

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

July 24, 2003
Date of Report (Date of earliest event reported)

REDWOOD TRUST, INC.

(Exact Name of Registrant as Specified in Charter)

Maryland

001-13759

68-0329422

(State or Other Jurisdiction
of Incorporation)

(Commission File Number)

(I.R.S. Employer Identification No.)

591 Redwood Highway Suite 3100 Mill Valley, California

94941

(Address of Principal Executive Offices)

(Zip Code)

(415) 389-7373

(Registrant's Telephone Number,
Including Area Code)

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INFORMATION TO BE INCLUDED IN THE REPORT

Item 7(c). Exhibit

Item 9. Information Provided Pursuant to Item 12

SIGNATURE

Exhibit Index

Exhibit 99.1

INFORMATION TO BE INCLUDED IN THE REPORT

Item 7(c). **Exhibit**

99.1 Press Release, dated July 24, 2003 “Redwood Trust’s Earnings Increase in Second Quarter 2003”.

Item 9. **Information Provided Pursuant to Item 12**

Pursuant to Item 12 (Results of Operations and Financial Condition) of Form 8-K, Redwood Trust, Inc. is hereby furnishing, as an Exhibit to this current report on Form 8-K, a copy of its earnings release for the second quarter of 2003, publicly released on July 24, 2003.

SIGNATURE

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

Date: July 24, 2003

REDWOOD TRUST, INC.

By: /s/ Harold F. Zagunis

Harold F. Zagunis
Vice President, Chief Financial Officer,
Treasurer and Secretary

Exhibit Index

Exhibit Number

99.1 Press Release dated July 24, 2003 "Redwood Trust's Earnings Increase in Second Quarter 2003".



REDWOOD TRUST

FOR IMMEDIATE RELEASE
Thursday, July 24, 2003

CONTACT:
Doug Hansen/George Bull
Redwood Trust, Inc
(415) 389-7373

**Redwood Trust's Earnings Increase in Second Quarter 2003
GAAP Earnings of \$1.21 per share and Core Earnings of \$1.13 per share**

Mill Valley, CA July 24, 2003 Redwood Trust, Inc. (NYSE: RWT), an investor in real estate loans, today reported GAAP earnings of \$1.21 per share for the second quarter of 2003, an increase of 38% from first quarter 2003 and second quarter 2002 GAAP earnings of \$0.88 per share. GAAP earnings for the first six months of 2003 totaled \$2.09 per share versus \$1.68 per share earned in the first half of 2002.

Core earnings, which exclude realized and unrealized gains and losses on the market value of assets, were \$1.13 per share for the second quarter of 2003, a 28% increase from first quarter 2003 core earnings of \$0.88 per share and a 41% increase from second quarter 2002 core earnings of \$0.80 per share. Core earnings for the first half of 2003 totaled \$2.01 per share as compared to \$1.57 per share earned during the first six months of 2002.

Doug Hansen, Redwood's President, commented, "We are very pleased with the strong earnings and cash flow generated by our real estate loan portfolios. Our record results for the quarter reflect the sound underlying characteristics of our real estate loans as well as better utilization of our capital base. In addition, we benefited during the second quarter from several temporary factors, including favorable prepayment patterns and a decline in short-term interest rates."

Second Quarter Review

During the second quarter of 2003, Redwood acquired \$2.2 billion high-quality jumbo adjustable-rate residential real estate loans, \$11 million residential loan credit-enhancement securities, \$3 million commercial real estate loans, and \$238 million other residential and commercial real estate loan securities.

Redwood's combined residential portfolios, including loans Redwood owns and the principal value of loans Redwood credit-enhances, decreased from \$68 billion to \$61 billion during the second quarter. Residential real estate loans owned by Redwood increased from \$7 billion to \$9 billion due to strong acquisition volume and relatively slow prepayment rates on these adjustable-rate loans. Loans credit-enhanced by Redwood decreased from \$61 billion to \$52 billion due to reduced acquisitions of credit-enhancement securities and rapid prepayments of the fixed-rate and hybrid loans in the credit-enhanced portfolio.

Serious delinquencies in Redwood's combined residential portfolios increased during the second quarter from \$163 million to \$164 million. Delinquencies as a percentage of current loan balances increased during the quarter from 0.24% to 0.27% primarily as a result of rapid loan prepayment rates. The company's delinquency ratios are well below national averages for these types of loans. Actual credit losses for the quarter remained under 0.01% (one basis point) of current loan balances on an annualized basis. In general, the company expects that its current delinquency and loss rates are unsustainably low and are likely to increase over time even if housing markets remain strong.

