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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 1998

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: 0-26436

REDWOOD TRUST, INC.
(Exact name of Registrant as specified in its Charter)

MARYLAND	68-0329422
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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)

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
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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.

Class B Preferred Stock ($.01 par value)	909,518 as of May 11, 1998
Common Stock ($.01 par value)	14,107,100 as of May 11, 1998

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REDWOOD TRUST, INC.
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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	March 31, 1998 (Unaudited)	December 31, 1997
Mortgage assets:		
Mortgage loans, net	$ 1,871,984	$ 1,551,826
Mortgage securities, net	1,770,566	1,814,796
	3,642,550	3,366,622
Cash and cash equivalents:		
Unrestricted	6,468	24,892
Restricted	25,734	24,657
	32,202	49,549
Accrued interest receivable	23,886	23,119
Interest rate agreements	1,627	2,100
Investment in RWT Holdings, Inc.	9,900	--
Other assets	3,526	2,807
	$ 3,713,691	$ 3,444,197

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES		
Short-term debt	$ 2,288,018	$ 1,914,525
Long-term debt, net	1,081,279	1,172,801
Accrued interest payable	12,212	14,476
Accrued expenses and other liabilities	1,797	2,172
Dividends payable	687	5,686

	3,383,993	3,109,660
Commitments and contingencies (See Note 11)		
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.01 per share; Class B 9.74% Cumulative Convertible 909,518 shares authorized, issued and outstanding ($28,882 aggregate liquidation preference)	26,736	26,736
Common stock, par value $0.01 per share; 49,090,482 and 48,993,750 shares authorized; 14,070,557 and 14,284,657 issued and outstanding	141	143
Additional paid-in capital	320,282	324,555
Accumulated other comprehensive income	(13,085)	(10,071)
Dividends in excess of net income	(4,376)	(6,826)
	329,698	334,537
	$ 3,713,691	$ 3,444,197

</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>
<CAPTION>

	Three Months Ended March 31, 1998	1997
<S>	<C>	<C>
INTEREST INCOME		
Mortgage loans	$ 25,810	$ 9,855
Mortgage securities	27,667	28,551
Cash and investments	384	162
	53,861	38,568
INTEREST EXPENSE		
Short-term debt	28,003	28,900
Long-term debt	18,094	--
	46,097	28,900
Net interest rate agreements expense	1,378	595
NET INTEREST INCOME	6,386	9,073
Provision for credit losses	601	695
Equity in earnings of RWT Holdings, Inc.	--	--
Write-down of mortgage securities	729	--
Net (gain)/loss on sale transactions	(6)	--
Operating expenses	1,925	1,167
NET INCOME	3,137	7,211
Less cash dividends on Class B preferred stock	687	755
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 2,450	$ 6,456
NET INCOME PER SHARE		
Basic	$ 0.17	$ 0.56

Diluted	$ 0.17	$ 0.53
Weighted average shares of common stock and common stock equivalents:		
Basic	14,123,951	11,605,171
Diluted	14,234,425	12,116,867

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the three months ended March 31, 1998
(In thousands, except share data)
(Unaudited)

<TABLE>
<CAPTION>

	Class B Preferred stock		Common stock		Additional paid-in capital	Accumulated other comprehensive income	Dividends in excess of net income	Total
	Shares	Amount	Shares	Amount				
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1997	909,518	$ 26,736	14,284,657	$ 143	$ 324,555	$ (10,071)	$ (6,826)	$ 334,537
Net income	--	--	--	--	--	--	3,137	3,137
Net unrealized loss on assets available-for-sale	--	--	--	--	--	(3,014)	--	(3,014)
Comprehensive income	--	--	--	--	--	--	--	123
Repurchase of common stock	--	--	(214,100)	(2)	(4,273)	--	--	(4,275)
Dividends declared:								
Class B preferred	--	--	--	--	--	--	(687)	(687)
Common	--	--	--	--	--	--	--	0
Balance, March 31, 1998	909,518	$ 26,736	14,070,557	$ 141	$ 320,282	$ (13,085)	$ (4,376)	$ 329,698

</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 March 31,	
	1998	1997

<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,137	$ 7,211
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of mortgage asset premium and discount, net	8,158	3,818
Amortization of deferred bond issuance costs	402	--
Amortization of long-term debt premium	(244)	--
Depreciation and amortization	52	26
Provision for credit losses on mortgage assets	601	695
Amortization of interest rate agreements	1,341	311
Net (gain)/loss on sale transactions	(6)	--
Write-down of mortgage securities	729	--
Increase in accrued interest receivable	(767)	(3,714)
(Increase) decrease in other assets	(771)	1,196
Increase (decrease) in accrued interest payable	(2,264)	902
Increase (decrease) in accrued expenses and other	(375)	501
Net cash provided by operating activities	9,993	10,946
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in restricted cash	(1,077)	--
Investment in RWT Holdings, Inc.	(9,900)	--
Purchases of mortgage loans	(441,960)	(250,865)
Purchases of mortgage securities	(161,842)	(376,210)
Proceeds from sales of mortgage securities	9,295	--
Principal payments on mortgage loans	118,707	45,247
Principal payments on mortgage securities	187,405	128,115
Purchases of interest rate agreements	(897)	(1,991)
Net cash used in investing activities	(300,269)	(455,704)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from short-term borrowings	373,493	420,176
Repayments on long-term borrowings	(91,680)	--
Net proceeds from issuance of common stock	--	31,767
Repurchases of common stock	(4,275)	--
Dividends paid	(5,686)	(5,268)
Net cash provided by financing activities	271,852	446,675
Net increase (decrease) in cash and cash equivalents	(18,424)	1,917
Cash and cash equivalents at beginning of period	24,892	11,068
Cash and cash equivalents at end of period	$ 6,468	$ 12,985
Supplemental disclosure of cash flow information:		
Cash paid for interest expense	$ 48,419	$ 28,068

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 1998
(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. RWT Holdings, Inc. ("RWT Holdings"), a non-REIT, taxable affiliate of Redwood Trust, was established during the first quarter of 1998. Redwood Trust, Sequoia and RWT Holdings (collectively, the "Company") acquire and manage real estate mortgage assets ("Mortgage Assets") which may be acquired as whole loans ("Mortgage Loans") or as mortgage securities representing interests in or obligations backed by pools of mortgage loans ("Mortgage Securities"). The Company currently acquires Mortgage Assets that are secured by single-family real estate properties throughout the United States. The Company utilizes both debt and equity to finance its acquisitions. The Company may also use other securitization techniques to enhance the value and liquidity of the Company's Mortgage Assets and may sell Mortgage Assets from time to time.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Redwood Trust and Sequoia. Substantially all of the assets of Sequoia are pledged or 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 pledged as collateral is limited to its net investment, as the Long-Term Debt is non-recourse to the Company. All significant intercompany balances and transactions with Sequoia have been eliminated in consolidation of Redwood Trust.

During March, 1998, the Company formed RWT Holdings, through which a portion of the Company's Mortgage Loan acquisition and finance activities will be conducted. Redwood Trust owns all of the preferred stock and has a non-voting, 99% economic interest in RWT Holdings. As Redwood Trust does not own the voting common stock of RWT Holdings or control RWT Holdings, it's investment in RWT Holdings is accounted for under the equity method. Under this method, original equity investments in RWT Holdings are recorded at cost and adjusted by Redwood Trust's share of earnings or losses and decreased by dividends received.

For financial reporting purposes, references to "Redwood Trust" mean Redwood Trust and Sequoia; while references to the "Company" mean Redwood Trust, Sequoia and RWT Holdings. Certain amounts for prior periods have been reclassified to conform with the 1998 presentation.

INCOME TAXES

Redwood Trust has elected to be taxed as a Real Estate Investment Trust ("REIT") under the Internal Revenue Code (the "Code") and the corresponding provisions of State law. In order to qualify as a REIT, Redwood Trust must annually distribute at least 95% of its taxable income to shareholders and meet certain other requirements. If these requirements are met, Redwood Trust 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 shareholders. Because Redwood Trust 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, as Redwood Trust believes it has met the prescribed distribution requirements.

MORTGAGE ASSETS

Redwood Trust's Mortgage Assets consist of Mortgage Securities and Mortgage Loans. Interest income is accrued based on the outstanding principal amount of the Mortgage Assets and their contractual terms. Discounts and premiums relating to Mortgage Assets are amortized into interest income over the lives of the Mortgage Assets using methods that approximate the effective yield method. Gains or losses on the sale of Mortgage Assets are based on the specific identification method.

Mortgage Loans
Mortgage Loans are carried at their unpaid principal balance, net of unamortized discount or premium and specific credit reserves established for such assets.

Mortgage Securities
Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires Redwood Trust to classify its Mortgage Securities as either trading investments, available-for-sale investments or held-to-maturity investments. Although Redwood Trust generally intends to hold most of its Mortgage Securities until maturity, it may, from time to time, sell any of its Mortgage Securities as part of its overall management of its balance sheet. Accordingly, to maintain flexibility, Redwood Trust currently classifies all of its Mortgage Securities as available-for-sale. All assets classified as available-for-sale are reported at fair value. Current period unrealized gains and losses are excluded from net income and reported as a component of 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 that are considered other-than-temporary, as measured by the amount of decline in fair value attributable to factors other-than-temporary, are recognized in income and the carrying value of the Mortgage Security is adjusted. Other-than-temporary unrealized losses are based on management's assessment of 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 and a significant change in the prepayment characteristics of the underlying collateral.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less. The carrying amount of cash equivalents approximates their fair value.

INTEREST RATE AGREEMENTS

Redwood Trust utilizes various types of Interest Rate Agreements to hedge the interest rate and liquidity risks inherent in its investment and financing strategies.

SFAS No. 119, Disclosure about Derivative Financial Instruments, requires Redwood Trust to provide certain disclosures concerning its derivative instruments according to a set of prescribed guidelines. The nature of Redwood Trust's investment and financing strategies exposes Redwood Trust to interest rate risk. As part of its asset/liability management activities, Redwood Trust uses interest rate options, interest rate swaps and interest rate futures (collectively "Interest Rate Agreements") to hedge exposures or modify the interest rate characteristics of related balance sheet items. Currently, Redwood Trust enters into all Interest Rate Agreements as hedges. Under Redwood Trust's hedging policy, a specific portfolio of assets and liabilities with similar economic characteristics such as a low life strike, variable interest rate based on a market-sensitive index, similar expected prepayment rate behavior and similar periodic caps, is identified. The hedge instruments are chosen as the ones probable of substantially reducing the interest rate risk being hedged, and a high degree of correlation is maintained on an on-going basis. These hedge instruments are intended to reduce the interest rate risk being hedged by providing income to offset potential reduced net interest income or by protecting against market value fluctuations on the

hedged assets or liabilities under certain interest rate scenarios. Redwood Trust periodically evaluates the effectiveness of these hedges under various interest rate scenarios.

Interest Rate Agreements that are hedging available-for-sale Mortgage Securities are carried at fair value with unrealized gains and losses reported as a component of Accumulated Other Comprehensive Income in stockholders' equity, consistent with the reporting of unrealized gains and losses on the related securities. Similarly, Interest Rate Agreements that are used to hedge Mortgage Loans, short-term debt or long-term debt are carried at amortized cost.

Net premiums on interest rate option agreements 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 option and swap agreements is recognized on an accrual basis. Realized gains and losses from the settlement or early termination of Interest Rate Agreements are deferred and amortized into net interest income over the remaining term of the original Interest Rate Agreement, or, if shorter, over the remaining term of the associated hedged asset or liability, as adjusted for estimated future principal repayments. In the event that a hedged asset or liability is sold or extinguished, any related hedging gains or losses would be recognized as an adjustment to the gain or loss on the disposition of the related asset or liability.

Unrealized losses on Interest Rate Agreements that are considered other-than-temporary are recognized in income and the carrying value of the Interest Rate Agreement is adjusted. The other-than-temporary decline is measured as the amount of the decline in fair value attributable to factors that are other-than-temporary. Other-than-temporary unrealized losses are based on management's assessment of various factors affecting the Interest Rate Agreements, for example, a serious deterioration of the ability of the counterparty to perform under the terms of the Interest Rate Agreement.

DEBT

Short-Term 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.

NET INCOME PER SHARE

Net income per share for the three months ended March 31, 1998 and 1997 is shown in accordance with SFAS No. 128, Earnings Per Share, which was effective for fiscal years ended after December 15, 1997 and requires restatement of prior period earnings per share ("EPS"). 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 diluted 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 for the three months ended March 31, 1998 and 1997.

<TABLE>
<CAPTION>

(IN THOUSANDS, EXCEPT SHARE DATA)	THREE MONTHS ENDED MARCH 31, 1998 INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT
<S>	<C>	<C>	<C>
Net Income	$ 3,137		
Cash dividends on Class B preferred stock	(687)		
Basic EPS - Income available to common stockholders	2,450	14,123,951	$ 0.17
Effect of dilutive securities -			
Stock options		110,474	
Diluted EPS - Income available to common stockholders	$ 2,450	14,234,425	$ 0.17

</TABLE>

<TABLE>
<CAPTION>

(IN THOUSANDS, EXCEPT SHARE DATA)	THREE MONTHS ENDED MARCH 31, 1997 INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT
<S>	<C>	<C>	<C>
Net Income	$ 7,211		
Cash dividends on Class B preferred stock	(755)		
Basic EPS - Income available to common stockholders	6,456	11,605,171	$ 0.56
Effect of dilutive securities -			
Stock options		253,274	
Stock warrants (a)		258,422	
Diluted EPS - Income available to common stockholders	$ 6,456	12,116,867	$ 0.53

</TABLE>

(a) The Stock warrants expired on December 31, 1997.

COMPREHENSIVE INCOME

SFAS No. 130, Reporting Comprehensive Income, requires Redwood Trust to classify items of "other comprehensive income", such as unrealized gains and losses on assets available-for-sale and foreign currency translation adjustments, by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the balance sheet. In accordance with SFAS No. 130, current period unrealized gains and losses on assets available-for-sale are reported as a component of comprehensive income on the Statement of Stockholders' Equity with cumulative unrealized gains and losses classified as Accumulated Other Comprehensive Income in stockholders' equity. As of March 31, 1998 and December 31, 1997, the only component of Accumulated Other Comprehensive Income was unrealized gains and losses on assets available-for-sale.

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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue 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. Redwood Trust uses estimates in establishing fair value for its assets available-for-sale. Management bases its fair value estimates primarily on third party bid price indications, such as bid indications provided by dealers who make markets in these assets and asset valuations made by collateralized lenders, when such indications are available. Estimates of fair value for all remaining assets available-for-sale are based primarily on management's judgment. However, the fair value reported reflects estimates and may not necessarily be indicative of the amounts Redwood Trust could realize in a current market exchange. The fair value of all on- and off- balance sheet financial instruments is presented in Notes 3, 6 and 9.

Allowance for Credit Losses. An allowance for credit losses is maintained at a level deemed appropriate by management to provide for known, future losses as well as unidentified potential losses in its Mortgage Asset portfolio. The allowance is based upon management's assessment of various factors affecting its Mortgage Assets, including current and projected economic conditions, delinquency status and credit protection. In determining the allowance for credit losses, Redwood Trust's credit exposure is considered based on its credit risk position in the mortgage pool. 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 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 allowance and subsequent recoveries, if any, are credited to the allowance. Redwood Trust's actual credit losses may differ from those estimates used to establish the allowance. Summary information regarding the Allowance for Credit Losses is presented in Note 4.

NOTE 3. MORTGAGE ASSETS

At March 31, 1998, Mortgage Assets consisted of the following:

<TABLE>
<CAPTION>

(IN THOUSANDS)	MORTGAGE SECURITIES AGENCY	MORTGAGE SECURITIES NON-AGENCY	MORTGAGE LOANS	TOTAL
<S>	<C>	<C>	<C>	<C>
Mortgage Assets, Gross	$ 869,153	$ 872,822	$ 1,837,517	$ 3,579,492
Unamortized Discount	(168)	(11,936)	(27)	(12,131)
Unamortized Premium	30,045	17,060	37,943	85,048
Amortized Cost	899,030	877,946	1,875,433	3,652,409
Allowance for Credit Losses	0	(2,035)	(3,449)	(5,484)
Gross Unrealized Gains	1,554	2,498	0	4,052
Gross Unrealized Losses	(5,522)	(2,905)	0	(8,427)
Carrying Value	$ 895,062	$ 875,504	$ 1,871,984	$ 3,642,550

</TABLE>

At December 31, 1997, Mortgage Assets consisted of the following:

<TABLE>
<CAPTION>

(IN THOUSANDS)	MORTGAGE SECURITIES AGENCY	MORTGAGE SECURITIES NON-AGENCY	MORTGAGE LOANS	TOTAL
<S>	<C>	<C>	<C>	<C>
Mortgage Assets, Gross	$ 953,937	$ 825,438	$ 1,519,837	$ 3,299,212
Unamortized Discount	(174)	(12,268)	0	(12,442)
Unamortized Premium	32,722	18,606	34,844	86,172
Amortized Cost	986,485	831,776	1,554,681	3,372,942
Allowance for Credit Losses	0	(2,076)	(2,855)	(4,931)
Gross Unrealized Gains	2,598	3,984	0	6,582
Gross Unrealized Losses	(4,286)	(3,685)	0	(7,971)
Carrying Value	$ 984,797	$ 829,999	$ 1,551,826	$ 3,366,622

</TABLE>

At March 31, 1998 and December 31, 1997, all investments in Mortgage Assets consisted of interests in adjustable-rate mortgages or hybrid adjustable-rate mortgages on residential properties. The hybrid adjustable-rate mortgages have an initial fixed coupon rate of five years followed by annual adjustments. Agency Mortgage Securities ("Agency Securities") represent securitized interests in pools of adjustable-rate mortgages from the

Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association. The Agency Securities are guaranteed as to principal and interest by these United States government-sponsored entities. The original maturity of the majority of the Mortgage Assets is thirty years; the actual maturity is subject to change based on the prepayments of the underlying mortgage loans.

