signed by each member of the committee and filed with the minutes of the committee. The members of a committee may conduct any meeting thereof by conference telephone in accordance with the provisions of Section 8 of this Article.

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

SECTION 7. Meetings of the Board of Directors. Meetings of the Board of Directors, regular or special, may be held at any place in or out of the State of Maryland as the Board of Directors may from time to time determine or as shall be specified in the notice of such meeting.

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

The first meeting of each newly elected Board of Directors shall be held as soon as practicable after the annual meeting of the stockholders at which the directors were elected. The meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by all of the directors as provided in this Section 7, except that no notice shall be necessary if such meeting is held immediately after the adjournment, and at the site, of the annual meeting of stockholders.

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

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

Notice of the place and time of every special meeting of the Board of Directors shall be delivered by the Secretary to each director either personally or by telephone, telegraph, overnight courier or facsimile, or by leaving the same at his residence or usual place of business at least twenty-four (24) hours before the time at which such meeting is to be held or, if by first-class mail, at least 72 hours before the time of such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States Mail addressed to the director at his post office address as it appears on the records of the Corporation, with postage thereon paid. Unless the Bylaws or a resolution of the Board of Directors provides otherwise, the notice need not state the business to be transacted at, or the purposes of, any special meeting of the Board of Directors. No notice of any special meeting of the Board of Directors need be given to any director who attends except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the special meeting is not lawfully called or convened, or to any director who, in writing executed and filed with the records of the meeting either before or after the holding thereof, waives such notice.

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

SECTION 8. Informal Action by Directors. Unless otherwise provided by law, any action required to be taken at a meeting of the directors or any other action which may be taken at a meeting of the directors may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors.

SECTION 9. Quorum and Voting. At all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business, and the action of a majority of the directors present at any meeting at which a quorum is present shall be the action of the Board of Directors unless the concurrence of a greater proportion is required for such action by law, the Charter or these Bylaws. If a quorum shall not be present at any meeting of directors, the directors present thereat may, by a majority vote, adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

SECTION 10. Organization. The Chairman of the Board shall preside at each meeting of the Board of Directors. In the absence or inability of the Chairman of the Board to preside at a meeting, the President or, in his absence or inability to act, another director chosen by a majority of the directors present, shall act as chairman of the meeting and preside thereat. The Secretary (or, in his absence or inability to act, any person appointed by the chairman of the meeting) shall act as Secretary of the meeting and keep the minutes thereof.

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

SECTION 12. Investment Policies and Restrictions. The Board of Directors, including a majority of the Independent Directors, shall approve the investment policies of the Corporation. The investment policies and compliance therewith shall be reviewed by the Independent Directors at least annually to determine that the policies then being followed by the Corporation are in the best interest of the stockholders of the Corporation. Each such determination and the basis therefor shall be set forth in the minutes of the meeting of the Board of Directors.

It shall be the duty of the Board of Directors to ensure that the purchase, sale, retention and disposal of the Corporation's assets, and the investment policies of the Corporation and the limitations thereon or amendment thereof are at all times in compliance with the restrictions applicable to real estate investment trusts pursuant to the Internal Revenue Code of 1986, as amended.

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

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

ARTICLE III

OFFICERS

SECTION 1. Officers. The officers of the Corporation shall be a Chairman of the Board, a President, a Treasurer and a Secretary, who shall be elected by the Board of Directors to serve during the pleasure of the Board and until their respective successors are elected and qualified, except as otherwise provided in any employment agreement between the Corporation and any officer. The Chairman of the Board and the President shall always be members of the Board of Directors. The Board of Directors may also appoint one or more Vice Presidents. The same person may hold any two or more offices except those of President and Vice President.

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

SECTION 3. Chairman of the Board. The Chairman of the Board shall preside at all meetings of the stockholders and the Board of Directors at which he or she is present. Unless otherwise specified by the Board of Directors, the Chairman of the Board shall also be the Chief Executive Officer of the Corporation and perform the duties customarily performed by chief executive officers, and shall perform such other duties as may from time to time be requested of him or her by the Board of Directors.

SECTION 4. President. Unless otherwise provided by resolution of the Board of Directors, the President, in the absence of the Chairman of the Board, shall preside at all meetings of the Board of Directors and of the stockholders at which he shall be present. The President shall, subject to the control of the Board of Directors, in general supervise and control all of the business and affairs of the Corporation. The President may sign, with the Secretary or any other proper officer of the Corporation thereunto authorized by the Board of Directors, certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors have authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these Bylaws to some other officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of president and such other duties as may be prescribed by the Board of Directors from time to time.

SECTION 5. Vice Presidents. In the absence of the President or in event of his or her death, inability or refusal to act, or at the request of the Chief Executive Officer or President, the Vice President or Vice Presidents shall perform the duties and exercise all the powers of the President and be subject to all the restrictions upon the President. The Vice President or Vice Presidents shall perform such other duties as from time to time may be assigned to him or her or them by the President or by the Board of Directors.