Redwood's GAAP-basis operating profitability margin – net interest income as a percentage of GAAP equity – improved from 19.8% in the first quarter of 2003 to 23.4% in the second quarter of the year. Redwood's core-basis operating profitability margin – net interest income as a percentage of core equity – improved during the quarter from 23.3% to 27.6%. Favorable prepayment and interest rate trends, improved capital utilization, and strong credit results drove most of this increase in profitability.

“Our second quarter results benefited from decreasing short-term interest rates,” said Hansen. “We have always maintained a reasonable match between the characteristics of our assets and liabilities. Our goal is to mitigate much of the potential earnings volatility that could result from interest rate changes. In the past, we were willing to carry a degree of one- to six-month mismatch between the characteristics of a portion of our assets and liabilities. Consequently, we benefited from declining short-term interest rates over the last two years. Recently, however, we have been lengthening the maturity of our liabilities and increasing our hedging activities with the goal of reducing our remaining short-term asset/liability mismatches. As a result, we expect our liability and hedging costs to increase. Furthermore, it is unlikely that we would benefit from any additional decreases in short-term interest rates should they occur.”

“We continued to generate relatively high levels of REIT taxable income per share in the second quarter,” said Hansen. “We currently plan to retain, on a permanent basis, up to 10% of our 2003 REIT taxable income to build core book value per share and thus further support the sustainability of our regular dividend rate. We also currently plan to defer distribution of a portion of our 2003 REIT taxable income in order to pre-fund a portion of the regular dividends we plan to distribute in 2004. We will incur income and excise taxes if we retain and defer the distribution of income.”

“Even if we retain and defer income as described, we may need to distribute substantial special dividends in excess of our regular dividend rate of \$0.65 per share per quarter,” Hansen added. “Pursuant to the REIT rules, we may be required to make special distributions if we continue to generate high levels of REIT taxable income during the remainder of 2003. The declaration of any special dividends will depend on a variety of factors and future events. If we declare one or more special dividends representing the distribution of 2003 REIT taxable income, the declarations could occur during 2003 or as late as September 2004.”

Hansen observed, “We face a number of potential challenges in the years ahead, including the likelihood of increased competition and a reduced supply of real estate loan investment opportunities when the mortgage refinance boom ends. We believe our results over the next few years will most

likely be driven by the solid characteristics of our current asset base, whereas our longer-term results will depend on our ability to continue to create attractive real estate loan investment opportunities as our current book of loans pays down.”

“We believe strongly that our regular dividend rate is sustainable even if we face increased challenges in the future,” concluded Hansen. “With our strong competitive cost position, multiple investment opportunities in our residential and commercial loan markets, and the discipline and execution ability of our investment and finance staff, we remain optimistic about the years ahead.”

For more information about Redwood Trust, Inc., please visit www.redwoodtrust.com.

“Safe Harbor” Statement under the Private Securities Litigation Reform Act of 1995: Certain matters discussed in this news release may constitute forward-looking statements within the meaning of the federal securities laws that inherently include certain risks and uncertainties. Actual results and the timing of certain events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including, among other things, changes in interest rates on our real estate loan assets and borrowings, changes in prepayment rates on our real estate loan assets, general economic conditions, particularly as they affect the price of real estate loan and the credit status of borrowers, and the level of liquidity in the capital markets, as it affects our ability to finance our real estate loan portfolio, and other risk factors outlined in the Company’s 2002 Annual Report on Form 10-K (available on the Company’s Web site or by request to the Contacts listed above). Other factors not presently identified may also cause actual results to differ. No one should assume that results or trends projected in or contemplated by the forward-looking statements included above will prove to be accurate in the future. We will revise our outlook from time to time and frequently will not disclose such revisions publicly.

REDWOOD TRUST, INC.
(All dollars in thousands, except per share data)