At March 31, 1998 and December 31, 1997, the average annualized effective yield after taking into account the amortization expense due to prepayments on the Mortgage Assets was 6.33% and 6.86%, respectively, based on the amortized cost of the assets. The coupons on 68% of the adjustable-rate mortgage securities and loans owned by Redwood Trust are limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every six months or 2% every year) with the other 32% not limited by such periodic caps. Most of the coupons on the adjustable-rate mortgage securities and loans owned by Redwood Trust are limited by lifetime caps. At March 31, 1998 and December 31, 1997, the weighted average lifetime cap was 12.12% and 12.08%, respectively.

During the first quarter of 1998, Redwood Trust sold Mortgage Securities with a carrying value of $9.3 million. Proceeds and realized gains and losses on the sales of Mortgage Securities for the three months ended March 31, 1998 are presented below. No such sales occurred for the three months ended March 31, 1997.

(IN THOUSANDS)	1998
Proceeds from sales of available-for-sale securities	$9,295
Available-for-sale securities gains	$ 6
Available-for-sale securities losses	0
Net gain on sales of available-for-sale securities	$ 6

NOTE 4. ALLOWANCE FOR CREDIT LOSSES

The following table summarizes Allowance for Credit Losses activity for the three months ended March 31:

(IN THOUSANDS)	1998	1997
Balance at January 1	$ 4,931	$ 2,180
Provision for credit losses	601	695
Charge-offs	(48)	(42)
Balance at March 31	$ 5,484	$ 2,833

The Allowance for Credit Losses is classified on the Consolidated Balance Sheets as a component of Mortgage Assets.

NOTE 5. COLLATERAL FOR LONG-TERM DEBT

Redwood Trust has pledged collateral in order to secure the Long-Term Debt issued in the form of collateralized mortgage bonds ("Bond Collateral"). This Bond Collateral consists primarily of adjustable-rate, 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. Redwood Trust's exposure to loss on the Bond Collateral is limited to its net investment, as the Long-Term Debt is non-recourse to Redwood Trust. Redwood Trust may also be exposed to losses from prepayments of the underlying loans to the extent that the unamortized net premium on the loans exceeds the net unamortized premium on the Long-Term Debt net of deferred bond issuance costs related to the issuance of the Long-Term Debt.

The components of the Bond Collateral at March 31, 1998 and December 31, 1997 are summarized as follows:

(IN THOUSANDS)	MARCH 31, 1998	DECEMBER 31, 1997
Mortgage loans	$1,095,859	$1,191,487
Restricted cash and cash equivalents	25,734	24,657
Accrued interest receivable	6,796	7,401
	$1,128,389	$1,223,545

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 amortized cost and carrying value of Redwood Trust's Interest Rate Agreements at March 31, 1998 and December 31, 1997 are summarized as follows:

<TABLE>
<CAPTION>

(IN THOUSANDS)	MARCH 31, 1998	DECEMBER 31, 1997
<S>	<C>	<C>
Amortized Cost	$ 10,337	$ 10,781
Gross Unrealized Gains	339	650
Gross Unrealized Losses	(9,049)	(9,331)
Carrying Value	$ 1,627	$ 2,100

</TABLE>

The following table summarizes the aggregate notional amounts of all of Redwood Trust's Interest Rate Agreements as well as the credit exposure related to these instruments at March 31, 1998 and December 31, 1997.

<TABLE>
<CAPTION>

	NOTIONAL AMOUNTS		CREDIT EXPOSURE (a)	
(IN THOUSANDS)	MARCH 31, 1998	DECEMBER 31, 1997	MARCH 31, 1998	DECEMBER 31, 1997
<S>	<C>	<C>	<C>	<C>
Interest Rate Options	$4,775,100	$4,862,200	$ 0	$ 0
Interest Rate Swaps	595,000	473,000	11,979	12,392
Interest Rate Futures	61,000	58,000	0	46
Total	$5,431,100	$5,393,200	$ 11,701	$ 12,438

</TABLE>

(a) Reflects the fair market value of all cash and collateral of Redwood Trust held by counterparties.

Interest Rate Options, which include caps, floors, collars, options on swaps and swaption collars (collectively, "Options"), are agreements which transfer, modify or reduce interest rate risk in exchange for the payment of a premium when the contract is initiated. Interest rate cap agreements provide cash flows to Redwood Trust to the extent that a specific interest rate index exceeds a fixed rate. Conversely, interest rate floor agreements produce cash flows to Redwood Trust to the extent that the referenced interest rate index falls below the agreed upon fixed rate. Interest rate collar agreements consist of the purchase of a cap agreement subsidized by the sale of a floor agreement, thus incorporating both of the above mentioned types of cash flows. Swaption collars will cause Redwood Trust to incur a gain (loss) should interest rates fall (rise) sharply as of the expiration date of the option. Redwood Trust will receive cash on the options on futures if the futures price exceeds (is below) the call (put) option strike price at the expiration of the option. Redwood Trust's credit risk on the Options is limited to the amortized cost of the Options agreements.

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 Redwood Trust's Swaps involve the exchange of either fixed interest payments for floating interest payments or

the exchange of one floating interest payment for another floating interest payment based on a different index. Most of the Swaps require that Redwood Trust provide collateral in the form of Mortgage Assets to the counterparty. Should the counterparty fail to return the collateral, Redwood Trust would be at risk for the fair market value of that asset.

Interest Rate Futures ("Futures") are contracts for the delivery of securities or cash in which the seller agrees to deliver on a specified future date, a specified instrument (or the cash equivalent), at a specified price or yield. Under these agreements, if Redwood Trust has sold (bought) the futures, Redwood Trust will generally receive additional cash flows if interest rates rise (fall). Conversely, Redwood Trust will generally pay additional cash flows if interest rates fall (rise).

In general, Redwood Trust has incurred 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, Redwood Trust would not receive the cash to which it would otherwise be entitled under the Interest Rate Agreement. In order to mitigate this risk, Redwood Trust 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 single A or higher. Furthermore, Redwood Trust has entered into Interest Rate Agreements with several different counterparties in order to reduce the risk of credit exposure to any one counterparty.

NOTE 7. SHORT-TERM DEBT

Redwood Trust has entered into reverse repurchase agreements 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 Redwood Trust's Mortgage Assets.

At March 31, 1998, Redwood Trust had $2.3 billion of Short-Term Debt outstanding with a weighted average borrowing rate of 5.89% and a weighted average remaining maturity of 65 days. This debt was collateralized with $2.4 billion of Mortgage Assets. At December 31, 1997, Redwood Trust had $1.9 billion of Short-Term Debt outstanding with a weighted average borrowing rate of 6.00% and a weighted average remaining maturity of 64 days. This debt was collateralized with $2.0 billion of Mortgage Assets.

At March 31, 1998 and December 31, 1997, the Short-Term Debt had the following remaining maturities:

<TABLE>
<CAPTION>

(IN THOUSANDS)	MARCH 31, 1998	DECEMBER 31, 1997
<S>	<C>	<C>
Within 30 days	$1,264,488	$ 823,545
30 to 90 days	399,020	533,543
Over 90 days	624,510	557,437
Total Short-Term Debt	$2,288,018	$1,914,525

</TABLE>

For the three months ended March 31, 1998 and 1997, the average balance of Short-Term Debt was $1.9 billion and $2.1 billion with a weighted average interest cost of 5.77% and 5.62%, respectively. The maximum balance outstanding during the three months ended March 31, 1998 and 1997 was $2.3 billion and $2.4 billion, respectively.

NOTE 8. LONG-TERM DEBT

During 1997, Redwood Trust issued $1.28 billion of Long-Term Debt in the form of collateralized mortgage bonds. The Long-Term Debt was issued by two business trusts established by the Redwood Trust's wholly-owned subsidiary, Sequoia. Each series of Long-Term Debt consists of two classes of bonds at variable rates of interest. Payments received on the Bond Collateral are used to make 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 Redwood Trust. The maturity of each class is directly affected by the rate of principal prepayments on the related

Bond Collateral. The Long-Term Debt is also subject to redemptions according to the specific terms of the individual indentures as defined in the corresponding prospectus. As a result, the actual maturity of any class of this series of Long-Term Debt is likely to occur earlier than its stated maturity.

The components of the Long-Term Debt at March 31, 1998 and December 31, 1997 along with selected other information are summarized below:

<TABLE>
<CAPTION>

(IN THOUSANDS)	MARCH 31, 1998	DECEMBER 31, 1997
<S>	<C>	<C>
Long-Term Debt	$ 1,079,028	$ 1,170,709
Unamortized premium on Long-Term Debt	5,551	5,795
Deferred bond issuance costs	(3,300)	(3,703)
Total Long-Term Debt	$ 1,081,279	$ 1,172,801
Range of coupons on bonds	6.02% to 6.49%	6.06% to 6.50%
Stated maturities	2024 - 2029	2024 - 2029

</TABLE>

For the three months ended March 31, 1998, 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 6.44%. Cash paid for interest on Long-Term Debt for the three months ended March 31, 1998 totaled $18.0 million.

NOTE 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated fair values of the Redwood Trust's financial instruments at March 31, 1998 and December 31, 1997. SFAS No. 107, Disclosures about Fair Value of Financial Instruments, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale.

(IN THOUSANDS)	MARCH 31, 1998		DECEMBER 31, 1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets				
Mortgage Loans	$1,871,984	$1,872,774	$1,551,826	$1,552,585
Mortgage Securities	$1,770,566	$1,770,566	$1,814,796	$1,814,796
Interest Rate Agreements	$ 1,627	$ 2,584	$ 2,100	$ 1,522
Liabilities				
Long-Term Debt	$1,081,279	$1,080,530	$1,172,801	$1,172,938

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

NOTE 10. STOCKHOLDERS' EQUITY

CLASS B 9.74% CUMULATIVE CONVERTIBLE PREFERRED STOCK

On August 8, 1996, Redwood Trust 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. After September 30, 1999, Redwood Trust 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 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 Redwood Trust'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.

As of March 31, 1998 and December 31, 1997, 96,732 shares of the Preferred Stock have been converted into 96,732 shares of the Redwood Trust's Common Stock. At March 31, 1998 and December 31, 1997, there were 909,518 shares of the Preferred Stock outstanding.

STOCK OPTION PLAN

Redwood Trust 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 and 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 Redwood Trust's total outstanding shares of Common Stock. At March 31, 1998 and December 31, 1997, 839,588 and 1,158,404 shares of Common Stock, respectively, were available for grant. Of the shares of Common Stock available for grant, no more than 500,000 shares of Common Stock shall be cumulatively available for grant as ISOs. At March 31, 1998 and December 31, 1997, 360,265 and 354,265 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 under the Plan vest no earlier than ratably over a four year period from the date of grant and expire within ten years after the date of grant.

Redwood Trust's Plan permits certain stock options granted under the plan to accrue stock DERs. For the three months ended March 31, 1998 and 1997, the stock DERs accrued on NQSOs that had a stock DER feature resulted in charges to operating expenses of $53,228 and $123,859, respectively. Stock DERs represent shares of stock which are issuable to holders of stock options when the holders exercise the underlying stock options. The number of stock DER shares accrued are based on the level of Redwood Trust's dividends and on the price of the stock on the related dividend payment date.

A summary of the status of Redwood Trust's Plan for the three months ended March 31 is presented below.

<TABLE>
<CAPTION>

	1998	
(IN THOUSANDS, EXCEPT SHARE DATA)	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>
Outstanding options at beginning of period	840,644	$ 29.79
Options granted	284,282	$ 20.20
Options exercised	--	--
Dividend equivalent rights earned	2,419	0.00
Outstanding options at end of period	1,127,345	$ 27.31

</TABLE>

STOCK PURCHASE WARRANTS
The Warrants expired on December 31, 1997. Each Warrant entitled the holder to purchase 1.000667 shares of the Redwood Trust's Common Stock at an exercise price of $15.00 per share.

STOCK REPURCHASES
During 1997, Redwood Trust's Board of Directors approved the repurchase of up to 1,455,000 shares of the Redwood Trust's Common Stock. Pursuant to this repurchase program, Redwood Trust repurchased 214,100 shares of its Common Stock for $4.3 million during the three months ended March 31, 1998. During the year ended December 31, 1997, Redwood Trust repurchased 840,000 shares of its Common Stock for $23.1 million. The repurchased shares have been returned to Redwood Trust's authorized but unissued shares of Common Stock.

DIVIDENDS
As of March 31, 1998, Redwood Trust had declared the following dividends:

<TABLE>
<CAPTION>

			TOTAL	DIVIDENDS PER SHARE	
DECLARATION DATE	RECORD DATE	PAYABLE DATE	DIVIDENDS (IN THOUSANDS)	CLASS B PREFERRED STOCK	COMMON STOCK
<S>	<C>	<C>	<C>	<C>	<C>
3/11/98	3/31/98	4/21/98	$ 687	$ 0.755	--
12/12/97	12/31/97	1/21/98	$5,686	$ 0.755	$ 0.350
9/8/97	9/30/97	10/21/97	$9,433	$ 0.755	$ 0.600
6/12/97	6/30/97	7/21/97	$8,638	$ 0.755	$ 0.600
3/5/97	3/31/97	4/21/97	$7,899	$ 0.755	$ 0.600

</TABLE>

Under the Internal Revenue Code of 1986, 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 month, will be deemed to have been paid by Redwood Trust 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. Therefore, the dividend declared in December 1997 which was paid in January 1998 is considered taxable income to shareholders in the year declared. Redwood Trust's dividends are not eligible for the dividends received deduction for corporations.

NOTE 11. COMMITMENTS AND CONTINGENCIES

At March 31, 1998, the Company had entered into commitments to purchase $114.5 million of Mortgage Assets for settlement in April 1998. The majority of these commitments relate to acquisitions made by RWT Holdings.

At March 31, 1998, Redwood Trust is obligated under non-cancelable operating leases with expiration dates through 2001. The future minimum lease payments under these non-cancelable leases are as follows: 1998 - $149,124; 1999 through 2000 - $198,832; 2001 - $66,277.

NOTE 12. SUBSEQUENT EVENT

On April 27, 1998, Redwood Trust declared a $0.27 cash dividend per common share for the first quarter of 1998 payable on May 21, 1998 to common shareholders of record on May 7, 1998.

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: Statements in this discussion regarding Redwood Trust, Inc. (the "Company") and its business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" commencing on Page 27 of the Company's 1997 Annual Report.

COMPANY OVERVIEW

Redwood Trust, Inc. is a financial institution specializing in the single-family residential mortgage spread lending business. The Company earns net income primarily to the extent that the interest income it earns from its mortgage loans and securities exceeds the cost of borrowed funds, hedging, credit loss expenses and operating expenses.

The Company seeks to earn net interest income from first-lien single-family residential mortgage loans and securities underwritten to "A" or "prime" quality standards. The Company believes its primary competitors in the "A" quality mortgage spread lending business are banks, savings and loans, insurance companies, the two government-sponsored mortgage entities ("GSEs": Fannie Mae and Freddie Mac) and other mortgage Real Estate Investment Trusts ("REITs").

The Company has chosen to pursue a wholesale strategy (such as is employed by the GSEs) rather than a retail strategy (such as is employed by most banks and savings and loans). Like the GSEs, the Company does not originate loans directly but rather acquires loans from mortgage origination companies and from the secondary mortgage market. Like the GSEs, the Company out-sources the servicing of its mortgage loans and sources its borrowings on a wholesale basis in the capital markets rather than seeking retail deposits through a branch banking system. The Company believes that its wholesale strategy allows the Company to operate in a highly efficient manner while remaining focused on its core spread lending business.

Over the past year, the Company has moved a long way towards transforming itself from a spread lending company managing mortgage securities funded with short-term debt to a spread lending company managing high-quality single-family mortgage loans funded with long-term debt. The impact of this transition on the Company's results is discussed below.

The Company has elected to be considered a REIT with respect to Federal and state income taxes. This election generally allows the Company to avoid paying corporate income tax so long as it distributes at least 95% of its taxable income as dividends and meets the other REIT requirements.

RESULTS OF OPERATIONS

Mortgage Asset Acquisitions

Through March 31, 1998, all mortgage loans acquired have been high-quality, adjustable-rate, first-lien mortgages on single-family residential properties ("ARMs"). All mortgage securities acquired have represented securitized interests in pools of ARMs.