SECTION 6. Secretary. The Secretary shall keep the minutes of the stockholders' and of the Board of Directors' meetings in one or more books provided for that purpose, see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law, be custodian of the corporate records and of the seal of the Corporation and keep a register of the post office address of each stockholder which shall be furnished to the Secretary by such stockholder, have general charge of the stock transfer books of the Corporation and, in general, perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him or her by the President, the Chief Executive Officer or the Board of Directors.

SECTION 7. Treasurer. The Treasurer shall have charge and custody of and be responsible for all funds and securities of the Corporation, receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with these Bylaws and in general perform all of the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him or her by the President, the Chief Executive Officer, the Chief Financial Officer or by the Board of Directors.

SECTION 8. Other Officers. The other officers of the Corporation shall perform such duties as the President may from time to time assign to them.

SECTION 9. Removal. Any officer elected by the Board of Directors may be removed, either for or without cause, at any time upon the vote of a majority of the Board of Directors. Any other employee of the Corporation may be removed or dismissed at any time by the President. The removal of an officer does not prejudice any of his or her contract rights.

SECTION 10. Resignation. Any officer or agent may resign at any time by giving written notice to the Board of Directors, or to the President or to the Secretary of the Corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 11. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause, shall be filled by the Board of Directors or by the officer or remaining members of the committee to which the power to fill such office has been delegated pursuant to Section 2 of this Article, as the case may be, and if the office is one for which these Bylaws prescribe a term, shall be filled for the unexpired portion of the term.

SECTION 12. Compensation. The salaries or other compensation , if any, of the officers elected by the Board of Directors shall be fixed from time to time by the Board of Directors or by such officer as may be designated by resolution of the Board of Directors. The salaries or other compensation of any other officers, employees and other agents shall be fixed from time to time by the officer or committee to which the power to elect such officers or to retain or appoint such employees or other agents has been delegated pursuant to Section 2 of this Article. No officer shall be prevented from receiving such salary or other compensation by reason of the fact that he is also a director of the Corporation.

ARTICLE IV

STOCK

SECTION 1. Certificates. Each stockholder shall be entitled to a certificate or certificates which shall represent and certify the number and kind and class of shares owned by it in the Corporation. Each certificate shall be signed by the Chairman of the Board or the President or a Vice President and countersigned by the Secretary or an assistant secretary or the Treasurer or an assistant treasurer.

The signatures may be either manual or facsimile signatures. In case any officer who has signed any certificate ceases to be an officer of the Corporation before the certificate is issued, the certificate may nevertheless be issued by the Corporation with the same effect as if the officer had not ceased to be such

officer as of the date of its issue. Each stock certificate shall include on its face the name of the Corporation, the name of the stockholder and the class of stock and number of shares represented by the certificate. If the Corporation has authority to issue stock of more than one class, the stock certificate shall contain on its face or back a full statement or summary of the designations and any preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the stock of each class which the Corporation is authorized to issue and if the Corporation is authorized to issue any preferred or special class in series, the differences in the relative rights and preferences between the shares of each series to the extent they have been set, and the authority of the Board of Directors to set the relative rights and preferences of subsequent series. In lieu of such full statement or summary, there may be set forth upon the face or back of the certificate a statement that the Corporation will furnish to any stockholder upon request and without charge, a full statement of such information. Such request may be made to the Secretary or to the Corporation's transfer agent. Every stock certificate representing shares of stock which are restricted as to transferability by the Corporation shall contain a full statement of the restriction or state that the Corporation will furnish information about the restriction to the stockholder on request and without charge. A stock certificate may not be issued until the stock represented by it is fully paid, except in the case of stock purchased under a plan, agreement or transaction as permitted by law and with such statement on future payments as required by law.

SECTION 2. Lost Certificates. The Board of Directors may order a new certificate or certificates of stock to be issued in place of any certificates shown to have been lost or destroyed under such terms and conditions as to it may seem reasonable. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such stolen, lost or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Corporation a bond, with sufficient surety to the Corporation to indemnify it against any loss or claim which may arise by reason of the issuance of a new certificate.

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

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

SECTION 5. Fixing of Record Dates. The Board of Directors may fix, in advance, a date as the record date for the purpose of determining stockholders entitled to notice of, or to vote at, any meeting of stockholders, or stockholders entitled to receive payment of any dividend or the allotment of any rights, or in order to make a determination of stockholders for any other proper purpose. Such date, in any case, may not be prior to the close of business on the day the record date is fixed nor, subject to Section 4 of Article I, more than ninety (90) days, or in case of a meeting of stockholders, less than ten (10) days, prior to the date on which the particular action requiring such determination of stockholders is to be taken.

SECTION 6. Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments, if any, a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law or the Charter.

SECTION 7. Regulations; Book-Entry System. The Board of Directors may make such additional rules and regulations, not inconsistent with the Bylaws or the Charter, as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation.

Further, the Corporation may participate in one or more systems under which certificates for shares of stock are replaced by electronic book-entry pursuant to such rules, terms and conditions as the Board of Directors may approve and subject to applicable law, notwithstanding any provisions to the contrary set forth in this Article.