| INCOME STATEMENT | Second Quarter 2003 | First Quarter 2003 | Fourth Quarter 2002 | Third Quarter 2002 | Second Quarter 2002 |
|--|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| Interest Income | \$ 71,426 | \$ 61,125 | \$ 54,155 | \$ 42,093 | \$ 36,252 |
| Interest Expense | (41,802) | (36,933) | (33,323) | (24,291) | (18,489) |
| Net Interest Income | 29,624 | 24,192 | 20,832 | 17,802 | 17,763 |
| Operating Expenses | (7,303) | (6,472) | (6,009) | (4,290) | (4,536) |
| Mark-to-Market Adjustments | 1,451 | (30) | 1,383 | 1,475 | 1,256 |
| Taxes | (1,560) | (2,077) | (959) | 0 | 0 |
| Preferred Dividends | 0 | (681) | (681) | (681) | (681) |
| GAAP Earnings | \$ 22,212 | \$ 14,932 | \$ 14,566 | \$ 14,306 | \$ 13,802 |
| Less: Mark-to-Market Adjustments | (1,451) | 30 | (1,383) | (1,475) | (1,256) |
| Core Earnings (1) | \$ 20,761 | \$ 14,962 | \$ 13,183 | \$ 12,831 | \$ 12,546 |
| Average Diluted Shares | 18,433,165 | 16,983,513 | 16,529,075 | 16,240,194 | 15,747,048 |
| GAAP Earnings per Share (Diluted) | \$ 1.21 | \$ 0.88 | \$ 0.88 | \$ 0.88 | \$ 0.88 |
| Core Earnings per Share (1) | \$ 1.13 | \$ 0.88 | \$ 0.80 | \$ 0.79 | \$ 0.80 |
| Dividends per Common Share (Regular) | \$ 0.650 | \$ 0.650 | \$ 0.630 | \$ 0.630 | \$ 0.630 |
| Dividends per Common Share (Special) | \$ 0.000 | \$ 0.000 | \$ 0.125 | \$ 0.125 | \$ 0.125 |
| Total Dividends per Common Share | \$ 0.650 | \$ 0.650 | \$ 0.755 | \$ 0.755 | \$ 0.755 |
| Yield on Earning Assets | 3.35% | 3.31% | 3.59% | 4.07% | 4.71% |
| Cost of Funds | 2.05% | 2.10% | 2.35% | 2.57% | 2.69% |
| Interest Rate Spread | 1.30% | 1.21% | 1.24% | 1.50% | 2.02% |
| Net Interest Margin | 1.36% | 1.28% | 1.35% | 1.68% | 2.25% |
| Net Interest Income / Average GAAP Equity | 23.4% | 19.8% | 18.5% | 16.5% | 18.4% |
| Net Interest Income / Average Core Equity (2) | 27.6% | 23.3% | 20.9% | 18.5% | 19.1% |
| GAAP Return on Equity: GAAP Earnings/ Average GAAP Equity | 17.6% | 12.9% | 13.7% | 14.1% | 15.4% |
| Core Return on Equity: Core Earnings / Average Core Equity | 19.4% | 15.4% | 14.2% | 14.3% | 14.5% |

- (1) Core earnings is not a measure of earnings in accordance with generally accepted accounting principles (GAAP). It is calculated as GAAP earnings from ongoing operations less mark-to-market adjustments (which include realized and unrealized gains and losses on certain assets, hedges, and variable stock options). Management believes that core earnings provides relevant and useful information regarding its results from operations in addition to GAAP measures of performance. This is, in part, because market valuation adjustments on only a portion of the company's assets and stock options and none of its liabilities are recognized through the income statement under GAAP and thus GAAP valuation adjustments may not be fully indicative of changes in market values on the balance sheet as a whole or a reliable guide to current operating performance. Furthermore, gains or losses realized upon sales of assets vary based on portfolio management decisions; a sale of an asset for a gain or a loss may or may not affect on-going earnings from operations. Because all companies and analysts do not calculate non-GAAP measures such as core earnings in the same fashion, core earnings as calculated by the company may not be comparable to similarly titled measures reported by other companies.
- (2) Core equity is calculated as GAAP equity less unrealized gains and losses on certain assets and hedges. Management believes measurements based on core equity provide relevant useful information regarding its results of operations in addition to GAAP measures of performance. This is, in part, because market valuation adjustments reflected in GAAP equity represent unrealized gains and losses on a portion of the balance sheet only and may not be reflective of the equity available to invest in operations. Because all companies and analysts do not calculate non-GAAP measures in the same fashion, core equity and ratios using core equity as calculated by the company may not be comparable to similarly titled measures reported by other companies.

REDWOOD TRUST, INC.

(All dollars in thousands, except per share data)