In the first quarter of 1998, the Company acquired $604 million of mortgage assets, including $442 million of mortgage loans and $162 million in mortgage securities. Mortgage loans with a first reset within twelve months represented $150 million of acquired mortgage loans while hybrid mortgage loans, with a first reset after twelve

months, represented the other $292 million. Overall, the percentage of mortgage loans acquired by the Company was 73% of mortgage assets acquired by the Company in the first quarter of 1998.

In the fourth quarter of 1997, the Company acquired $342 million in mortgage assets, including $275 million in mortgage loans and $67 million in mortgage securities.

In the first quarter of 1997, the Company acquired $627 million of mortgage assets, including $251 million of mortgage loans and $376 million of mortgage securities.

In the second quarter of 1998, through May 8, 1998, the Company purchased or committed to purchase $397 million of mortgage assets. Mortgage loans represent $384 million of this total and high-quality mortgage securities represent $13 million. Hybrid loans represent $383 million of mortgage loan purchases or purchase commitments.

Principal Repayments

The Company received $306 million of mortgage principal repayments in the first quarter of 1998. The Company received principal repayments of $347 million in the fourth quarter of 1997 and $173 million in the first quarter of 1997.

Principal repayments on mortgage loans consist of scheduled principal payments and unscheduled principal prepayments. Scheduled principal repayments are the payments calculated to fully amortize a loan at its scheduled maturity date. Unscheduled principal prepayments typically occur when a homeowner pays off their loan either because they sell their home or they refinance their mortgage at a lower rate. Some mortgage securities owned by the Company are subject to call provisions and some receive a greater than pro-rata share of principal repayments generated by the underlying mortgage pool. Thus, for securities, the total amount of mortgage principal repayment each month can exceed the level of prepayments and scheduled repayments on the underlying loans.

One common measure of principal prepayments is the conditional prepayment rate ("CPR"). The CPR measures how much principal prepaid in a period, expressed as a percentage of the remaining principal balance at the beginning of that period. This percentage is stated as an annualized number. The average CPR for the Company's mortgage loans and the mortgages contained in the pools underlying its mortgage securities was 26% in the first quarter of 1998 versus 27% in the fourth quarter of 1997 and 24% in the first quarter of 1997. Historically, annual average CPRs on the Company's mortgage assets have increased from 19% in 1995 to 25% in both 1996 and 1997.

Prepayments on the Company's mortgage loans, including the mortgage loans underlying the mortgage securities owned by the Company, accelerated significantly in March compared to the levels experienced in January and February. The average CPRs were 26% in January, 23% in February and 29% in March. Based on preliminary results, the Company believes that the April 1998 average CPRs will be higher than March levels. This level of prepayments will tend to reduce the Company's earnings in the second quarter.

Total principal repayments as a percent of the average principal balance were 38% in the first quarter of 1998 versus 43% in the fourth quarter of 1997 and 32% in the first quarter of 1997.

Net Asset Growth

In the first quarter of 1998, the Company acquired $604 million of mortgage assets, received mortgage principal repayments of $306 million, sold mortgage securities of $9 million, had net premium amortization of $8 million, wrote-down interest-only mortgage securities by $0.7 million and had realized credit losses of $0.05 million. The net increase in mortgage assets was $279 million, or 8.3%.

In the fourth quarter of 1997, the Company acquired $342 million of mortgage assets, received mortgage principal repayments of $347 million, sold mortgage securities of $46 million, had net premium amortization of $8 million and had credit losses of $0.04 million. The net decline in mortgage assets was $59 million, or 1.7%.

In the first quarter of 1997, the Company acquired $627 million of mortgage assets, received mortgage principal repayments of $173 million, sold no mortgage securities, had net premium amortization of $4 million and had credit losses of $0.04 million. Mortgage assets grew by $450 million, or 20.9%.

Mortgage Equity Interests

The Company defines a mortgage equity interest as the ownership of the equity portion of a mortgage spread lending "subsidiary trust" wherein: i) the assets of the trust are funded with long-term debt or similar instruments, ii) the debt and other liabilities of the trust are non-recourse to the Company, and iii) liquidity risk is essentially eliminated. Mortgage equity interests can be created through transactions structured as collateralized mortgage bonds, collateralized bond obligations, REMICs, FASITs and other means. The assets of the trust can be mortgage loans or mortgage securities.

The Company created no new mortgage equity interests in the first quarter of 1998. However, the Company expects to utilize its mortgage loans currently funded with short-term borrowings to create mortgage equity interests during the remainder of 1998.

At March 31, 1998, the Company's investment in mortgage equity interests totaled $56 million. The Company employed nearly 17% of its equity base in mortgage equity interests at that time.

Interest Income

Total interest income is the sum of the income the Company earns on the principal value of its mortgage assets, the amortization of premium and discount and the interest earned on cash balances.

First quarter 1998 total interest income equaled $53.9 million, a 0.2% decrease from the $54.0 million posted in the fourth quarter of 1997. The decrease was the combined effect of a 0.6% quarter-to-quarter increase in average mortgage assets held by the Company (from $3.27 to $3.29 billion) and a 0.05% decline in mortgage asset yield (from 6.55% to 6.50%). Mortgage asset yield is the amount of annualized total interest income earned on mortgage assets divided by the average daily balance of mortgage assets' amortized cost. An increase in the net amortization expense accounted for 0.01% of the mortgage asset yield's decline, while a reduction in mortgage coupon yield accounted for the remaining 0.04%.

Compared to the first quarter of 1997, first quarter 1998 total interest income increased 39.7%, from $38.6 million to $53.9 million. This increase was driven by a 47.4% increase in average mortgage assets (from $2.23 billion to $3.29 billion) and a 0.38% decline in mortgage asset yield (from 6.88% to 6.50%). The net amortization of premium increased to $8.2 million in the first quarter of 1998 from $3.8 million in the first quarter of 1997. This increase was driven primarily by the increase in principal repayments on mortgage assets, in conjunction with a higher premium basis on the mortgage portfolio. An increase in the net premium amortization expense accounted for 0.31% of the decline in mortgage asset yield, while a reduction in the mortgage coupon yield accounted for the remaining 0.07% of the decline.

Earning asset yield, which includes the yield on cash as well as mortgage assets, was approximately equal to the mortgage yield in each of these quarters. The earning asset yield was 6.49% in the first quarter of 1998, 6.54% in the fourth quarter of 1997 and 6.87% in the first quarter of 1997.

Interest Expense

Interest expense is the cash expense paid on short-term and long-term debt plus the net amortization expense or income of deferred bond issuance costs, premiums and other related expenses.

First quarter 1998 interest expense of $46.1 million fell $0.4 million from $46.5 million posted in the fourth quarter of 1997. This was the net effect of a $3.9 million decrease in short-term interest expense and a $3.5 million increase in long-term interest expense.

Interest expense on short-term debt fell due to a decline in average short-term borrowings and a decline in the number of days in the quarter from 92 to 90 (the seasonal "day count" effect on short-term debt). Short-term interest expense is calculated on a daily basis, thus fewer days result in lower interest expense. Compared to the fourth quarter of 1997, first quarter 1998 interest expense on long-term debt rose because the average long-term debt balance rose from $0.9 billion to $1.1 billion and the long-term borrowings cost of funds increased from 6.40% to 6.44%. In the first quarter of 1998, the Company's total cost of funds was 6.01%, or 0.08% less than the cost of funds in the fourth quarter of 1997.

Compared to the first quarter of 1997, first quarter 1998 interest expense increased 59.5%, to $46.1 million from $28.9 million. A $0.9 million decrease in interest expense on short-term debt was the net result of a $114 million decrease in average short-term borrowings, partially offset by a 0.15% rise in the average short-term cost of funds due to higher interest rates. There was no long-term debt outstanding in the first quarter of 1997. Compared to the first quarter of 1997, the Company's first quarter 1998 total cost of funds increased 0.39%, from 5.62% to 6.01%.

Interest Rate Agreements Expense

Interest rate agreements are a form of interest rate insurance, or hedging, which the Company utilizes to reduce the effects that large changes in interest rates could have on its balance sheet and earnings. The Company seeks to hedge, in part, the market value and earnings risks arising from the life caps, periodic caps and the fixed-coupon period to the next adjustment date for its adjustable-rate mortgage assets. The Company also may hedge: i) the market value of acquired mortgage loans prior to securitization into a mortgage equity interest, ii) the anticipated issuance of liabilities, iii) premium amortization risk that may arise from falling interest rates, and iv) risk arising from any hybrid or fixed-rate mortgages which are funded short-term. The Company may use interest rate agreements for other hedging purposes as well.

First quarter 1998 net interest rate agreements expense was $1.4 million. Interest rate agreement expense was $1.3 million and $0.6 million in the fourth and first quarters of 1997, respectively. The higher level of expense over the past two quarters compared to the year-ago quarter is due to an increase in the number of interest rate agreements which were effective during these later periods.

Annualized net interest rate agreements expense was 0.18%, 0.17% and 0.12% of average borrowings in the first quarter of 1998 and the fourth and first quarters of 1997, respectively.

The Company constantly evaluates the cost and effectiveness of various hedging strategies designed to mitigate selected portions of risk associated with its business operations. Recently, the Company developed a modified hedging system which it believes may provide improved protection against certain risks at a reduced cost. This system will be implemented over time. The Company does not seek to hedge or eliminate all risks associated with its business. For additional detail, see "Note 6. Interest Rate Agreements" in the Notes to the Consolidated Financial Statements.

Net Interest Income

Net interest income is total interest income less interest expense and net interest rate agreement expense. Interest rate spread is the spread between the yield on earning assets and the cost of funds and hedging. Interest rate margin is annualized net interest income divided by the average daily balance of earning assets.

Compared to the fourth quarter of 1997, first quarter 1998 net interest income increased $0.2 million, or 3.3%, from $6.2 million to $6.4 million. This was the net effect of a 0.6% increase in average mortgage assets and an improvement in the Company's interest rate spread from 0.28% to 0.30%. A 0.08% reduction in the Company's

cost of funds, net of a 0.05% decline in earning asset yield and a 0.01% increase in hedging expense, accounted for this change in spread. Similarly, the net interest rate margin increased from 0.72% in the fourth quarter of 1997 to 0.75% in the first quarter of 1998.

Compared to the same quarter one year ago, first quarter 1998 net interest income was down 29.6%, from $9.1 to $6.4 million. The negative effect of a 0.83% decrease in the Company's interest rate spread was only partially offset by the 47.4% increase in average mortgage assets in the quarter-to-quarter comparison. The Company's interest rate spread in the same quarter one year ago was 1.13%. The lower spread in the first quarter 1998 is attributable to a 0.38% drop in the earning asset yield, a 0.39% increase in cost of funds and a 0.06% increase in hedging costs. The net interest rate margin decreased from 1.57% in the first quarter of 1997 to 0.75% in the first quarter of 1998.

Please see "Interest Income" and "Interest Expense" above for a discussion of the factors that resulted in narrower interest rate spreads and margins over these periods.

Credit Provision Expense and Actual Credit Losses

The Company establishes credit provisions against its mortgage assets in order build a reserve for potential future credit losses.

Compared to the fourth quarter of 1997, first quarter 1998 total credit provisions on its mortgage loans and mortgage securities increased $0.1 million, from $0.5 million to $0.6 million. This was due to the increased size of the mortgage loan portfolio in the first quarter of 1998 versus the fourth quarter of 1997.

Compared to the first quarter of 1997, first quarter 1998 total credit provisions were down $0.1 million, from $0.7 million. A $0.4 million increase in reserves taken due to a higher average mortgage loan balance was more than offset by a $0.5 million reduction in provisions taken on mortgage securities. The Company has not increased its credit reserve on its mortgage securities over the past two quarters because it believes that the existing level of reserves on mortgage securities are adequate at this time.

The Company's current policy is to set aside annual credit provisions for mortgage loans on an on-going basis equaling 0.10% to 0.20% of its mortgage loan portfolio. In the first quarter of 1997, the annualized rate of provision was 0.16% of the average mortgage loan balance. In prior years, the annual provisions taken were greater than 0.20% of the loan portfolio as the Company sought to establish a higher base level of credit reserves.

Actual credit losses realized were $49,000 in the first quarter of 1998. Actual credit losses were $40,000 and $42,000 in the fourth and first quarter of 1997, respectively. Total cumulative actual credit losses from the Company's mortgage assets through March 31, 1998 have been $239,000.

Credit provisions reduce net income and earnings per share but only actual credit losses are deducted when calculating taxable income. Dividends from a REIT are based on taxable income, so future dividends levels will be influenced by the rate of actual realized credit loss rather than the rate of credit provisioning. Thus, the Company's current credit reserve will not serve to insulate the Company's dividends from the effects of future actual realized credit losses.

Write-down of Mortgage Securities

The Company wrote-down all of its interest-only mortgage securities ("IOs") to their estimated market value in the first quarter of 1998 based on its conservative estimate of future CPRs. This write-down reduced GAAP income $0.7 million but did not effect taxable income. The write-down caused a $0.05 per share difference between reported diluted earnings per share and core earnings per share in the first quarter of 1998. At March 31, 1998, the remaining book value of all of the Company's IOs was $1.0 million.

Gain or Loss on Sale Transactions

The Company sold $9.3 million of mortgage securities during the first quarter of 1998 resulting in a gain on sale of $6,000. In the fourth quarter of 1997, the Company sold $46 million of securities as part of its re-REMIC transaction resulting in a $0.5 million gain. There were no gains or losses reported in the first quarter of 1997.

Operating Expenses

Compared to the fourth quarter of 1997, first quarter 1998 operating expenses increased $0.8 million, from $1.1 million to $1.9 million. This growth was driven primarily by a $0.7 million increase in compensation and benefits expense (related primarily to an increase in the number of employees) and a $0.1 million increase in other operating expenses. Compared to the first quarter of 1997, total operating expenses in the first quarter of 1998 were up $0.8 million due to a $0.5 million increase in compensation and benefits and a $0.3 million increase in other expenses.

When compared to the fourth quarter of 1997, first quarter 1998 operating expenses increased from 0.13% to 0.22% of average assets and from 1.29% to 2.24% of average equity. The efficiency ratio, which compares operating expenses to net interest income, increased from 18.25% to 30.14%.

Compared to first quarter 1997 expenses, first quarter 1998 operating expenses as a percent of average assets increased from 0.20% to 0.22%. When measured as a percent of average equity, operating expenses increased from 1.97% to 2.24%. The efficiency ratio increased from 12.86% to 30.14%. Increases in efficiency ratios were due to both falling net interest income and rising expenses.

As of March 31, 1998, the Company had 19 employees compared to 15 and 11 employees at December 31, 1997 and March 31, 1997, respectively. The Company is pursuing a number of higher value-added capital deployment and diversification strategies that will require additional staff. Such strategies include acquiring an increasing percentage of mortgage loans, developing alternative sources for acquiring mortgage assets, providing a greater degree of service to its mortgage loan origination customers and utilizing an increased percentage of long-term debt financing. The Company believes its investment in people will position the Company for growth and produce significant net returns to shareholders in the future. The Company intends to further increase its staff during the remainder of 1998.

The Company has adopted a Stock Option Plan for executive officers, employees and non-employee directors. At March 31, 1998, there were 1,127,345 stock options outstanding of which 875,796 had current pay dividend equivalent rights ("DERs") attached, 209,465 had stock DERs attached and 42,084 had no DERs attached. A portion of the DER payments are subject to minimum dividend or vesting requirements, or both. Holders of DERs are generally eligible to receive all types of distributions made to common shareholders, including any non-cash or return of capital distributions. To the extent options have been granted with current pay DERs attached, GAAP and taxable income will recognize the expense as cash payments accrue to the holders of the underlying option. To the extent options have been granted with stock DERs, there will be a non-cash charge to operating expenses for GAAP for the value of the DERs which accrue. There is no expense recognized for taxable income for stock DERs until the underlying option is exercised. In addition, for taxable income purposes only, when non-qualified stock options ("NQSO") are exercised, the Company will recognize an expense equal to the difference between the fair market value of the stock and the exercise price paid. Although this is a non-operating, non-cash expense, such expenses arising from the future exercise of options will the lower the Company's taxable income, and thus its dividend, in the quarters when NQSOs are exercised. If all vested NQSOs were exercised as of March 31, 1998, the additional associated tax expense for the first quarter would have been $0.5 million. For additional detail, see "Note 10. Stockholders Equity - Stock Option Plan" in the Notes to the Consolidated Financial Statements.

RWT Holdings, Inc.

In March 1998, the Company purchased the preferred stock of RWT Holdings, representing a 99% economic interest in this taxable affiliate. RWT Holdings was formed to assist the Company in the creation of certain types of mortgage equity interests and generally to provide increased flexibility to the Company in carrying out its business strategy as a REIT-qualifying mortgage investor. In the period ending March 31, 1998, RWT Holdings had no operations or earnings. RWT Holdings' future earnings will be recognized using the equity method of accounting and the net income of RWT Holdings will appear as a single line-item on the Company's income statement. Please see "Investment in RWT Holdings" in the Financial Condition section below and the notes to the consolidated financial statements for additional information on RWT Holdings.

Net Income before Preferred Dividends

Net income before preferred dividends was $3.1 million in the first quarter of 1998. Compared to the fourth quarter of 1997, total net income available to common and preferred shareholders decreased by 38.3% from $5.1 million. Return on average assets dropped 0.22%, from 0.59% to 0.37%, due primarily to the write-down of all of the Company's IOs and the increase in operating expenses discussed above. A drop in average capital utilization, from 79% to 77%, offset the benefit of a 0.02% increase in interest rate spread. The return on total average equity (common plus preferred) decreased from 5.80% to 3.66%.