ARTICLE V

SEAL

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

ARTICLE VI

SIGNATURES

SECTION 1. Checks, Drafts, Etc. All checks, drafts and orders for the payment of money, notes and other evidences of indebtedness, issued in the name of the Corporation, shall, unless otherwise provided by resolution of the Board of Directors, be signed by the President, a Vice President or an Assistant Vice President and countersigned by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary.

SECTION 2. Stock Transfer. All endorsements, assignments, stock powers or other instruments of transfer of securities standing in the name of the Corporation shall be executed for and in the name of the Corporation by the President or Vice President or by such officer as the Board of Directors may designate.

ARTICLE VII

FISCAL YEAR

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

ARTICLE VIII

INDEMNIFICATION

SECTION 1. Procedure. Any indemnification, or payment of expenses in advance of the final disposition of any proceeding, shall be made promptly, and in any event within 60 days, upon the written request of the director or officer entitled to seek indemnification (the "Indemnified Party"). The right to indemnification and advances hereunder shall be enforceable by the Indemnified Party in any court of competent jurisdiction, if (i) the Corporation denies such request, in whole or in part, or (ii) no disposition thereof is made within 60 days. The Indemnified Party's costs and expenses incurred in connection with successfully establishing his or her right to indemnification, in whole or in part, in any such action shall also be reimbursed by the Corporation. It shall be a defense to any action for advance for expenses that (a) a determination has been made that the facts then known to those making the determination would preclude indemnification or (b) the Corporation has not received either (i) an undertaking as required by law to repay such advances in the event it shall ultimately be determined that the standard of conduct has not been met or (ii) a written affirmation by the Indemnified Party of such Indemnified Party's good faith belief that the standard of conduct necessary for indemnification by the Corporation has been met.

SECTION 2. Exclusivity, Etc. The indemnification and advance of expenses provided by the Charter and these Bylaws shall not be deemed exclusive of any other rights to which a person seeking indemnification or advance of expenses may be entitled under any law (common or statutory), or any agreement, vote of stockholders or disinterested directors or other provision that is consistent with law, both as to action in his or her official capacity and as to action in another capacity while holding office or while employed by or acting as agent for the Corporation, shall continue in respect of all events occurring while a person was a director or officer after such person has ceased to be a director or officer, and shall inure to the benefit of the estate, heirs, executors and administrators of such person. All rights to indemnification and advance of expenses under the Charter of the Corporation and hereunder shall be deemed to be a contract between the Corporation and each director or officer of the Corporation who serves or served in such capacity at any time while this Bylaw is in effect. Nothing herein shall prevent the amendment of this Bylaw, provided that no such amendment shall diminish the rights of any person hereunder with respect to events occurring or claims made before its adoption or as to claims made after its adoption in respect of events occurring before its adoption. Any repeal or modification of this Bylaw shall not in any way diminish any rights to indemnification or advance of expenses of such director or officer or the obligations of the Corporation arising hereunder with respect to events occurring, or claims made, while this Bylaw or any provision hereof is in force. The Corporation shall not be liable for any payment under this Bylaw in connection with a claim made by a director or officer to the extent such director or officer has otherwise actually received payment under insurance policy, agreement, vote or otherwise, of the amounts otherwise indemnifiable hereunder.

SECTION 3. Severability; Definitions. The invalidity or unenforceability of any provision of this Article VIII shall not affect the validity or enforceability of any other provision hereof. The phrase "this Bylaw" in this Article VIII means this Article VIII in its entirety.

ARTICLE IX

SUNDRY PROVISIONS

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

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

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

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

SECTION 5. Reliance. Each director, officer, employee and agent of the Corporation shall, in the performance of his or her duties with respect to the Corporation, be fully justified and protected with regard to any act or failure to act in reliance in good faith upon the books of account or other records of the Corporation, upon the opinion of counsel or upon reports made to the Corporation by any of its officers or employees or by the adviser, accountants, appraisers or other experts or consultants selected by the Board of Directors or officers of the Corporation, regardless of whether such counsel or expert may also be a director.

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

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

SECTION 8. Exemption from Control Share Acquisition Statute. The provisions of Sections 3-701 to 3-709 of the Corporations and Associations Article of the Annotated Code of Maryland shall not apply to any share of capital stock of the Corporation now or hereafter outstanding acquired in compliance with the waivers from the stock ownership limitation contained in the Charter granted by the Board of Directors on March 9, 2000, March 15, 2001 and June 21, 2001 and included in the minutes of the meetings of the Board on such dates.

ARTICLE X

AMENDMENTS

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

EXHIBIT 11.1

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

	Three Months Ended June 30, 2001	Six Months Ended June 30, 2001
BASIC:		
Average common shares outstanding	8,888,999	8,864,120
Total	8,888,999	8,864,120
Net Income	$ 6,463,427	$13,143,200
Per Share Amount	$ 0.73	$ 1.48
DILUTED:		
Average common shares outstanding	8,888,999	8,864,120
Net effect of dilutive stock options outstanding during the period -- based on the treasury stock method	295,196	256,988
Total	9,184,195	9,121,108
Net Income	$ 6,463,427	$13,143,200
Per Share Amount	$ 0.70	$ 1.44