| INCOME STATEMENT | Six Months 2003 | Six Months 2002 |
|--|-----------------------|-----------------------|
| Interest Income | \$ 132,551 | \$ 66,968 |
| Interest Expense | (78,735) | (34,091) |
| Net Interest Income | 53,816 | 32,877 |
| Operating Expenses | (13,775) | (8,082) |
| Mark-to-Market Adjustments | 1,421 | 1,588 |
| Taxes | (3,637) | 0 |
| Preferred Dividends | (681) | (1,362) |
| GAAP Earnings | \$ 37,144 | \$ 25,021 |
| Less: Mark-to-Market Adjustments | (1,421) | (1,588) |
| Core Earnings (1) | \$ 35,723 | \$ 23,433 |
| Average Diluted Shares | 17,730,304 | 14,920,053 |
| GAAP Earnings per Share (Diluted) | \$ 2.09 | \$ 1.68 |
| Core Earnings per Share (1) | \$ 2.01 | \$ 1.57 |
| Dividends per Common Share (Regular) | \$ 1.300 | \$ 1.250 |
| Dividends per Common Share (Special) | \$ 0.000 | \$ 0.125 |
| Total Dividends per Common Share | \$ 1.300 | \$ 1.375 |
| Yield on Earning Assets | 3.33% | 4.80% |
| Cost of Funds | 2.07% | 2.75% |
| Interest Rate Spread | 1.26% | 2.05% |
| Net Interest Margin | 1.32% | 2.30% |
| Net Interest Income / Average GAAP Equity | 21.6% | 18.1% |
| Net Interest Income / Average Core Equity (2) | 25.5% | 18.7% |
| GAAP Return on Equity: GAAP Earnings/ Average GAAP Equity | 15.3% | 14.8% |
| Core Return on Equity: Core Earnings / Average Core Equity | 17.5% | 14.4% |

(1) Core earnings is not a measure of earnings in accordance with generally accepted accounting principles (GAAP). It is calculated as GAAP earnings from ongoing operations less mark-to-market adjustments (which include realized and unrealized gains and losses on certain assets, hedges, and variable stock options). Management believes that core earnings provides relevant and useful information regarding its results from operations in addition to GAAP measures of performance. This is, in part, because market valuation adjustments on only a portion of the company's assets and stock options and none of its liabilities are recognized through the income statement under GAAP and thus GAAP valuation adjustments may not be fully indicative of changes in market values on the balance sheet as a whole or a reliable guide to current operating performance. Furthermore, gains or losses realized upon sales of assets vary based on portfolio management decisions; a sale of an asset for a gain or a loss may or may not affect on-going earnings from operations. Because all companies and analysts do not calculate non-GAAP measures such as core earnings in the same fashion, core earnings as calculated by the company may not be comparable to similarly titled measures reported by other companies.

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REDWOOD TRUST, INC.

(All dollars in thousands, except per share data)

| BALANCE SHEET | 30-Jun 2003 | 31-Mar 2003 | 31-Dec 2002 | 30-Sep 2002 | 30-Jun 2002 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Residential Real Estate Loans | \$ 9,247,420 | \$ 7,321,039 | \$ 6,215,179 | \$ 4,761,893 | \$ 2,803,556 |
| Residential Loan Credit-Enhancement Securities | 393,411 | 373,162 | 352,479 | 324,130 | 284,759 |
| Commercial Real Estate Loans | 34,522 | 31,214 | 29,270 | 50,664 | 49,798 |
| Securities Portfolio | 595,577 | 366,307 | 335,697 | 491,756 | 512,490 |
| Cash and Cash Equivalents | 36,539 | 42,882 | 39,169 | 20,606 | 13,155 |
| Working Capital and Other Assets | 48,583 | 37,459 | 35,978 | 25,253 | 26,024 |
| Total Assets | \$10,356,052 | \$ 8,172,063 | \$ 7,007,772 | \$ 5,674,302 | \$ 3,689,782 |
| Short-Term Debt | \$ 217,684 | \$ 475,717 | \$ 99,714 | \$ 834,081 | \$ 1,005,003 |
| Long-Term Debt | 9,542,631 | 7,170,691 | 6,397,020 | 4,365,281 | 2,241,600 |
| Working Capital and Other Liabilities | 48,561 | 40,253 | 38,005 | 29,212 | 25,249 |
| Preferred Equity | 0 | 26,517 | 26,517 | 26,517 | 26,517 |
| Common Equity | 547,176 | 458,885 | 446,516 | 419,211 | 391,413 |
| Total Liabilities and Equity | \$10,356,052 | \$ 8,172,063 | \$ 7,007,772 | \$ 5,674,302 | \$ 3,689,782 |
| Total GAAP Equity | \$ 547,176 | \$ 485,402 | \$ 473,033 | \$ 445,728 | \$ 417,930 |
| Less: Mark-to-Market Adjustments | (108,409) | (68,077) | (69,146) | (54,148) | (35,826) |
| Core Equity | \$ 438,767 | \$ 417,325 | \$ 403,887 | \$ 391,580 | \$ 382,104 |
| Common Shares Outstanding at Period End | 17,820,856 | 16,604,910 | 16,277,285 | 15,886,421 | 15,624,012 |
| GAAP Equity (GAAP Book Value) per Common Share | \$ 30.70 | \$ 27.64 | \$ 27.43 | \$ 26.39 | \$ 25.05 |
| Core Equity (Core Book Value) per Common Share | \$ 24.62 | \$ 23.54 | \$ 23.18 | \$ 22.98 | \$ 22.76 |
| Net Premium / (Discount) Balance | \$ (32,465) | \$ (33,319) | \$ (9,662) | \$ (446) | \$ (9,147) |
| Average Total Assets | \$ 8,687,371 | \$ 7,553,727 | \$ 6,158,898 | \$ 4,234,477 | \$ 3,158,751 |
| Average Earning Assets | \$ 8,523,925 | \$ 7,393,566 | \$ 6,042,042 | \$ 4,131,870 | \$ 3,080,165 |
| Average Interest Bearing Liabilities | \$ 8,160,393 | \$ 7,036,183 | \$ 5,680,238 | \$ 3,781,717 | \$ 2,752,215 |
| Average Total GAAP Equity (Common and Preferred) | \$ 505,373 | \$ 489,086 | \$ 450,464 | \$ 432,310 | \$ 385,887 |