First quarter 1998 total net income available to common and preferred shareholders declined 56.5% compared to the $7.2 million posted in the same quarter one year ago. Return on average assets dropped 0.88% to 0.37% due to the IO write-down, higher operating expenses, the 0.83% narrower spread and a 21% decline in average capital utilization from 98% to 77%. The return on total average equity (common plus preferred) fell from 12.16% to 3.66%.

Preferred Dividends

The Company's Class B 9.74% Cumulative Convertible Preferred Stock ("preferred stock") was issued in the third quarter of 1996. The quarterly preferred dividend equals the greater of the common stock dividend or $0.755 per share. Each share of preferred stock is convertible at the option of the holder at any time into one share of common stock. After September 1999, the Company has the right to: i) force the conversion of each share of preferred stock into one share of common stock if the price of the common stock exceeds $31.00, or ii) to redeem the preferred stock at $31.00 per share.

Preferred dividends were $0.7 million in the first quarter of 1998. This is the same level of dividends in the fourth quarter of 1997 because there were no conversions of preferred stock into common stock in the first quarter of 1998. The first quarter 1998 preferred dividend was less than the $0.8 million dividend in the first quarter of 1997 because shareholders have converted 90,120 shares into common stock since March 31, 1997. There were 909,518 preferred shares outstanding at March 31, 1998 and at December 31, 1997.

Net Income Available to Common Shareholders

From the fourth quarter of 1997 to the first quarter of 1998, net income available to common shareholders decreased by 44.3%, from $4.40 million to $2.45 million, for reasons discussed above. Over the same period, average common equity decreased by 2.3%, from $323.6 million to $316.3 million, due to Company stock repurchases. Return on average common equity decreased from 5.43% to 3.10%.

Compared to the first quarter of 1997, net income available to common shareholders in the first quarter of 1998 decreased by 62.1%, from $6.46 million to $2.45 million. Over the same period, average common equity increased by 52.3%, from $207.6 million to $316.3 million, as a result of two equity offerings. Return on average common equity decreased from 12.44% to 3.10%.

Diluted Earnings Per Share

From the fourth quarter of 1997 to the first quarter of 1998, diluted earnings per share fell by 43.3%, from $0.30 to $0.17. The average number of diluted common shares outstanding decreased by 2.1% and net income available to common shareholders decreased by 44.3%.

Compared to the first quarter of 1997 diluted earnings fell 67.9%, from $0.53 per share to $0.17 per share. The average number of diluted common shares outstanding increased by 17.5% from 12.1 million shares and net income available to common shareholders decreased by 62.1%.

Taxable Income

As a REIT, the Company is required to distribute as dividends over time at least 95% of its taxable income. Taxable income can vary from GAAP income due to a variety of reasons, such as differences in credit expenses (actual credit losses are deducted from taxable income rather than credit provisions), premium and discount amortization, write-downs, accounting for stock options as well as other differences.

Taxable income in the first quarter of 1998 exceeded GAAP income by $1.4 million due to a $0.6 million credit expense difference, the $0.7 million write-down of mortgage assets and $0.1 million of other expense differences.

Taxable income in the fourth quarter of 1997 exceeded GAAP income by $0.5 million primarily due to a $0.5 million credit expense difference. A $0.2 million loss on sale difference was offset by a combined $0.2 million difference in mortgage amortization and operating expenses.

Taxable income in the first quarter of 1997 exceeded GAAP income by $0.7 million primarily due to a $0.7 million credit expense difference.

Common Share Dividends

Historically, dividends per common share have exceeded GAAP earnings per common share primarily because taxable income has exceeded GAAP income.

Effective with the fourth quarter 1997 dividend, the Company's policy is to declare a common dividend for each quarter that is equal to that quarter's taxable income per common share entitled to a dividend. In order to implement this policy, starting in 1998, the first three quarters' dividends will be declared after taxable income has been determined for the quarter. The dividend declaration for the first, second and third quarter dividends is expected to occur in the fourth week of April, July and October, respectively. The record and payable dates will be announced at the time the dividend is declared. The fourth quarter's dividend will be declared in December based on estimated fourth quarter taxable income in order to comply with REIT dividend distribution rules.

The Company's common dividend is expected to vary from quarter to quarter, both due to fluctuations in the Company's operating results and due to changes in other operating and non-operating items that impact taxable income.

On April 27, 1998, the Company declared a $0.27 per share first quarter common dividend that was equal to its taxable income per share entitled to a dividend. The dividend for the first quarter of 1998 is payable on May 21, 1998. This is a 20.6% decrease in the dividend from the $0.34 per share dividend in the fourth quarter of 1997. The first quarter 1998 dividend was 55.0% less than the $0.60 dividend for the first quarter of 1997.

Other Comprehensive Income

Starting in 1998, the Company is required to report "other comprehensive income." The Company tracks its unrealized gains and losses on mortgage securities and other assets available for sale in market valuation accounts

and reports them on its balance sheet as "accumulated other comprehensive income." Please see the discussion of "accumulated other comprehensive income" in the Financial Condition section, below.

FINANCIAL CONDITION

Mortgage Loans

From December 31, 1997, to March 31, 1998, the Company's mortgage loan portfolio grew $320 million, or 20.6%. Measured as a percentage of the Company's mortgage assets, mortgage loans totaled 51.3% at the end of the first quarter of 1998, up from 46.1% at year-end 1997. The Company currently expects mortgage loans as a percent of mortgage assets to increase in the future as it continues to execute its whole loan acquisition strategy.

At March 31, 1998, the Company owned 5,939 adjustable-rate, first-lien mortgage loans on single-family residential properties with a principal value of $1.84 billion and an amortized cost of $1.88 billion. The Company estimates that the bid-side market value of the Company's mortgage loan portfolio at March 31, 1998 was approximately $1.87 billion. Hybrid loans - adjustable rate loans with first adjustment periods longer than one year - were 18% of mortgage loans.

As verified by its re-underwriting process, the Company believes that its mortgage loans owned as of March 31, 1998 were generally originated to "A", or "Prime" quality, underwriting standards. The average loan size was $309,000. Loans with current balances less than $227,150 (the FNMA/FHLMC 1998 conventional loan balance limit for most loans) made up 19% of the dollar balance of the Company's mortgage loan portfolio, while loans with current balances in excess of $500,000 made up 36%. Loans on owner-occupied houses made up 89% of the loan portfolio. Second homes and investment properties represented 8% and 3% of the portfolio, respectively. As of March 31, 1998, the average seasoning of the loan portfolio was 16 months.

At March 31, 1998, 35% of loans had original loan-to-value ratios ("OLTV") in excess of 80%. Of these, 97% had either primary mortgage insurance ("PMI") or additional collateral in the form of pledged accounts. The average OLTV for the Company's loan portfolio was 77% as of March 31, 1998. After giving effect to PMI and additional collateral, the average effective LTV was 67%.

At March 31, 1998, 30% of the mortgage loans owned by the Company were on properties located in California (13% in Northern California and 17% in Southern California). Loans in Florida were 9%, loans in New York were 7% and loans in Georgia were 5% of the total. All other states were less than 5%.

At March 31, 1998, 19 mortgage loans were non-performing assets ("NPAs"), as they were over 90 days delinquent, in bankruptcy, in foreclosure, or had become Real Estate Owned ("REO"). The loan balance of these NPAs totaled $4.36 million, or 0.23% of the mortgage loan portfolio and 0.12% of total assets. Included in this NPA balance was REO of $0.50 million resulting from the default of three loans.

If all of the NPAs as of March 31, 1998 were to default rather than cure, and the loss severity experienced on these loans was 10%, 20%, 30%, or 40%, the Company estimates its realized credit losses from these assets would be $0.4 million, $0.9 million, $1.3 million or $1.8 million, respectively. The mortgage loan credit reserve as of March 31, 1998 was $3.45 million. This reserve was 0.18% of mortgage loans as of March 31, 1998. Cumulatively through March 31, 1998, the Company had liquidated seven defaulted mortgage loans: the average loss severity on those loans was 6%. The analysis in this paragraph reviews the risk of loss from NPAs as of March 31, 1998 only; it does not purport to analyze or measure credit losses from additional NPAs that may arise after March 31, 1998.

At December 31, 1997, the Company owned 5,041 adjustable-rate, first-lien mortgage loans on single-family residential properties with a principal value of $1.52 billion and an amortized cost of $1.55 billion. The Company estimates that the bid-side market value of the Company's mortgage loan portfolio at December 31, 1997 was

approximately $1.55 billion. Hybrid loans with first adjustment periods longer than one year were 4% of mortgage loans.

As of December 31, 1997 the average loan size was $301,000. Loans with current balances less than $214,600 (the FNMA/FHLMC 1997 conventional loan balance limit for most loans) made up 18% of the dollar balance of the Company's mortgage loan portfolio while loans with current balances in excess of $500,000 made up 37%. Loans on owner-occupied houses made up 89% of the loan portfolio. Second homes represented 8% and investment properties 3% of the portfolio. As of December 31, 1997, the average seasoning of the loan portfolio was 18 months.

At December 31, 1997, 38% of loans had original loan-to-value ratios ("OLTV") in excess of 80%. Of these, 95% had either primary mortgage insurance ("PMI") or additional collateral in the form of pledged accounts. The average original LTV for the Company's loan portfolio was 78% as of December 31, 1997; after giving effect to PMI and additional collateral, the average effective LTV was 66%.

At December 31, 1997, 29% of the mortgage loans owned by the Company were on properties located in California (11% in Northern California and 18% in Southern California). Loans in Florida were 9%, loans in New York were 7% and loans in Georgia were 5% of the total. All other states were less than 5%.

At December 31, 1997, 17 mortgage loans were non-performing assets ("NPAs"), as they were over 90 days delinquent, in bankruptcy, in foreclosure, or had become Real Estate Owned ("REO"). The loan balance of these NPAs totaled $3.90 million, or 0.25% of the mortgage loan portfolio and 0.11% of total assets. Included in this NPA balance was REO of $0.71 million resulting from the default of 4 loans.

If all of the NPAs as of December 31, 1997 defaulted rather than cured, and the loss severity experienced on these loans would have been 10%, 20%, 30%, or 40%, the Company estimated at that time that its realized credit losses from these assets would have be $0.4 million, $0.8 million, $1.2 million or $1.6 million, respectively. The mortgage loan credit reserve as of December 31, 1997 was $2.85 million. The analysis in this paragraph reviews the risk of loss from NPAs as of December 31, 1997 only; it does not purport to analyze or measure credit losses from additional NPAs that may arise after December 31, 1997.

Mortgage Securities

From December 31, 1997 to March 31, 1998, the Company's portfolio of mortgage securities decreased by 2.4%. Mortgage securities declined as a percentage of total mortgage assets from 53.9% to 48.7%. All of the Company's mortgage securities represent interests in pools of adjustable rate, first lien mortgages on single-family residential properties.

At March 31, 1998, the principal value of the Company's mortgage securities was $1.74 billion and the amortized cost was $1.78 billion. The Company estimates that the bid-side market value of the Company's mortgage securities portfolio at March 31, 1998 was approximately $1.77 billion.

At March 31, 1998, 99.5% of the Company's mortgage securities had a credit rating equivalent of "AAA" or "AA." The remaining 0.5% represented mortgage equity interests created by the Company in its fourth quarter 1997 re-REMIC transaction. Securities guaranteed by Fannie Mae or Freddie Mac made up 50.6% of the mortgage securities portfolio. Non-agency mortgage securities structured with large amounts of subordination or other forms of third-party credit enhancement and rated "AAA" or "AA" made up 48.9% of the mortgage securities portfolio. Based on information available as of March 31, 1998, the Company had no reason to suspect that it would be likely to incur credit losses in the foreseeable future from is mortgage securities rated "AAA" or "AA".

The Company has taken and expects to continue to take credit losses on the mortgage equity interests in the re-REMIC. Although the loans in the mortgage pools underlying the securities in the re-REMIC were, for the most part, originated to "A" quality standards, these securities are subordinated to other securities issued from the same

pools and therefore are subject to leveraged credit risk with respect to the underlying mortgages. At March 31, 1998, the re-REMIC mortgage equity interests had a principal value of $20.8 million, an amortized cost before credit reserve of $9.1 million and an estimated market value of $9.2 million. If all the underlying loans were to default, the maximum loss the Company could incur would be $9.1 million and the maximum impact to reported earnings, after taking into account the credit reserve of $2.0 million, would be $7.1 million.

The Company estimates that if all the loans underlying mortgage equity interests in the re-REMIC which were over 90 days delinquent, in foreclosure, in bankruptcy, or REO as of March 31, 1998 were to default and have a loss severity of 10%, 20%, 30%, or 40%, realized credit losses for the Company would be $0.5 million, $1.0 million, $1.2

million or $1.8 million, respectively. The Company's credit reserve for these assets at March 31, 1998 was $2.0 million. Cumulatively, from the acquisition dates of these mortgage securities through March 31, 1998, 284 defaulted mortgage loans in the underlying pools had been liquidated and the average loss severity on these loans was 21%. The analysis in this paragraph reviews the risk of loss from seriously delinquent loans underlying the Company's mortgage securities as of March 31, 1998 only; it does not purport to analyze or measure credit losses from additional serious delinquencies that may arise after March 31, 1998.

At December 31, 1997, the principal value of all of the Company's mortgage securities was $1.78 billion and the amortized cost was $1.82 billion. The Company estimated that the bid-side market value of the Company's mortgage securities portfolio at December 31, 1997 was approximately $1.81 billion.

At December 31, 1997, 99.5% of the Company's mortgage securities had a credit rating equivalent of "AAA" or "AA.". The remaining 0.5% represented the retained mortgage equity interests in the re-REMIC discussed above. Securities guaranteed by Fannie Mae or Freddie Mac made up 54.3% of the mortgage securities portfolio. Non-agency mortgage securities structured with large amounts of subordination or other forms of third-party credit enhancement and rated "AAA" or "AA" made up 45.2% of the mortgage securities portfolio. Based on information available as of December 31, 1997, the Company had no reason to suspect that it would be likely to incur credit losses in the foreseeable future from its mortgage securities rated "AAA" or "AA".

At December 31, 1997, the re-REMIC mortgage equity interest had a principal value of $21 million, an amortized cost before credit reserve of $9.1 million and an estimated market value of $9.3 million.

The Company estimated at December 31, 1997 that if all the loans underlying mortgage equity interests in the re-REMIC which were over 90 days delinquent, in foreclosure, in bankruptcy, or REO at that time were to default and have a loss severity of 10%, 20%, 30%, or 40%, the Company's realized credit losses would have been $0.4 million, $0.9 million, $1.2 million or $1.8 million, respectively. The Company's credit reserve for these assets at December 31, 1997, was $2.1 million. Cumulatively, from the acquisition dates of mortgage securities rated below investment grade through December 31, 1997, 256 defaulted mortgage loans in the underlying pools had been liquidated and the average loss severity on these loans was 21%. The analysis in this paragraph reviews the risk of loss from seriously delinquent loans underlying the Company's mortgage securities as of December 31, 1998 only; it does not purport to analyze or measure credit losses from additional serious delinquencies that may arise after December 31, 1998.

Total Mortgage Asset Portfolio Characteristics

At March 31, 1998, the average credit rating equivalent of all of the Company's mortgage assets (loans plus securities) was "AA+", with mortgage loans (the bulk of the value which would be rated "AAA" if securitized and rated) representing 51.3% of the total mortgage asset portfolio, "AAA" and "AA" mortgage securities representing 48.4% and mortgage securities rated "A" or lower representing 0.3%.

At March 31, 1998, all mortgage assets had adjustable-rate features, i.e., the interest rate coupon on the mortgage loans (or the underlying mortgage loans in the case of mortgage securities) resets periodically after the initial fixed-rate period ends.

At March 31, 1998, 32.6% of the Company's mortgage assets had coupon rate adjustments every six months based on the six-month LIBOR or CD index and 20.2% had monthly adjustments based on the one-month LIBOR index. Mortgage assets with annual coupon adjustments based on the six-month or one-year U.S. Treasury index were 36.4% of the portfolio. Hybrid mortgages, which have annual coupon adjustment based on the one-year Treasury index after an initial fixed period in excess of one year, represented 9.4%. Mortgage assets with other indices made up 1.4% of the total. At March 31, 1998, the average term-to-next-coupon-adjustment was 52 months for all hybrid loans and 4 months for the short-term ARMs. Overall, for all mortgage assets, the average term to next coupon adjustment was 8 months. For most mortgage assets, coupon rate adjustments are based on the index level 30 to 75 days prior to the start of a new coupon accrual period. At March 31, 1998, the average coupon rate accruing on mortgage assets was 7.59%. The average level of the short-term interest rate indices which determine coupon adjustments was 5.59%. Since the average net margin was 2.06%, the highest potential average mortgage coupon rate (the fully indexed rate) at that time was 7.65%. The actual coupon rate was lower than the fully indexed rate by 0.06%.