REDWOOD TRUST, INC.
(All dollars in thousands)

| LEVERAGE RATIOS (1) | 30-Jun 2003 | 31-Mar 2003 | 31-Dec 2002 | 30-Sep 2002 | 30-Jun 2002 |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total Reported Assets | \$ 10,356,052 | \$ 8,172,063 | \$ 7,007,772 | \$ 5,674,302 | \$ 3,689,782 |
| Less: Non-Recourse Assets | (9,591,192) | (7,210,944) | (6,435,025) | (4,394,493) | (2,266,849) |
| Recourse Assets | \$ 764,860 | \$ 961,119 | \$ 572,747 | \$ 1,279,809 | \$ 1,422,933 |
| Total Reported Debt | \$ 9,760,315 | \$ 7,646,408 | \$ 6,496,734 | \$ 5,199,362 | \$ 3,246,603 |
| Less: Non-Recourse Debt | (9,542,631) | (7,170,691) | (6,397,020) | (4,365,281) | (2,241,600) |
| Recourse Debt | \$ 217,684 | \$ 475,717 | \$ 99,714 | \$ 834,081 | \$ 1,005,003 |
| Reported Debt to GAAP Equity | 17.8 | 15.8 | 13.7 | 11.7 | 7.8 |
| GAAP Equity / Total Reported Assets | 5% | 6% | 7% | 8% | 11% |
| Recourse Debt to GAAP Equity | 0.4 | 1.0 | 0.2 | 1.9 | 2.4 |
| GAAP Equity / Recourse Assets | 72% | 51% | 83% | 35% | 29% |

(1) The majority of our debt is non-recourse debt. Holders of non-recourse debt can look only to the pledged assets — and not to Redwood — for repayment. Therefore, management believes that another useful measure of the leverage we employ is to compute leverage ratios comparing our equity base to our recourse debt (reported debt less non-recourse debt) and to our recourse assets (our assets for which we are “at-risk”, i.e., excluding those assets pledged to non-recourse debt).

REDWOOD TRUST, INC.

(All dollars in thousands, except per share data)