Potential coupon rate changes can be limited by periodic and life caps. At March 31, 1998, all of the Company's assets had a life cap and the average mortgage asset maximum life cap rate was 12.12%. At March 31, 1998, periodic caps limited coupon changes to 2% annually for 67.5% of mortgage assets and there were no periodic caps on 32.5% of mortgage assets.

At December 31, 1997, the average credit rating equivalent of all of the Company's mortgage assets (loans plus securities) was "AA+", with mortgage loans (the bulk of the value which would be rated "AAA" if securitized and rated) representing 46.1% of the total mortgage asset portfolio, "AAA" and "AA" rated mortgage securities representing 53.6% and mortgage securities rated "A" or lower representing 0.3%.

At December 31, 1997, all mortgage assets consisted of either short-term or hybrid adjustable-rate mortgages.

At December 31, 1997, 33.9% of the Company's mortgage assets had coupon rate adjustments every six months based on the six-month LIBOR or CD index and 20.2% had monthly adjustments based on the one-month LIBOR index. Mortgage assets with annual coupon adjustments based on the six-month or one-year U.S. Treasury index were 42.8% of the portfolio. Hybrid mortgages that have more than one year before their first reset and that will have annual coupon adjustments based on the one-year Treasury index after the initial fixed period represented 1.6%. Mortgage assets with other indices made up 1.5% of the total. At December 31, 1997, the average term-to-next-coupon-adjustment was 4 months for all mortgage assets and 21 months for hybrid loans. The average coupon rate accruing on mortgage assets was 7.71%. The average level of the short-term interest rate indices which determine coupon adjustments was 5.68%. Since the average net margin was 2.06%, the highest potential average mortgage coupon rate (the fully indexed rate) at that time was 7.74%. The actual coupon rate was lower than the fully indexed rate by 0.03%.

At December 31, 1997, all of the Company's assets had a life cap and the average mortgage asset lifetime maximum cap rate was 12.08%. At December 31, 1997, periodic caps limited coupon changes to 2% annually for 68.0% of mortgage assets and there were no periodic caps on 32.0% of mortgage assets.

Allocation of Equity to Mortgage Assets

The Company assigns a capital requirement to each mortgage asset through its Risk-Adjusted Capital Policy process. Allocations are based on the perceived risk characteristics of each asset and its associated borrowings and hedges. At March 31, 1998, 49.8% of the Company's Risk-Adjusted Capital was allocated to "AAA" and "AA" rated mortgage securities funded short-term, 16.8% was allocated to mortgage equity interests (the equity portion of the two Sequoia Trusts and the re-REMIC) and 18.1% was allocated to mortgage loans funded short-term. The remainder of the Company's equity capital, 15.3% of the total, was not being utilized.

The Company generally acquires mortgage loans it expects to convert into one or more mortgage equity interests through the issuance of collateralized long-term debt or similar instruments. Pending such conversion, these loans are funded with short-term debt.

If all mortgage loans had been converted into mortgage equity interests at March 31, 1998, the capital allocated to these loans would have been lower. On a pro forma basis, assuming full conversion, the Company's Risk-Adjusted Capital would be allocated 49.8% to "AAA" and "AA" rated mortgage securities funded short-term and 26.2% to mortgage equity interests. The remaining 24.0% of capital would have been unutilized.

At December 31, 1997, 51.7% of the Company's Risk-Adjusted Capital was allocated to "AAA" and "AA" rated mortgage securities funded short-term, 17.4% was allocated to mortgage equity interests (the equity portion of the two Sequoia Trusts and the re-REMIC) and 8.2% was allocated to mortgage loans which were funded short-term at that time. The remainder of the Company's equity capital, 22.7% of the total, was not being utilized.

Interest Rate Agreements

At March 31, 1998, the Company owned $5.4 billion notional face of interest rate agreements, principally caps and swaps. These interest rate agreements had various start dates, maturity dates, and interest rate protection features; see Note 6, "Interest Rate Agreements" and Note 9, "Fair Value of Financial Instruments" in the Notes to Consolidated Financial Statements for additional detail.

These agreements are designed to reduce the Company's interest rate and market value fluctuation risk. They had a historical amortized cost basis of $10.3 million and an estimated bid-side market value of $2.6 million as of March 31, 1998. Market values were lower than amortized cost due to: i) a drop in interest rate volatility assumptions in the marketplace for interest rate agreements, ii) a drop in interest rates, iii) the effect of taking bid-ask spread mark-downs on new agreements, and iv) the timing mismatch of GAAP premium amortization methods for interest rate caps versus the rate of actual economic decay in their market values. Interest rate agreements hedging mortgage loans are carried on the balance sheet at historical amortized cost, and as a result, changes in market values of these interest rate agreements are not shown in the valuation account. Market value fluctuations for interest rate agreements hedging mortgage securities are reflected in the Company's interest rate agreement market valuation account and thus as a part of accumulated comprehensive income.

There is a risk that the counter-parties to the Company's interest rate agreements will not be able to perform to the terms of these contracts. If this were to happen, the Company's total accounting credit loss exposure would be limited to its historical amortized cost basis in these assets (plus the Company's cash and collateral held by the counter-parties), although the true economic opportunity cost to the Company could be higher. Through March 31, 1998, each of the counter-parties to the Company's interest rate agreements had a credit rating of at least "A".

At December 31, 1997, the Company owned $5.3 billion notional face of interest rate agreements, principally caps and swaps. These agreements had a historical amortized cost basis of $10.8 million and an estimated bid-side market value of $1.5 million as of December 31, 1997 for the same reasons mentioned above for March 31, 1998 values.

Investment in RWT Holdings, Inc.

RWT Holdings, Inc. is a newly formed, taxable affiliate incorporated in the state of Delaware. On March 31, 1998 the Company purchased $9.9 million of the preferred stock of RWT Holdings. See "RWT Holdings, Inc." in the Results of Operations section above and the Notes to the Consolidated Financial Statements for additional information.

Borrowings, Cash Balances and Liquidity

At March 31, 1998, the Company's borrowings consisted of $2.3 billion of short-term collateralized borrowings such as reverse repurchase agreements, notes payable, and revolving lines of credit ("short-term debt") and $1.1 billion non-recourse, floating rate, amortizing long-term debt ("long-term debt"). The long-term debt was issued in the second half of 1997 as collateralized mortgage bonds through the Company's Sequoia program. The funds

raised in the long-term debt offerings were used to reduce short-term debt. Long-term debt at March 31, 1998 represented 32.1% of total debt.

At March 31, 1998, the Company's short-term debt totaled $2.3 billion with a weighted average cost of funds of 5.89% as compared to $1.9 billion with a weighted average cost of funds of 6.00% at December 31, 1997. Long-term debt totaled $1.1 billion at March 31, 1998 with a weighted average all-in cost of funds of 6.49%. At December 31, 1997, the balance totaled $1.2 billion at a cost of 6.48%

As the Company reduces liquidity risks on its balance sheet by issuing long-term debt, it is able to use a greater amount of leverage under its Risk-Adjusted Capital Policy. The Company's equity-to-asset ratio decreased from 10.0% at December 31, 1997 to 9.2% at March 31, 1998, as the Company resumed net asset growth and began to take advantage of its increased ability to leverage its balance sheet. See "Stockholders' Equity, Capital Efficiency and Capital Adequacy" below.

At March 31, 1998, $1.1 billion of the Company's mortgage assets were pledged as collateral for the Company's long-term debt. The remaining mortgage assets, which had a market value of $2.5 billion, were available to collateralize the Company's short-term debt. The Company estimates it had additional borrowing capacity in excess of its current requirements of $174.7 million at the quarter's end. In addition, the Company had $6.5 million of unrestricted cash. The monthly principal and interest payments received on the mortgages which serve as collateral to the long-term debt are held in trust for the benefit of the long-term debt holders until the bond payment date and are included in the Company's cash balances as "restricted cash."

At December 31, 1997, the Company's borrowings consisted of $1.9 billion of short-term collateralized borrowings and $1.2 billion of non-recourse, floating rate, amortizing, long-term debt. Long-term debt at year-end represented 38.0% of total debt. The Company estimated it had additional borrowing capacity at that time of $182.7 million and unrestricted cash of $24.9 million.

The Company's liquidity status, borrowing capacity, and ability to roll over its short-term debt as it matures depend on the market value, liquidity and credit quality of its assets, the soundness and capitalization of the Company's balance sheet, the state of the collateralized lending market and other factors. If the Company's liquidity or borrowing capacity were to become seriously diminished, the Company would most likely seek to sell its mortgage assets (the sale of which, in such circumstances, might be difficult and most likely would be at a loss). In order to avoid such an occurrence, the Company seeks to maintain what it believes to be a prudent level of capital, i.e., the Company restricts its asset growth according to its Risk-Adjusted Capital Policy and thereby seeks to maintain adequate unused borrowing capacity.

At March 31, 1998 and December 31, 1997, the average term-to-maturity of the Company's short-term debt was 65 days and 64 days and the average term-to-next-rate-adjustment was 33 days and 31 days, respectively. The term-to-next-rate-adjustment was shorter than the term-to-maturity as some of the Company's debt had a cost of funds that adjusted to market levels on a monthly or daily basis during the term of the debt. In general, the cost of short-term borrowings has been able to reset more quickly to interest rate conditions than coupon rates on the Company's mortgages could adjust to those same changes. Through its hedging program, the Company seeks to mitigate the short-term impact that a large increase in interest rates could have on its cost of funds and spread earnings.

At March 31, 1998, the stated maturity on the Company's long-term debt ranged from 26 to 31 years. The expected average life of the debt was three to six years, as the debt generally pays down as the underlying mortgages pay down. The debt is callable by the Company before its stated maturity date. The interest rate on the long-term debt resets monthly. At March 31, 1998, 13% of the long-term debt had an interest rate tied to the daily average Fed Funds rate, 52% had an interest rate tied to a moving average of the one-year Treasury rate and 35% had an interest rate tied to one-month LIBOR. The debt is "AAA" rated, adjustable-rate, amortizes at approximately the same rate as the collateral and has a lifetime interest rate cap of 10%.

Stockholders' Equity, Capital Efficiency and Capital Adequacy

Book value, or equity, per common share (excluding the unrealized market valuation adjustments included in accumulated comprehensive income) increased by 0.9% from $22.25 on December 31, 1997 to $22.46 on March 31, 1998. Book value, or equity, per common share (excluding the market valuation account) increased by 0.94% from $22.25 on December 31, 1997 to $22.46 on March 31, 1998.

From December 31, 1997 to March 31, 1998, the Company's equity (excluding accumulated comprehensive income) decreased $1.8 million, from $344.6 million to $342.8 million. This was the net effect of the Company's Stock Repurchase Program which reduced equity in the first quarter of 1998 by $4.2 million and the timing of the Company's dividend payment which increased equity by $2.4 million at March 31, 1998 (equity was increased by GAAP income but not yet reduced by the first quarter dividend to common shareholders which was declared in April 1998).

For balance sheet purposes, the Company carries its mortgage securities and associated interest rate agreements at their estimated bid-side market value (historical amortized cost less market valuation account). The total market valuation account for the Company (which is now reported in accumulated other comprehensive income) was negative $10.1 million on December 31, 1997 and negative $13.1 million on March 31, 1998. As a result of this accounting treatment, the Company's reported equity base may fluctuate due to market conditions and other factors. Mortgage loans, associated interest rate agreements and all other assets and liabilities were carried on the Company's balance sheet at March 31, 1998 at amortized cost.

The Company estimated that the bid-side market value of all of its assets less the cost of paying off all of its obligations (including its preferred stock), was approximately $306.8 million at December 31, 1997 and $304.6 million at March 31, 1998. Actual realizable value may be less than the estimated bid-side market value should the Company actually seek to sell its assets. The net total "mark-to-market" value for the Company's balance sheet was $11.1 million lower than amortized cost at December 31, 1997 and $11.4 million lower than amortized cost at March 31, 1998. Between December 31, 1997 and March 31, 1998, the liquidation value of the Company's mortgage assets and interest rate agreements decreased due to faster prepayments.

Through its Risk-Adjusted Capital Policy, the Company assigns a guideline capital adequacy amount (expressed as a guideline equity-to-assets ratio) to each of its 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 the Company's collateralized short-term lenders. Capital requirements for mortgage equity interests generally equal the Company's net investment. The sum of the capital adequacy amounts for all of the Company's mortgage assets is the Company's aggregate guideline capital adequacy amount.

Since management believes that the bulk of the capital currently necessary to manage the Company prudently is needed due to the liquidity and market value fluctuation risks that arise from the utilization of short-term debt, the total guideline capital amount has declined as the Company has eliminated some of these short-term risks through the creation of mortgage equity interests.

The Company does not expect that its actual capital levels will always exceed the guideline amount. The Company measures all of its mortgage assets funded with short-term debt at estimated market value for the purpose of making Risk-Adjusted Capital calculations. If interest rates were to rise in a significant manner, the Company's capital guideline amount would rise (as the potential interest rate risk of its mortgages would increase, at least on a temporary basis, due to periodic and life caps) while its actual capital levels as determined for the Risk-Adjusted Capital Policy would likely fall as the market values of its mortgages, net of mark-to-market gains on hedges, fell (market value declines may be temporary as well, as future coupon adjustments may help to restore some of the lost market value). In this circumstance, or any other circumstance in which the Company's actual capital levels fell below the Company's capital adequacy guideline amount, the Company would cease the acquisition of new mortgage assets until capital balance was restored. In certain cases prior to a planned equity offering or other

circumstances, the Board of Directors has authorized management to acquire mortgage assets in a limited amount beyond the usual constraints of the Company's Risk-Adjusted Capital Policy.

As expressed as an equity-to-assets ratio, the Company's average Risk-Adjusted Capital Policy guideline capital amount increased from 7.51% at December 31, 1997 to 7.59% at March 31, 1998. This amount will decrease when the Company completes a planned securitization of part of its mortgage loans and creates a mortgage equity interest.

The actual average equity-to-asset ratio for the Company declined from 10.2% at the end of 1997 to 10.0% in the first quarter of 1998. Since actual equity-to-asset ratios have generally been higher than the capital guideline ratios since the Company's inception in 1994, the Company generally could have owned more mortgage assets and still met its capital guidelines. Balance sheet capacity utilization (the percentage of the Company's capital employed in the mortgage spread lending business as opposed to being unutilized) is a key measure of capital efficiency for the Company. Average balance sheet capacity utilization has decreased since mid-1997 as the Company has generated excess capital by creating mortgage equity interests and also decided to slow its pace of mortgage acquisitions due to unfavorable mortgage acquisition pricing levels. Average capacity utilization decreased to 77% in the first quarter of 1998 from 90% in all of 1997.

Beginning in September 1997, strong demand for mortgage assets in an environment of reduced supply led to increasing prices for mortgage loans and mortgage securities. These rising prices together with the potential for increased mortgage prepayment rates led the Company to reduce the rate at which it sought to acquire new mortgage assets. Although this decision resulted in the Company's balance sheet having excess capital in the latter part of 1997, management believed that refraining from committing significant capital to the new mortgage acquisitions until mortgage prices adjusted downwards would maximize long-term shareholder value. Although the Company continued to avoid acquiring most types of adjustable-rate loans in the first quarter of 1998, the Company started a 5/1 hybrid loan acquisition program.

In order to utilize excess capital and increase long-term shareholder value, the Company's Board of Directors authorized a common stock repurchase program in September 1997. In the first quarter of 1998, the Company repurchased 214,100 shares for $4.2 million. The Company's average equity-to-assets ratio declined as shares have been repurchased and the Company's average assets have remained stable. The Company is presently authorized to repurchase up to 400,900 additional shares.

Accumulated Other Comprehensive Income

Other comprehensive income is the Company's unrealized gain or loss on assets which are held as available for sale. This account would also be used to report such items as foreign currency translation adjustments and minimum pension liability adjustments, if applicable.

In the past, the Company has tracked unrealized gains and losses in market valuation accounts and reported them on its balance sheet as "net unrealized loss on assets available for sale."

Accumulated other comprehensive income was a negative $13.1 million at March 31, 1998, a decline of $3.0 million from the negative $10.1 million reported as of December 31, 1997.

The Company expects that the amount of accumulated other comprehensive income will vary significantly over time.

Risk Management

The Company seeks to manage the potential credit, interest rate, prepayment, liquidity and other risks inherent in mortgage spread lending institutions in a prudent manner designed to insure the longevity of the Company while, at the same time, seeking to provide an opportunity for shareholders to realize attractive total rates of return through long-term stock ownership in the Company. While the Company does not seek to avoid risk, it does seek,

to the best of its ability, to: i) assume risks that can be quantified from historical experience, ii) actively manage such risk, iii) earn sufficient compensation to justify taking of such risks, and iv) maintain capital levels consistent with the risks it does undertake.

The Company seeks to limit credit risk by maintaining what it believes to be high-quality mortgage loan underwriting standards. The Company is a nationwide "A" (or "prime") quality lending company: it currently acquires and owns first mortgages on single-family residential properties which have been underwritten to the highest levels of underwriting standards generally in use for these types of loans. Credit losses from such mortgages tend to be cyclical. Historically, however, the magnitude of credit loss incurred from high-quality single-family mortgages during historical credit cycles has been contained relative to credit losses arising from other forms of commercial, consumer and residential mortgage lending.