| | Second Quarter 2003 | First Quarter 2003 | Fourth Quarter 2002 | Third Quarter 2002 | Second Quarter 2002 |
|--|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| Residential Real Estate Loans | | | | | |
| Start of Period Balances | \$7,321,039 | \$6,215,179 | \$4,761,893 | \$2,803,556 | \$1,794,260 |
| Acquisitions | 2,168,181 | 1,338,920 | 1,616,400 | 2,075,296 | 1,146,621 |
| Sales Proceeds | 0 | (73,137) | 0 | (2,960) | (46,683) |
| Principal Paydowns | (234,582) | (152,768) | (155,915) | (109,896) | (89,582) |
| Net Amortization Expense | (5,055) | (6,156) | (5,754) | (3,502) | (1,060) |
| Net Charge Offs (Recoveries) | 0 | 31 | 0 | 236 | 0 |
| Credit Provisions | (2,163) | (1,756) | (1,660) | (894) | (472) |
| Mark-to-Market — Income Statement | 0 | 726 | 215 | 57 | 472 |
| End of Period Balances | \$9,247,420 | \$7,321,039 | \$6,215,179 | \$4,761,893 | \$2,803,556 |
| Average Amortized Cost During Period | \$7,670,484 | \$6,625,539 | \$5,318,910 | \$3,262,462 | \$2,201,384 |
| Interest Income | \$ 47,299 | \$ 42,314 | \$ 37,264 | \$ 24,447 | \$ 19,601 |
| Yield | 2.47% | 2.55% | 2.80% | 3.00% | 3.56% |
| Principal Value of Loans | \$9,206,986 | \$7,297,515 | \$6,190,674 | \$4,736,646 | \$2,795,628 |
| Credit Reserve | (12,159) | (9,996) | (8,271) | (6,611) | (5,953) |
| Net Premium (Discount) to be Amortized | 52,593 | 33,520 | 32,776 | 31,858 | 13,881 |
| Residential Real Estate Loans | \$9,247,420 | \$7,321,039 | \$6,215,179 | \$4,761,893 | \$2,803,556 |
| Credit Reserve, Start of Period | \$ 9,996 | \$ 8,271 | \$ 6,611 | \$ 5,953 | \$ 5,481 |
| Net Charge-Offs (NCO) | 0 | (31) | 0 | (236) | 0 |
| Credit Provisions | 2,163 | 1,756 | 1,660 | 894 | 472 |
| Credit Reserve, End of Period | \$ 12,159 | \$ 9,996 | \$ 8,271 | \$ 6,611 | \$ 5,953 |
| Delinquencies (90 days + FC + BK + REO) | \$ 3,895 | \$ 1,159 | \$ 4,127 | \$ 1,387 | \$ 3,257 |
| Delinquencies as % of Residential Loans | 0.04% | 0.02% | 0.07% | 0.03% | 0.12% |
| NCO as % of Residential Loans (Annualized) | 0.00% | 0.01% | 0.00% | 0.01% | 0.00% |
| Reserve as % of Residential Loans | 0.13% | 0.14% | 0.13% | 0.14% | 0.21% |
| Reserve as % of Delinquencies | 312% | 862% | 200% | 477% | 183% |

REDWOOD TRUST, INC.
(All dollars in thousands, except per share data)

| | Second Quarter 2003 | First Quarter 2003 | Fourth Quarter 2002 | Third Quarter 2002 | Second Quarter 2002 |
|---|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| Residential Loan Credit-Enhancement Securities | | | | | |
| Start of Period Balances | \$ 373,162 | \$ 352,479 | \$ 324,130 | \$ 284,759 | \$ 249,832 |
| Acquisitions | 11,265 | 37,077 | 13,442 | 28,983 | 25,849 |
| Sales Proceeds | (1,248) | 0 | 0 | 0 | (898) |
| Principal Paydowns | (38,773) | (23,212) | (13,573) | (9,437) | (15,801) |
| Net Amortization Income | 10,024 | 5,545 | 3,275 | 2,722 | 1,767 |
| Mark-to-Market — Balance Sheet | 35,551 | 998 | 25,205 | 17,351 | 21,795 |
| Mark-to-Market — Income Statement | 3,430 | 275 | 0 | (248) | 2,215 |
| End of Period Balances | \$ 393,411 | \$ 373,162 | \$ 352,479 | \$ 324,130 | \$ 284,759 |
| Average Amortized Cost During Period | \$ 279,010 | \$ 278,339 | \$ 271,016 | \$ 257,844 | \$ 238,282 |
| Interest Income | \$ 17,977 | \$ 13,693 | \$ 11,283 | \$ 10,443 | \$ 9,006 |
| Yield | 25.77% | 19.68% | 16.65% | 16.20% | 15.12% |
| Principal Value of Redwood's Securities | \$ 598,134 | \$ 614,111 | \$ 559,186 | \$ 542,669 | \$ 492,642 |
| Internally Designated Credit Reserve on Loans Credit-Enhanced | (204,675) | (234,060) | (224,891) | (220,735) | (206,343) |
| Net Discount to be Amortized | (113,358) | (84,648) | (58,578) | (49,360) | (35,745) |
| Net Investment in Credit-Enhancement Securities | \$ 280,101 | \$ 295,403 | \$ 275,717 | \$ 272,574 | \$ 250,554 |
| Market Valuation Adjustments | 113,310 | 77,759 | 76,762 | 51,556 | 34,205 |
| Residential Loan Credit-Enhancement Securities | \$ 393,411 | \$ 373,162 | \$ 352,479 | \$ 324,130 | \$ 284,759 |
| Securities Senior to Redwood's Interests | \$51,168,069 | \$60,072,291 | \$58,036,745 | \$67,876,543 | \$65,503,415 |
| Principal Value of Redwood's Credit-Enhancement Securities | 598,134 | 614,111 | 559,186 | 542,669 | 492,642 |
| Securities Junior to Redwood's Interests | 58,296 | 61,814 | 63,179 | 64,147 | 65,102 |
| Underlying Mortgage Loan Balances | \$51,824,499 | \$60,748,216 | \$58,659,110 | \$68,483,359 | \$66,061,159 |
| Internally Designated Credit Reserve on Loans Credit-Enhanced | \$ 204,675 | \$ 234,060 | \$ 224,891 | \$ 220,735 | \$ 206,343 |
| External Credit Enhancement on Loans Credit-Enhanced | 58,296 | 61,814 | 63,179 | 64,147 | 65,102 |
| Total Credit Protection (1) | \$ 262,971 | \$ 295,874 | \$ 288,070 | \$ 284,882 | \$ 271,445 |
| Delinquencies (90 days + FC + BK + REO) | \$ 159,999 | \$ 161,498 | \$ 146,226 | \$ 151,507 | \$ 149,960 |
| Redwood's Net Charge-Offs | \$ (232) | \$ (684) | \$ (214) | \$ (47) | \$ 74 |
| Losses to Securities Junior to Redwood's Interests | (152) | (456) | (163) | (103) | (189) |
| Total Underlying Loan Credit Losses | \$ (384) | \$ (1,140) | \$ (377) | \$ (150) | \$ (115) |
| Delinquencies as % of Underlying Loans | 0.31% | 0.27% | 0.25% | 0.22% | 0.23% |
| Total Pool Credit Losses/Underlying Loans (Annualized) | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% |
| Total Credit Protection as % of Underlying Loans | 0.51% | 0.49% | 0.49% | 0.42% | 0.41% |
| Total Credit Protection as % of Delinquencies | 164% | 183% | 197% | 188% | 181% |