The Company seeks to manage liquidity risk and short-term borrowing roll-over risk (which could be caused by market value fluctuations of assets pledged as collateral for short-term borrowings or by changes in lending markets) through: i) maintaining what it believes to be a high-quality and liquid portfolio of mortgage assets, ii) maintaining a hedging program utilizing interest rate agreements designed to partially mitigate net changes in the market values of its assets, iii) maintaining what it believes to be a prudent level of capitalization (and therefore a prudent level of unused borrowing capacity), and iv) replacing a portion of its short-term borrowings with long-term borrowings. Liquidity risks and short-term borrowing roll-over risks cannot be completely eliminated unless the Company can replace all of its short-term borrowings with long-term borrowings. At March 31, 1998, the Company remained exposed to such risk particularly in general market environments of rapidly rising interest rates, market dislocation or illiquidity.

The Company seeks to manage some of its interest rate risk through matching the interest rate characteristics of its mortgages and its borrowings to the degree that management believes is likely to be in the best interests of the shareholders in the long-term.

The Company does not seek to be perfectly matched or to entirely eliminate interest rate risk. Through March 31, 1998, the Company has paired adjustable-rate mortgages with variable-rate liabilities. The Company has generally maintained borrowings which adjust to market conditions several months faster than its assets. For larger interest rate increases, the potential short-term negative earnings impact resulting from this short-term mismatch should be partially mitigated by the Company's interest rate agreements. In addition, since the Company's adjustable-rate earning assets have exceeded its liabilities through March 31, 1998, the longer-term impact of an increase in short-term interest rates may be positive after a lag period (once the coupon rate on the assets has fully adjusted to the rate increase). Conversely, while the short-term earnings effect of a decline in short-term interest rates may be positive, the longer-run effect after a lag period may be a decline in earnings relative to what they otherwise would have been after the coupon rates on the assets have adjusted downwards.

Through March 31, 1998, the Company generally has assumed some other types of asset/liability mismatches as well, including some risk that the short-end of the yield curve becomes "flatter" (i.e., the risk of six and twelve month interest rates falling relative to one and three month interest rates) and some "TED" spread risk (the risk of U.S. Treasury rates falling relative to LIBOR rates, as the percentage of the Company's assets which adjust off of Treasury rates exceeds the percentage of the Company's liabilities which adjust off of Treasury rates). Certain other types of interest rate risks remain partially unhedged as well. Management believes that the assumption of these risks, to the extent undertaken by the Company, is more likely than not to result in higher earnings for the Company in the long-term but also, from time to time, may cause earnings volatility and opportunity cost from foregone growth potential. Management believes that retained interest rate risks (to the extent they are separate from liquidity and market value fluctuation risk) are unlikely to cause a safety and soundness issue for the Company except in relatively extreme and unlikely scenarios.

Changes in principal repayment rates may be a source of earnings volatility for the Company. If the rate of mortgage principal repayment of the Company's mortgage assets is faster than expected, the rate at which the Company amortizes its net premium balances as an expense will increase and earnings will be reduced relative to what they would have been otherwise. In addition, faster principal repayments may reduce the Company's net

asset growth rate; net asset growth is generally an important component of future earnings growth. Prospects for the Company may also be reduced by higher than expected mortgage principal repayments if the potential return characteristics of assets then available for acquisition are less attractive than those of the existing assets held in portfolio. Prepayment rates for adjustable-rate mortgages increased during the most recent quarters and such prepayment rates may further increase in 1998. Slowing rates of mortgage principal repayment could exacerbate certain liquidity, market value fluctuation, and interest rate risks in a rising interest rate environment.

While adjustable-rate mortgage principal repayment rates are not highly predictable, management believes the strongest influencing factors in the past have been the shape of the yield curve and the absolute level of longer-term interest rates. As longer-term rates drop, adjustable-rate mortgage principal repayments have tended to increase, particularly if longer-term rates drop relative to shorter-term interest rates. In addition, management believes adjustable-rate mortgage principal repayments have been increasing on a secular trend basis due to structural and behavioral changes in the mortgage origination market. In the first quarter of 1998 the Company did implement some hedges which may tend to add to earnings during times of accelerating prepayments. In general, however, the Company has not sought to hedge mortgage principal repayment risk but rather has sought to analyze, based on individual mortgage characteristics, the propensity of each acquired mortgage or mortgage pool to experience accelerated principal repayment rates and to adjust its acquisition price bid accordingly based on the level of perceived downside (and upside) earnings risk. The Company has also been able to effectively reduce the prepayment risk on some of its assets though the issuance of amortizing long-term debt with at a price above par.

The pricing of mortgage assets relative to the underlying risk in the assets, and relative to levels at which the Company can issue long-term debt, has a large effect on the Company's net asset growth and equity utilization, and therefore on the Company's earnings growth. Higher mortgage prices on an absolute basis or on a relative basis as compared to debt markets will slow growth. The Company cannot hedge earnings volatility that may arise from this source.

Virtually all of the Company's assets and liabilities are financial in nature. As a result, interest rates, changes in interest rates and other factors drive the Company's performance far more than does inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. The Company's financial statements are prepared in accordance with Generally Accepted Accounting Principles and the Company's dividends are generally determined based on the Company's net income as calculated for tax purposes; in each case, the Company's activities and balance sheet are measured with reference to historical cost or fair market value without considering inflation.

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 1

<TABLE>
<CAPTION>

INCOME STATEMENT	FOR THREE MONTHS ENDING	FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS)	MAR. 31, 1998	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>	<C>
Mortgage Loans:					

Coupon Income	$ 28,306	$ 24,911	$ 21,432	$ 14,474	$ 10,784
Amortization of Discount Balances	0	0	1	8	11
Amortization of Premium Balances	(2,496)	(2,088)	(1,803)	(1,462)	(940)
Interest Income: Mortgage Loans	25,810	22,823	19,630	13,020	9,855
Mortgage Securities:					
Coupon Income	33,330	36,595	41,124	39,879	31,440
Amortization of Discount Balances	185	258	375	409	261
Amortization of Premium Balances	(5,848)	(6,091)	(5,085)	(4,065)	(3,150)
Interest Income: Mortgage Securities	27,667	30,762	36,414	36,223	28,551
Total Interest Income From Mortgage Assets	53,477	53,585	56,044	49,243	38,406
Interest Income: Cash Balances	384	399	499	266	162
Total Interest Income	53,861	53,984	56,543	49,509	38,568
Interest Expense on Short-Term Debt	(28,003)	(31,964)	(40,318)	(38,958)	(28,900)
Interest Expense on Long-Term Debt	(18,094)	(14,567)	(5,570)	0	0
Total Interest Expense	(46,097)	(46,531)	(45,888)	(38,958)	(28,900)
Interest Rate Agreement Expense	(1,426)	(1,281)	(1,064)	(912)	(602)
Interest Rate Agreement Income	48	12	26	73	7
Net Interest Rate Agreement Expense	(1,378)	(1,269)	(1,038)	(839)	(595)
Net Interest Income	6,386	6,184	9,617	9,712	9,073
Provision for Potential Credit Losses					
Mortgage Loans	(601)	(1,516)	(473)	(299)	(215)
Mortgage Securities	0	1,000	(470)	(477)	(480)
Total Credit Provision	(601)	(516)	(943)	(776)	(695)
Write-down of Mortgage Securities	(729)	0	0	0	0
Gain (Loss) on Sale Transactions	6	543	20	0	0
Operating Expenses					
Compensation and Benefits Expense	(1,048)	(413)	(441)	(516)	(529)
Dividend Equivalent Rights Expense	(195)	(145)	(361)	(358)	(203)
Other Operating Expenses	(682)	(570)	(346)	(341)	(435)
Total Operating Expenses	(1,925)	(1,128)	(1,148)	(1,215)	(1,167)
Other Income (Expenses)	0	0	0	0	0
Equity in earnings of RWT Holdings, Inc.	0	0	0	0	0
Corporate Income Tax Expense	0	0	0	0	0
Net Income Before Preferred Dividends	3,137	5,083	7,546	7,721	7,211
Preferred Dividends	(687)	(686)	(687)	(687)	(755)
Net Income to Common Shareholders	$ 2,450	$ 4,397	$ 6,859	$ 7,034	$ 6,456
Calculation of Taxable REIT Income					
GAAP Net Income Before Preferred Dividends	$ 3,137	$ 5,083	$ 7,546	$ 7,721	$ 7,211
Mortgage Amortization Differences	43	105	(95)	(103)	(87)
Credit Provisions less Actual Losses	552	475	875	747	653
Gain (Loss) on Sale Differences	0	(190)	0	0	0
Write-down of Mortgage Securities Differences	729	0	0	0	0
Operating Expense Differences	67	113	(175)	(50)	135
Taxable Income Before Preferred Dividend	$ 4,527	$ 5,586	$ 8,151	$ 8,315	$ 7,912

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 1 (CONTINUED)

<TABLE>
<CAPTION>

INCOME STATEMENT	FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS)	DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>
Mortgage Loans:				
Coupon Income	$ 2,582	$ 1,656	$ 749	$ 479
Amortization of Discount Balances	11	7	11	2
Amortization of Premium Balances	(189)	(62)	(43)	(19)
Interest Income: Mortgage Loans	2,404	1,601	717	462

Mortgage Securities:				
Coupon Income	25,292	18,901	12,973	8,965
Amortization of Discount Balances	206	264	234	175
Amortization of Premium Balances	(2,236)	(1,645)	(1,225)	(688)
Interest Income: Mortgage Securities	23,262	17,520	11,982	8,452
Total Interest Income From Mortgage Assets	25,666	19,121	12,699	8,914
Interest Income: Cash Balances	215	250	202	217
Total Interest Income	25,881	19,371	12,901	9,131
Interest Expense on Short-Term Debt	(19,467)	(14,447)	(9,075)	(6,202)
Interest Expense on Long-Term Debt	0	0	0	0
Total Interest Expense	(19,467)	(14,447)	(9,075)	(6,202)
Interest Rate Agreement Expense	(403)	(350)	(255)	(151)
Interest Rate Agreement Income	1	0	0	0
Net Interest Rate Agreement Expense	(402)	(350)	(255)	(151)
Net Interest Income	6,012	4,574	3,571	2,778
Provision for Potential Credit Losses				
Mortgage Loans	(35)	(178)	(140)	5
Mortgage Securities	(337)	(338)	(337)	(336)
Total Credit Provision	(372)	(516)	(477)	(331)
Write-down of Mortgage Securities	0	0	0	0
Gain (Loss) on Sale Transactions	0	0	0	0
Operating Expenses				
Compensation and Benefits Expense	(343)	(309)	(305)	(234)
Dividend Equivalent Rights Expense	(137)	(81)	(79)	(85)
Other Operating Expenses	(316)	(281)	(210)	(174)
Total Operating Expenses	(796)	(671)	(594)	(493)
Other Income (Expenses)	0	0	0	0
Equity in earnings of RWT Holdings, Inc.	0	0	0	0
Corporate Income Tax Expense	0	0	0	0
Net Income Before Preferred Dividends	4,844	3,387	2,500	1,954
Preferred Dividends	(760)	(388)	--	--
Net Income to Common Shareholders	$ 4,084	$ 2,999	$ 2,500	$ 1,954
Calculation of Taxable REIT Income				
GAAP Net Income Before Preferred Dividends	$ 4,844	$ 3,387	$ 2,500	$ 1,954
Mortgage Amortization Differences	131	61	82	175
Credit Provisions less Actual Losses	365	516	477	331
Gain (Loss) on Sale Differences	0	0	0	0
Write-down of Mortgage Securities Differences	0	0	0	0
Operating Expense Differences	89	84	83	89
Taxable Income Before Preferred Dividend	$ 5,429	$ 4,048	$ 3,142	$ 2,549

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 1 (CONTINUED)

<TABLE>
<CAPTION>

INCOME STATEMENT	FOR YEAR ENDING			
(ALL DOLLARS IN THOUSANDS)	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
Mortgage Loans:				
Coupon Income	$ 71,601	$ 5,466	$ 379	$ 0
Amortization of Discount Balances	20	31	4	0
Amortization of Premium Balances	(6,293)	(313)	(4)	0
Interest Income: Mortgage Loans	65,328	5,184	379	0
Mortgage Securities:				
Coupon Income	149,038	66,131	14,759	1,102
Amortization of Discount Balances	1,303	879	915	101
Amortization of Premium Balances	(18,391)	(5,794)	(559)	(19)
Interest Income: Mortgage Securities	131,949	61,216	15,115	1,184

Total Interest Income From Mortgage Assets	197,277	66,400	15,494	1,184
Interest Income: Cash Balances	1,326	884	232	112
Total Interest Income	198,604	67,284	15,726	1,296
Interest Expense on Short-Term Debt	(140,140)	(49,191)	(10,608)	(760)
Interest Expense on Long-Term Debt	(20,137)	0	0	0
Total Interest Expense	(160,277)	(49,191)	(10,608)	(760)
Interest Rate Agreement Expense	(3,859)	(1,159)	(339)	(8)
Interest Rate Agreement Income	118	1	0	0
Net Interest Rate Agreement Expense	(3,741)	(1,158)	(339)	(8)
Net Interest Income	34,586	16,935	4,779	528
Provision for Potential Credit Losses				
Mortgage Loans	(2,503)	(348)	(79)	0
Mortgage Securities	(427)	(1,348)	(414)	0
Total Credit Provision	(2,930)	(1,696)	(493)	0
Write-down of Mortgage Securities	0	0	0	0
Gain (Loss) on Sale Transactions	563	0	0	0
Operating Expenses				
Compensation and Benefits Expense	(1,899)	(1,191)	(463)	(63)
Dividend Equivalent Rights Expense	(1,067)	(382)	(54)	0
Other Operating Expenses	(1,692)	(981)	(614)	(83)
Total Operating Expenses	(4,658)	(2,554)	(1,131)	(146)
Other Income (Expenses)	0	0	0	0
Equity in earnings of RWT Holdings, Inc.	0	0	0	0
Corporate Income Tax Expense	0	0	0	0
Net Income Before Preferred Dividends	27,561	12,685	3,155	382
Preferred Dividends	(2,815)	(1,148)	0	0
Net Income to Common Shareholders	$ 24,746	$ 11,537	$ 3,155	$ 382
Calculation of Taxable REIT Income				
GAAP Net Income Before Preferred Dividends	$ 27,561	$ 12,685	$ 3,155	$ 382
Mortgage Amortization Differences	(180)	449	175	(28)
Credit Provisions less Actual Losses	2,750	1,689	490	0
Gain (Loss) on Sale Differences	(190)	0	(0)	0
Write-down of Mortgage Securities Differences	0	0	(0)	0
Operating Expense Differences	23	345	12	0
Taxable Income Before Preferred Dividend	$ 29,964	$ 15,168	$ 3,832	$ 354

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION
TABLE 2

<TABLE>
<CAPTION>

BALANCE SHEETS	AT	AT			
(ALL DOLLARS IN THOUSANDS)	MAR. 31, 1998	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>	<C>
Unrestricted Cash	$ 6,468	$ 24,892	$ 28,758	$ 29,425	$ 12,985
Restricted Cash	25,734	24,657	28,938	0	0
Total Cash and Cash Equivalents	32,202	49,549	57,696	29,425	12,985
Mortgage Loans:					
Principal Value	1,837,020	1,519,124	1,348,619	1,111,029	716,009
Unamortized Premium	37,943	34,844	30,852	25,442	15,951
Unamortized Discount	(27)	0	0	(123)	(131)
Real Estate Owned	497	713	220	346	128

Reserve For Credit Losses	(3,449)	(2,855)	(1,363)	(929)	(630)
Market Valuation Account	0	0	0	0	(1,291)
Total Mortgage Loans	1,871,984	1,551,826	1,378,328	1,135,765	730,035
Mortgage Securities:					
Principal Value	1,741,975	1,779,375	2,010,374	2,179,186	1,839,720
Unamortized Premium	47,105	51,329	56,082	62,219	49,156
Unamortized Discount	(12,104)	(12,442)	(14,387)	(14,968)	(15,510)
Reserve For Credit Losses	(2,035)	(2,076)	(3,093)	(2,651)	(2,203)
Market Valuation Account	(4,375)	(1,390)	10,619	3,603	3,516
Total Mortgage Securities	1,770,566	1,814,796	2,059,595	2,227,389	1,874,679
Total Mortgage Assets	3,642,550	3,366,622	3,437,923	3,363,154	2,604,714
Interest Rate Agreements	10,337	10,781	11,708	12,233	7,879
Market Valuation Account	(8,710)	(8,681)	(8,782)	(7,366)	(2,106)
Total Interest Rate Agreements	1,627	2,100	2,926	4,867	5,773
Accrued Interest Receivable	23,886	23,119	23,859	24,065	17,722
Investment in RWT Holdings, Inc.	9,900	0	0	0	0
Fixed Assets, Leasehold, Org. Costs	551	539	358	257	259
Prepaid Expenses and Other Receivables	2,975	2,268	2,490	2,738	1,611
Other Assets	37,312	25,926	26,707	27,060	19,592
Total Assets	$ 3,713,691	$ 3,444,197	$ 3,525,252	$ 3,424,506	$ 2,643,064
Short-Term Borrowings	$ 2,288,018	$ 1,914,525	$ 2,639,773	$ 3,102,784	$ 2,373,279
Long-Term Borrowings	1,081,279	1,172,801	497,367	0	0
Accrued Interest Payable	12,212	14,476	20,216	18,153	14,962
Accrued Expenses and Other Payables	1,797	2,172	2,129	1,743	1,262
Dividends Payable	687	5,686	9,433	8,638	7,899
Total Liabilities	3,383,993	3,109,660	3,168,918	3,131,318	2,397,402
Preferred Stock	26,736	26,736	26,733	26,733	29,383
Common Stock	141	143	146	133	119
Additional Paid-in Capital	320,282	324,555	333,841	274,420	219,461
Accumulated Other Comprehensive Income	(13,085)	(10,071)	1,837	(3,762)	118
Dividends in Excess of Net Income	(4,376)	(6,826)	(6,223)	(4,336)	(3,419)
Total Stockholders' Equity	329,698	334,537	356,334	293,188	245,662
Total Liabilities plus Stockholders' Equity	$ 3,713,691	$ 3,444,197	$ 3,525,252	$ 3,424,506	$ 2,643,064