(1) Total credit protection represents the aggregate of the internally designated credit reserve and the amount of any junior securities with respect to each credit-enhanced security. The credit protection amount for any credit-enhanced security is only available to absorb losses on the pool of loans related to that security. To the extent such losses exceed the credit protection amount for that security, a charge-off of the net investment in that security would result.

REDWOOD TRUST, INC.
(All dollars in thousands, except per share data)

| COMBINED RESIDENTIAL LOAN PORTFOLIOS | Second Quarter 2003 | First Quarter 2003 | Fourth Quarter 2002 | Third Quarter 2002 | Second Quarter 2002 |
|---|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| Residential Real Estate Loans Owned | \$ 9,247,420 | \$ 7,321,039 | \$ 6,215,179 | \$ 4,761,893 | \$ 2,803,556 |
| Residential Loans Credit-Enhanced | 51,824,499 | 60,748,216 | 58,659,110 | 68,483,359 | 66,061,159 |
| Total Residential Loans | \$61,071,919 | \$68,069,255 | \$64,874,289 | \$73,245,252 | \$68,864,715 |
| Credit Reserve on Residential Real Estate Loans Owned | \$ 12,159 | \$ 9,996 | \$ 8,271 | \$ 6,611 | \$ 5,953 |
| Internally Designated Credit Reserve on Loans Credit-Enhanced | 204,675 | 234,060 | 224,891 | 220,735 | 206,343 |
| Redwood's Total Residential Credit Protection | \$ 216,834 | \$ 244,056 | \$ 233,162 | \$ 227,346 | \$ 212,296 |
| External Credit Enhancement on Loans Credit-Enhanced | 58,296 | 61,814 | 63,179 | 64,147 | 65,102 |
| Total Credit Protection (1) | \$ 275,130 | \$ 305,870 | \$ 296,341 | \$ 291,493 | \$ 277,398 |
| Total Credit Protection as % of Total Residential Loans | 0.45% | 0.45% | 0.46% | 0.40% | 0.40% |
| Residential Real Estate Loans Owned Delinquencies | \$ 3,895 | \$ 1,159 | \$ 4,127 | \$ 1,387 | \$ 3,257 |
| Residential Loans Credit-Enhanced Delinquencies | 159,999 | 161,498 | 146,226 | 151,507 | 149,960 |
| Total Residential Loan Delinquencies | \$ 163,894 | \$ 162,657 | \$ 150,353 | \$ 152,894 | \$ 153,217 |
| Delinquencies as % of Total Residential Loans | 0.27% | 0.24% | 0.23% | 0.21% | 0.22% |
| Total Credit Protection as % of Delinquencies | 168% | 188% | 197% | 191% | 181% |
| Net Charge-Offs on Residential Real Estate Loans Owned | \$ 0 | \$ (31) | \$ 0 | \$ (236) | \$ 0 |
| Net Charge-Offs on Residential Loan Credit-Enhanced | (232) | (684) | (214) | (47) | 74 |
| Redwood's Shares of Net Credit (Losses) Recoveries | \$ (232) | \$ (715) | \$ (214) | \$ (283) | \$ 74 |
| Credit Losses to External Credit Enhancement | (152) | (456) | (163) | (103) | (189) |
| Total Credit Losses | \$ (384) | \$ (1,171) | \$ (377) | \$ (386) | \$ (115) |
| Total Credit Losses as % of Total Resid. Loans (Annualized) | 0.01% | 0.01% | 0.01% | 0.01% | 0.01% |