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 2 (CONTINUED)

<TABLE>
<CAPTION>

BALANCE SHEETS (ALL DOLLARS IN THOUSANDS)	AT DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>
Unrestricted Cash	$ 11,068	$ 14,599	$ 10,407	$ 9,705
Restricted Cash	0	0	0	0
Total Cash and Cash Equivalents	11,068	14,599	10,407	9,705
Mortgage Loans:				
Principal Value	514,837	126,426	69,154	24,831
Unamortized Premium	12,389	1,535	686	191
Unamortized Discount	(142)	(153)	(160)	(171)
Real Estate Owned	196	0	0	0
Reserve For Credit Losses	(428)	(393)	(214)	(74)
Market Valuation Account	(1,377)	279	200	84
Total Mortgage Loans	525,475	127,694	69,666	24,861
Mortgage Securities:				
Principal Value	1,602,212	1,234,636	936,611	548,976
Unamortized Premium	41,928	31,072	22,004	12,599
Unamortized Discount	(15,951)	(16,185)	(16,448)	(16,683)
Reserve For Credit Losses	(1,752)	(1,421)	(1,084)	(747)
Market Valuation Account	1,516	74	(3,269)	(3,847)
Total Mortgage Securities	1,627,953	1,248,176	937,814	540,298
Total Mortgage Assets	2,153,428	1,375,870	1,007,480	565,159
Interest Rate Agreements	6,200	3,286	2,835	2,534
Market Valuation Account	(3,599)	(2,413)	(1,484)	(1,301)
Total Interest Rate Agreements	2,601	873	1,351	1,233
Accrued Interest Receivable	14,134	10,781	7,292	4,496
Investment in RWT Holdings, Inc.	0	0	0	0
Fixed Assets, Leasehold, Org. Costs	257	265	233	198
Prepaid Expenses and Other Receivables	2,709	1,090	1,567	522
Other Assets	17,100	12,136	9,092	5,216
Total Assets	$ 2,184,197	$ 1,403,478	$ 1,028,330	$ 581,313
Short-Term Borrowings	$ 1,953,103	$ 1,225,094	$ 896,214	$ 508,721
Long-Term Borrowings	0	0	0	0
Accrued Interest Payable	14,060	10,379	4,052	1,616
Accrued Expenses and Other Payables	761	472	361	290
Dividends Payable	5,268	4,016	3,408	2,540
Total Liabilities	1,973,192	1,239,961	904,035	513,167
Preferred Stock	29,579	29,712	0	0
Common Stock	110	91	85	55
Additional Paid-in Capital	187,507	138,081	130,441	73,926
Accumulated Other Comprehensive Income	(3,460)	(2,060)	(4,553)	(5,065)
Dividends in Excess of Net Income	(2,731)	(2,307)	(1,678)	(770)
Total Stockholders' Equity	211,005	163,517	124,295	68,146
Total Liabilities plus Stockholders' Equity	$ 2,184,197	$ 1,403,478	$ 1,028,330	$ 581,313

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 2 (CONTINUED)

<TABLE>
<CAPTION>

BALANCE SHEETS (ALL DOLLARS IN THOUSANDS)	AT DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
Unrestricted Cash	$ 24,892	$ 11,068	$ 4,825	$ 1,027
Restricted Cash	24,657	0	0	0
Total Cash and Cash Equivalents	49,549	11,068	4,825	1,027
Mortgage Loans:				
Principal Value	1,519,124	514,837	26,411	0
Unamortized Premium	34,844	12,389	210	0
Unamortized Discount	0	(142)	(172)	0
Real Estate Owned	713	196	0	0
Reserve For Credit Losses	(2,855)	(428)	(79)	0
Market Valuation Account	0	(1,377)	80	0
Total Mortgage Loans	1,551,826	525,475	26,450	0
Mortgage Securities:				
Principal Value	1,779,375	1,602,212	417,214	120,627
Unamortized Premium	51,329	41,928	9,433	828
Unamortized Discount	(12,442)	(15,951)	(16,860)	(1,320)
Reserve For Credit Losses	(2,076)	(1,752)	(411)	0
Market Valuation Account	(1,390)	1,516	(3,582)	(2,658)
Total Mortgage Securities	1,814,796	1,627,953	405,794	117,477
Total Mortgage Assets	3,366,622	2,153,428	432,244	117,477
Interest Rate Agreements	10,781	6,200	2,521	1,791
Market Valuation Account	(8,681)	(3,599)	(1,974)	101
Total Interest Rate Agreements	2,100	2,601	547	1,892
Accrued Interest Receivable	23,119	14,134	3,270	743
Investment in RWT Holdings, Inc.	0	0	0	0
Fixed Assets, Leasehold, Org. Costs	539	257	206	201
Prepaid Expenses and Other Receivables	2,268	2,709	465	188
Other Assets	25,926	17,100	3,941	1,132
Total Assets	$ 3,444,197	$ 2,184,197	$ 441,557	$ 121,529
Short-Term Borrowings	$ 1,914,525	$ 1,953,103	$ 370,316	$ 100,376
Long-Term Borrowings	1,172,801	0	0	0
Accrued Interest Payable	14,476	14,060	1,290	676
Accrued Expenses and Other Payables	2,172	761	227	29
Dividends Payable	5,686	5,268	1,434	167
Total Liabilities	3,109,660	1,973,192	373,267	101,248
Preferred Stock	26,736	29,579	0	22,785
Common Stock	143	110	55	2
Additional Paid-in Capital	324,555	187,507	73,895	19
Accumulated Other Comprehensive Income	(10,071)	(3,460)	(5,476)	(2,557)
Dividends in Excess of Net Income	(6,826)	(2,731)	(184)	31
Total Stockholders' Equity	334,537	211,005	68,290	20,280
Total Liabilities plus Stockholders' Equity	$ 3,444,197	$ 2,184,197	$ 441,557	$ 121,528

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 3

<TABLE>
<CAPTION>

MORTGAGE ASSET CHARACTERISTICS	FOR THREE MONTHS ENDING	AT OR FOR THREE MONTHS ENDING

(ALL DOLLARS IN THOUSANDS)	MAR. 31, 1998	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
Average Characteristics of Loans and Securities (Mortgage Assets) at End of Period					
Single-Family Properties	100%	100%	100%	100%	100%
Short-Term Adjustable Rate (Next reset in 12 months or less)	91%	98%	98%	98%	98%
Hybrid Adjustable Rate (Next reset in more than 12 months)	9%	2%	2%	2%	2%
First Lien	100%	100%	100%	100%	100%
Average Credit Rating Equivalent	AA+	AA+	AA+	AA+	AA+
Amortized Cost as % of Principal Value	102.04%	102.23%	102.16%	102.21%	101.94%
Coupon Rate	7.59%	7.71%	7.75%	7.73%	7.70%
Months to Next Coupon Adjustment (Short-Term Adjustable Rate)	4	4	4	4	5
Months to Next Coupon Adjustment (Hybrid Adjustable Rate)	52	21	24	27	30
Months to Next Coupon Adjustment (Total Adjustable Rate)	8	4	4	5	5
Level of Index	5.59%	5.68%	5.65%	5.77%	5.98%
Net Margin	2.06%	2.06%	2.11%	2.15%	2.21%
Fully Indexed Coupon Rate	7.65%	7.74%	7.76%	7.92%	8.19%
Coupon Versus Fully-Indexed Rate	-0.06%	-0.03%	-0.01%	-0.19%	-0.49%
Net Life Cap	12.12%	12.08%	12.03%	12.01%	11.91%
Percentage of Mortgage Assets by Credit Type, by Amortized Cost					
Mortgage Loans	51.3%	46.1%	40.2%	33.8%	28.1%
Mortgage Securities: AAA/AA	48.4%	53.6%	58.2%	64.5%	69.8%
Mortgage Securities: A/BBB	0.0%	0.0%	0.7%	0.8%	1.0%
Mortgage Securities: Below BBB	0.3%	0.3%	0.9%	0.9%	1.1%
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Amortized Cost)	$3,652,409	$3,372,943	$3,431,760	$3,363,131	$2,605,323
Percentage of Mortgage Assets by Index, Adjustment Frequency, and Annualized Periodic Cap, By Principal Value					
1 Month LIBOR, adjusts monthly, no periodic cap	20.2%	20.2%	12.4%	8.9%	2.6%
6 Month LIBOR, adjusts every 6 months, 2% periodic cap	20.0%	21.5%	26.2%	27.5%	32.4%
6 Month LIBOR, adjusts every 6 months, no periodic cap	11.6%	11.2%	11.4%	7.4%	1.9%
6 Month CD, adjusts every 6 months, 2% annualized periodic cap	1.0%	1.2%	1.3%	1.5%	1.9%
6 Mo. Treasury, adjusts every 6 months, 2% annualized periodic cap	0.5%	0.6%	0.6%	0.6%	0.8%
6 Month Treasury, adjusts every 6 months, no periodic cap	0.4%	0.5%	0.5%	0.5%	0.7%
3/1 Hybrid: 12 Month Treasury with 3 year initial coupon	1.3%	1.6%	1.7%	1.8%	2.4%
5/1 Hybrid: 12 Month Treasury with 5 year initial coupon	8.1%	0.0%	0.0%	0.0%	0.0%
12 Month Treasury, adjusts annually, 2% periodic cap	35.2%	41.6%	44.5%	50.3%	55.4%
12 Month Treasury, adjusts annually, no periodic cap	0.3%	0.1%	0.1%	0.1%	0.1%
Other	1.4%	1.5%	1.3%	1.4%	1.8%
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Principal Value)	$3,579,492	$3,299,212	$3,359,213	$3,290,562	$2,555,857

Net Mortgage Asset Growth					
Mortgage Acquisitions	$ 603,803	$ 342,283	$ 369,463	$ 962,890	$ 627,075
Mortgage Principal Repayments	(306,112)	(347,427)	(252,398)	(199,945)	(173,362)
Amortization	(8,158)	(7,921)	(6,512)	(5,109)	(3,818)
Writedowns	(729)	0	0	0	0
Credit Losses	(49)	(40)	(68)	(28)	(41)
Sales	(9,289)	(45,712)	(41,856)	1	0
Change in Mortgage Assets (Amortized Cost)	$ 279,466	$ (58,817)	$ 68,629	$ 757,808	$ 449,854

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>

TABLE 3 (CONTINUED)
MORTGAGE ASSET CHARACTERISTICS

(ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
Average Characteristics of Loans and Securities (Mortgage Assets) at End of Period				
Single-Family Properties	100%	100%	100%	100%
Short-Term Adjustable Rate (Next reset in 12 months or less)	100%	100%	100%	100%
Hybrid Adjustable Rate (Next reset in more than 12 months)	0%	0%	0%	0%
First Lien	100%	100%	100%	100%
Average Credit Rating Equivalent	AA+	AA+	AA+	AA+
Amortized Cost as % of Principal Value	101.81%	101.20%	100.60%	99.29%
Coupon Rate	7.75%	7.55%	7.42%	7.59%
Months to Next Coupon Adjustment (Short-Term Adjustable Rate)	5	4	4	3
Months to Next Coupon Adjustment (Hybrid Adjustable Rate)	n/a	n/a	n/a	n/a
Months to Next Coupon Adjustment (Total Adjustable Rate)	5	4	4	3
Level of Index	5.58%	5.70%	5.72%	5.47%
Net Margin	2.24%	2.21%	2.21%	2.11%
Fully Indexed Coupon Rate	7.82%	7.91%	7.93%	7.58%
Coupon Versus Fully-Indexed Rate	-0.07%	-0.36%	-0.51%	0.01%
Net Life Cap	11.73%	11.69%	11.71%	11.53%
Percentage of Mortgage Assets by Credit Type, by Amortized Cost				
Mortgage Loans	24.5%	9.3%	6.9%	4.4%
Mortgage Securities: AAA/AA	73.0%	86.8%	87.7%	86.1%
Mortgage Securities: A/BBB	1.2%	1.8%	2.5%	4.6%
Mortgage Securities: Below BBB	1.3%	2.1%	2.9%	4.9%
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Amortized Cost)	$2,155,469	$1,377,331	$1,011,847	$ 569,743

Percentage of Mortgage Assets by Index, Adjustment Frequency, and Annualized Periodic Cap, By Principal Value

1 Month LIBOR, adjusts monthly, no periodic cap	1.4%	2.3%	3.3%	6.6%
6 Month LIBOR, adjusts every 6 months, 2% periodic cap	36.2%	45.9%	54.4%	63.2%
6 Month LIBOR, adjusts every 6 months, no periodic cap	0.0%	0.0%	0.0%	0.0%
6 Month CD, adjusts every 6 months, 2% annualized periodic cap	2.5%	2.4%	3.3%	8.7%
6 Mo. Treasury, adjusts every 6 months, 2% annualized periodic cap	1.1%	1.7%	2.4%	0.0%
6 Month Treasury, adjusts every 6 months, no periodic cap	0.9%	1.3%	1.9%	3.6%
3/1 Hybrid: 12 Month Treasury with 3 year initial coupon	0.0%	0.0%	0.0%	0.0%
5/1 Hybrid: 12 Month Treasury with 5 year initial coupon	0.0%	0.0%	0.0%	0.0%
12 Month Treasury, adjusts annually, 2% periodic cap	55.7%	45.0%	32.8%	14.6%
12 Month Treasury, adjusts annually, no periodic cap	0.0%	0.0%	0.0%	0.0%
Other	2.2%	1.4%	1.9%	3.3%
	----------	----------	----------	----------
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Principal Value)	$2,117,244	$1,361,062	$1,005,764	$ 573,807
Net Mortgage Asset Growth				
Mortgage Acquisitions	$ 875,968	$ 443,860	$ 496,184	$ 166,852
Mortgage Principal Repayments	(95,610)	(76,942)	(53,058)	(32,814)
Amortization	(2,213)	(1,434)	(1,022)	(531)
Writedowns	0	0	0	0
Credit Losses	(7)	0	0	0
Sales	(0)	(1)	1	(0)
	----------	----------	----------	----------
Change in Mortgage Assets (Amortized Cost)	$ 778,138	$ 365,484	$ 442,104	$ 133,507

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>

TABLE 3 (CONTINUED)
MORTGAGE ASSET CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

	AT OR FOR YEAR ENDING			
	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
Average Characteristics of Loans and Securities (Mortgage Assets) at End of Period				
Single-Family Properties	100%	100%	100%	100%
Short-Term Adjustable Rate (Next reset in 12 months or less)	98%	100%	100%	100%
Hybrid Adjustable Rate (Next reset in more than 12 months)	2%	0%	0%	0%
First Lien	100%	100%	100%	100%
Average Credit Rating Equivalent	AA+	AA+	AA+	AA+
Amortized Cost as % of Principal Value	102.23%	101.81%	98.33%	99.59%
Coupon Rate	7.71%	7.75%	7.50%	6.00%
Months to Next Coupon Adjustment (Short-Term Adjustable Rate)	4	5	3	3
Months to Next Coupon Adjustment (Hybrid Adjustable Rate)	21	n/a	n/a	n/a
	----------	----------	----------	---------
Months to Next Coupon Adjustment (Total Adjustable Rate)	4	5	3	3
Level of Index	5.68%	5.58%	5.44%	6.94%
Net Margin	2.06%	2.24%	2.08%	2.25%
Fully Indexed Coupon Rate	7.74%	7.82%	7.52%	9.19%
Coupon Versus Fully-Indexed Rate	-0.03%	-0.07%	-0.02%	-3.19%
Net Life Cap	12.08%	11.73%	11.54%	