(1) The credit reserve on residential real estate loans owned is only available to absorb losses on the residential real estate loan portfolio. The internally designated credit reserve on loans credit-enhanced and the external credit enhancement on loans credit-enhanced are only available to absorb losses on the residential loan credit-enhancement portfolio.

REDWOOD TRUST, INC.

(All dollars in thousands, except per share data)

| Commercial Real Estate Loans | Second Quarter 2003 | First Quarter 2003 | Fourth Quarter 2002 | Third Quarter 2002 | Second Quarter 2002 |
|---|---------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| Start of Period Balances | \$31,214 | \$29,270 | \$ 50,664 | \$49,798 | \$49,380 |
| Acquisitions | 3,408 | 2,011 | 0 | 919 | 470 |
| Sales Proceeds | 0 | 0 | 0 | 0 | 0 |
| Principal Paydowns | (34) | (68) | (21,068) | (54) | (53) |
| Net Amortization Income | (67) | 0 | 24 | 0 | 0 |
| Mark-to-Market — Balance Sheet | 0 | 0 | 0 | 0 | 0 |
| Mark-to-Market — Income Statement | 1 | 1 | (350) | 1 | 1 |
| End of Period Balances | \$34,522 | \$31,214 | \$ 29,270 | \$50,664 | \$49,798 |
| Average Amortized Cost During Period | \$33,138 | \$30,888 | \$ 47,935 | \$50,102 | \$49,369 |
| Interest Income | \$ 960 | \$ 816 | \$ 1,213 | \$ 1,280 | \$ 1,233 |
| Yield | 11.59% | 10.57% | 10.12% | 10.22% | 9.99% |
| Principal Value of Loans | \$42,492 | \$32,223 | \$ 30,250 | \$51,318 | \$50,436 |
| Net Discount | (7,970) | (1,009) | (980) | (654) | (638) |
| Commercial Mortgage Loans | \$34,522 | \$31,214 | \$ 29,270 | \$50,664 | \$49,798 |
| Commercial Real Estate Loan Delinquencies | \$ 650 | \$ 650 | \$ 650 | \$ 0 | \$ 0 |
| Commercial Real Estate Loan Net Charge-Offs | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Commercial Real Estate Loan Credit Provisions | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Commercial Real Estate Loan Credit Reserves | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Securities Portfolio | Second Quarter 2003 | First Quarter 2003 | Fourth Quarter 2002 | Third Quarter 2002 | Second Quarter 2002 |
| Start of Period Balances | \$366,307 | \$335,697 | \$ 491,756 | \$512,489 | \$609,432 |
| Acquisitions | 237,516 | 42,955 | 196,279 | 6,811 | 23,026 |
| Sales Proceeds | (4,051) | 0 | (315,308) | 0 | (56,802) |
| Principal Paydowns | (12,126) | (11,329) | (31,009) | (31,830) | (65,617) |
| Net Amortization Income (Expense) | (111) | 3 | (24) | (1,051) | (1,249) |
| Mark-to-Market — Balance Sheet | 8,070 | (944) | (7,128) | 970 | 3,017 |
| Mark-to-Market — Income Statement | (28) | (75) | 1,131 | 4,367 | 683 |
| End of Period Balances | \$595,577 | \$366,307 | \$ 335,697 | \$491,756 | \$512,490 |
| Average Amortized Cost During Period | \$453,546 | \$360,084 | \$ 320,154 | \$493,997 | \$529,843 |
| Interest Income | \$ 5,057 | \$ 4,192 | \$ 3,949 | \$ 5,719 | \$ 6,222 |
| Yield | 4.46% | 4.66% | 4.93% | 4.63% | 4.70% |
| Principal Value of Securities | \$587,038 | \$370,187 | \$ 335,402 | \$477,950 | \$502,684 |
| Net Premium (Discount) to be Amortized | 5,946 | 1,597 | 4,828 | 11,214 | 8,183 |
| Market Valuation Adjustments | 2,593 | (5,477) | (4,533) | 2,592 | 1,622 |
| Securities Portfolio | \$595,577 | \$366,307 | \$ 335,697 | \$491,756 | \$512,489 |