11.48%

Percentage of Mortgage Assets by Credit Type, by Amortized Cost				
Mortgage Loans	46.1%	24.5%	6.1%	0.0%
Mortgage Securities: AAA/AA	53.6%	73.0%	81.5%	92.9%
Mortgage Securities: A/BBB	0.0%	1.2%	5.8%	4.3%
Mortgage Securities: Below BBB	0.3%	1.3%	6.6%	2.8%
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Amortized Cost)	$3,372,943	$2,155,469	$ 436,236	$ 120,135
Percentage of Mortgage Assets by Index, Adjustment Frequency, and Annualized Periodic Cap, By Principal Value				
1 Month LIBOR, adjusts monthly, no periodic cap	20.2%	1.4%	7.6%	3.9%
6 Month LIBOR, adjusts every 6 months, 2% periodic cap	21.5%	36.2%	60.3%	78.3%
6 Month LIBOR, adjusts every 6 months, no periodic cap	11.2%	0.0%	0.0%	0.0%
6 Month CD, adjusts every 6 months, 2% annualized periodic cap	1.2%	2.5%	12.2%	17.8%
6 Mo. Treasury, adjusts every 6 months, 2% annualized periodic cap	0.6%	1.1%	0.0%	0.0%
6 Month Treasury, adjusts every 6 months, no periodic cap	0.5%	0.9%	4.9%	0.0%
3/1 Hybrid: 12 Month Treasury with 3 year initial coupon	1.6%	0.0%	0.0%	0.0%
5/1 Hybrid: 12 Month Treasury with 5 year initial coupon	0.0%	0.0%	0.0%	0.0%
12 Month Treasury, adjusts annually, 2% periodic cap	41.6%	55.7%	12.3%	0.0%
12 Month Treasury, adjusts annually, no periodic cap	0.1%	0.0%	0.0%	0.0%
Other	1.5%	2.2%	2.7%	0.0%
Total Mortgage Assets (%)	100.0%	100.0%	100.0%	100.0%
Total Mortgage Assets (Principal Value)	$3,299,212	$2,117,244	$ 443,625	$ 120,627
Net Mortgage Asset Growth				
Mortgage Acquisitions	$2,301,711	$1,982,864	$ 354,572	$ 121,297
Mortgage Principal Repayments	(973,132)	(258,424)	(38,824)	(1,244)
Amortization	(23,361)	(5,200)	357	82
Writedowns	0	0	0	0
Credit Losses	(179)	(7)	(4)	(0)
Sales	(87,565)	0	0	0
Change in Mortgage Assets (Amortized Cost)	$1,217,474	$1,719,233	$ 316,101	$ 120,135

</TABLE>

<TABLE>
<CAPTION>
SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 4 MORTGAGE LOAN SUMMARY (ALL DOLLARS IN THOUSANDS)	AT MAR. 31, 1998	AT DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>	<C>
Number of Loans	5,939	5,041	4,651	3,983	2,795
Principal Value	$1,837,518	$1,519,837	$1,348,839	$1,111,376	$ 716,137
Amortized Cost	1,875,433	1,554,681	1,379,691	1,136,694	731,957
Reported Value (Net of Credit Reserve)	1,871,984	1,551,826	1,378,328	1,135,765	730,035
Estimated Bid-Side Market Value	1,872,775	1,552,586	1,379,166	1,136,004	729,561
Short-Term Adjustable Rate (Next reset in 12 months or less)	82%	96%	96%	95%	92%
Hybrid Adjustable Rate (Next reset in more than 12 months)	18%	4%	4%	5%	8%
Single-Family	100%	100%	100%	100%	100%
"A" Quality Underwriting	100%	100%	100%	100%	100%
First Lien	100%	100%	100%	100%	100%
Primary Residence (Owner-Occupied)	89%	89%	91%	92%	94%
Second Home	8%	8%	7%	6%	

					4%
Investor Property	3%	3%	2%	2%	2%
Average Loan Size	$ 309	$ 301	$ 290	$ 279	$ 256
Loan Balance < Conventional Loan Balance Limit ($227,150 in 1998)	19%	18%	19%	20%	20%
Loan Balance Greater Than $500,000	36%	37%	33%	27%	14%
Original Loan-To-Value Ratio (LTV)	77%	78%	77%	78%	74%
Original LTV > 80%	35%	38%	35%	33%	24%
% of Original LTV > 80% with Primary Mortgage Insurance or Pledged Account Collateral	97%	95%	96%	94%	94%
Effective Average Original LTV Including Primary Mortgage Insurance or Pledged Account Collateral	67%	66%	66%	69%	68%
1990 and Prior Years' Origination	3%	4%	4%	6%	9%
1991 Origination	*	*	*	1%	1%
1992	1%	1%	1%	2%	3%
1993	2%	4%	4%	6%	9%
1994	10%	13%	17%	23%	41%
1995	1%	1%	2%	2%	4%
1996	8%	11%	14%	18%	30%
1997	64%	66%	58%	42%	2%
1998	11%	0%	0%	0%	0%
Average Seasoning in Months	16	18	19	22	33
Northern California	13%	11%	13%	13%	17%
Southern California	17%	18%	19%	21%	24%
Florida	9%	9%	9%	8%	5%
New York	7%	7%	6%	5%	4%
Georgia	5%	5%	4%	3%	2%
Colorado	4%	4%	3%	3%	2%
New Jersey	4%	4%	4%	4%	3%
Texas	4%	4%	4%	4%	3%
Connecticut	4%	4%	4%	4%	3%
Illinois	3%	3%	3%	3%	4%
Maryland	3%	3%	3%	4%	6%
Massachusetts	3%	2%	2%	2%	3%
Other States	24%	26%	26%	26%	24%

*: less than 0.5%
</TABLE>

<TABLE>
<CAPTION>
SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 4 (CONTINUED)
MORTGAGE LOAN SUMMARY
(ALL DOLLARS IN THOUSANDS)

<S>	AT DEC. 31, 1996 <C>	AT SEP. 30, 1996 <C>	AT JUN. 30, 1996 <C>	AT MAR. 31, 1996 <C>
Number of Loans	2,172	478	257	101
Principal Value	$515,033	$126,426	$ 69,154	$ 24,831
Amortized Cost	527,280	127,808	69,680	24,851

Reported Value (Net of Credit Reserve)	525,475	127,694	69,666	24,861
Estimated Bid-Side Market Value	525,475	127,694	69,666	24,861
Short-Term Adjustable Rate (Next reset in 12 months or less)	100%	100%	100%	100%
Hybrid Adjustable Rate (Next reset in more than 12 months)	0%	0%	0%	0%
Single-Family	100%	100%	100%	100%
"A" Quality Underwriting	100%	100%	100%	100%
First Lien	100%	100%	100%	100%
Primary Residence (Owner-Occupied)	94%	99%	99%	100%
Second Home	4%	1%	1%	0%
Investor Property	2%	0%	0%	0%
Average Loan Size	$ 237	$ 264	$ 269	$ 246
Loan Balance < Conventional Loan Balance Limit ($227,150 in 1998)	22%	15%	13%	27%
Loan Balance Greater Than $500,000	8%	12%	13%	25%
Original Loan-To-Value Ratio (LTV)	77%	78%	76%	77%
Original LTV > 80%	25%	32%	23%	27%
% of Original LTV > 80% with Primary Mortgage Insurance or Pledged Account Collateral	97%	100%	100%	100%
Effective Average Original LTV Including Primary Mortgage Insurance or Pledged Account Collateral	73%	73%	73%	73%
1990 and Prior Years' Origination	13%	0%	0%	0%
1991 Origination	2%	0%	0%	0%
1992	4%	0%	0%	0%
1993	14%	7%	1%	0%
1994	52%	43%	2%	2%
1995	7%	32%	63%	98%
1996	8%	18%	34%	0%
1997	0%	0%	0%	0%
1998	0%	0%	0%	0%
Average Seasoning in Months	37	9	4	7
Northern California	18%	34%	30%	30%
Southern California	26%	51%	43%	46%
Florida	4%	*	1%	1%
New York	3%	*	*	0%
Georgia	2%	*	1%	1%
Colorado	1%	2%	3%	3%
New Jersey	3%	*	*	1%
Texas	2%	1%	1%	4%
Connecticut	3%	1%	1%	1%
Illinois	4%	*	1%	0%
Maryland	8%	*	1%	2%
Massachusetts	3%	*	1%	2%
Other States	23%	11%	17%	9%

*: less than 0.5%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 4 (CONTINUED)

MORTGAGE LOAN SUMMARY (ALL DOLLARS IN THOUSANDS)	AT DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
Number of Loans	5,041	2,172	109	0
Principal Value	$1,519,837	$ 515,033	$ 26,411	$ 0
Amortized Cost	1,554,681	527,280	26,449	0
Reported Value (Net of Credit Reserve)	1,551,826	525,475	26,450	0
Estimated Bid-Side Market Value	1,552,586	525,475	26,450	0
Short-Term Adjustable Rate (Next reset in 12 months or less)	96%	100%	100%	n/a
Hybrid Adjustable Rate (Next reset in more than 12 months)	4%	0%	0%	n/a
Single-Family	100%	100%	100%	n/a
"A" Quality Underwriting	100%	100%	100%	n/a
First Lien	100%	100%	100%	n/a
Primary Residence (Owner-Occupied)	89%	94%	100F	n/a
Second Home	8%	4%	0%	n/a
Investor Property	3%	2%	0%	n/a
Average Loan Size	$ 301	$ 237	$ 242	n/a
Loan Balance < Conventional Loan Balance Limit ($227,150 in 1998)	18%	22%	11%	n/a
Loan Balance Greater Than $500,000	37%	8%	13%	n/a
Original Loan-To-Value Ratio (LTV)	78%	77%	76%	n/a
Original LTV > 80%	38%	25%	26%	n/a
% of Original LTV > 80% with Primary Mortgage Insurance or Pledged Account Collateral	95%	97%	100%	n/a

Effective Average Original LTV Including Primary Mortgage Insurance or Pledged Account Collateral	66%	73%	72%	n/a
1990 and Prior Years' Origination	4%	13%	0%	n/a
1991 Origination	*	2%	0%	n/a
1992	1%	4%	0%	n/a
1993	4%	14%	0%	n/a
1994	13%	52%	2%	n/a
1995	1%	7%	98%	n/a
1996	11%	8%	0%	n/a
1997	66%	0%	0%	n/a
	1998	0%	0%	n/a
Average Seasoning in Months	18	37	4	n/a
Northern California	11%	18%	30%	n/a
Southern California	18%	26%	44%	n/a
Florida	9%	4%	1%	n/a
New York	7%	3%	0%	n/a
Georgia	5%	2%	1%	n/a
Colorado	4%	1%	3%	n/a
New Jersey	4%	3%	1%	n/a
Texas	4%	2%	4%	n/a
Connecticut	4%	3%	1%	n/a
Illinois	3%	4%	0%	n/a
Maryland	3%	8%	2%	n/a
Massachusetts	2%	3%	2%	n/a
Other States	26%	22%	11%	n/a

*: less than 0.5%
</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>

TABLE 5 EARNING ASSET YIELD, INTEREST RATE SPREAD AND INTEREST RATE MARGIN		FOR THREE MONTHS ENDING			
	MAR. 31, 1998	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>	<C>
Mortgage Coupon Rate (All Mortgage Assets)	7.65%	7.70%	7.77%	7.74%	7.70%
Amortized Cost as % of Principal Value	102.21%	102.20%	102.22%	102.15%	101.84%
Coupon Yield on Amortized Cost	7.49%	7.53%	7.60%	7.57%	7.56%
Effect of Premium/Discount Amortization	-0.99%	-0.98%	-0.79%	-0.71%	-0.68%
Mortgage Yield	6.50%	6.55%	6.81%	6.86%	6.88%
Cash Yield	5.51%	5.59%	5.60%	5.52%	5.33%
Earning Asset Yield (Mortgages plus Cash)	6.49%	6.54%	6.80%	6.86%	6.87%
Cost of Funds of Short-Term Borrowings	5.77%	5.96%	5.98%	5.86%	5.62%
Cost of Funds of Long-Term Borrowings	6.44%	6.40%	6.28%	n/a	n/a
Total Cost of Funds	6.01%	6.09%	6.02%	5.86%	5.62%
Cost of Hedging (as % of Borrowings)	0.18%	0.17%	0.14%	0.13%	0.12%
Interest Rate Spread	0.30%	0.28%	0.64%	0.87%	1.13%
Net Interest Margin (Net Interest Income/Assets)	0.75%	0.72%	1.12%	1.31%	1.57%
Net Interest Income/Average Equity	7.45%	7.06%	11.13%	13.25%	15.30%
SELECTED OPERATING RATIOS AND RETURN ON EQUITY					
Credit Provisions as a % of Assets	0.07%	0.06%	0.11%	0.10%	0.12%
Credit Provisions as a % of Equity	0.70%	0.59%	1.09%	1.06%	1.17%
Operating Expenses to Average Assets	0.22%	0.13%	0.13%	0.16%	0.20%
Operating Expenses to Average Equity	2.24%	1.29%	1.33%	1.66%	1.97%
Efficiency Ratio (Op. Exp./Net Int. Income)	30.14%	18.25%	11.93%	12.51%	12.86%
Average Assets Per Employee ($MM)	$ 192	$ 242	$ 244	$ 257	$ 221
GAAP Return on Total Equity	3.66%	5.80%	8.73%	10.53%	12.16%
GAAP Return on Common Equity	3.10%	5.43%	8.60%	10.65%	12.44%
Taxable Income Return on Total Equity	5.28%	6.38%	9.43%	11.34%	13.34%
Taxable Income Return on Common Equity	4.86%	6.06%	9.36%	11.55%	13.79%
GAAP Return on Average Assets	0.37%	0.59%	0.88%	1.04%	1.25%
PRINCIPAL PAYDOWN AND PREPAYMENT RATES					
Average Annual Conditional Prepayment Rate (CPR) of Underlying					

Mortgages in Mortgage Securities and Mortgage Loan Pools	26%	27%	24%	23%	24%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Securities and Mortgage Loans	38%	43%	31%	28%	32%
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Loan Pools	22%	24%	23%	28%	24%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Loans	32%	29%	29%	35%	32%
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities Pools	29%	30%	25%	22%	23%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Securities	44%	53%	33%	26%	31%

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SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
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TABLE 5 (CONTINUED)
EARNING ASSET YIELD, INTEREST RATE SPREAD AND INTEREST RATE MARGIN

	FOR THREE MONTHS ENDING			
	DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>
Mortgage Coupon Rate (All Mortgage Assets)	7.58%	7.52%	7.47%	7.73%
Amortized Cost as % of Principal Value	101.41%	100.98%	99.95%	98.85%
Coupon Yield on Amortized Cost	7.48%	7.44%	7.48%	7.82%
Effect of Premium/Discount Amortization	-0.59%	-0.52%	-0.56%	-0.44%
Mortgage Yield	6.89%	6.92%	6.92%	7.38%
Cash Yield	5.31%	5.30%	5.61%	5.93%
Earning Asset Yield (Mortgages plus Cash)	6.87%	6.90%	6.90%	7.34%
Cost of Funds of Short-Term Borrowings	5.76%	5.78%	5.57%	5.69%
Cost of Funds of Long-Term Borrowings	n/a	n/a	n/a	n/a
Total Cost of Funds	5.76%	5.78%	5.57%	5.69%
Cost of Hedging (as % of Borrowings)	0.12%	0.14%	0.16%	0.14%
Interest Rate Spread	0.99%	0.98%	1.17%	1.51%
Net Interest Margin (Net Interest Income/Assets)	1.55%	1.58%	1.85%	2.17%
Net Interest Income/Average Equity	13.01%	12.40%	12.14%	14.92%
SELECTED OPERATING RATIOS AND RETURN ON EQUITY				
Credit Provisions as a % of Assets	0.10%	0.18%	0.25%	0.26%
Credit Provisions as a % of Equity	0.81%	1.40%	1.62%	1.78%
Operating Expenses to Average Assets	0.21%	0.23%	0.31%	0.38%
Operating Expenses to Average Equity	1.72%	1.82%	2.02%	2.64%
Efficiency Ratio (Op. Exp./Net Int. Income)	13.23%	14.69%	16.63%	17.71%
Average Assets Per Employee ($MM)	$ 155	$ 115	$ 84	$ 70
GAAP Return on Total Equity	10.48%	9.18%	8.50%	10.50%
GAAP Return on Common Equity	10.53%	9.06%	8.50%	10.50%
Taxable Income Return on Total Equity	11.75%	10.97%	10.69%	13.69%
Taxable Income Return on Common Equity	12.03%	11.06%	10.69%	13.69%
GAAP Return on Average Assets	1.25%	1.17%	1.30%	1.52%
PRINCIPAL PAYDOWN AND PREPAYMENT RATES				
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities and Mortgage Loan Pools	23%	24%	29%	26%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Securities and Mortgage Loans	26%	28%	29%	27%
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Loan Pools	32%	19%	28%	19%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Loans	42%	25%	37%	25%
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities Pools	22%	24%	29%	26%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Securities	24%	28%	28%	27%

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SUPPLEMENTAL HISTORICAL INFORMATION

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TABLE 5 (CONTINUED)

EARNING ASSET YIELD, INTEREST RATE SPREAD AND INTEREST RATE MARGIN	FOR YEAR ENDING DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
Mortgage Coupon Rate (All Mortgage Assets)	7.72%	7.55%	7.16%	6.09%
Amortized Cost as % of Principal Value	102.13%	100.68%	99.02%	100.02%
Coupon Yield on Amortized Cost	7.56%	7.50%	7.23%	6.09%
Effect of Premium/Discount Amortization	-0.81%	-0.55%	0.17%	0.45%
Mortgage Yield	6.75%	6.95%	7.40%	6.54%
Cash Yield	5.53%	5.51%	5.43%	4.73%
Earning Asset Yield (Mortgages plus Cash)	6.74%	6.93%	7.36%	6.33%
Cost of Funds of Short-Term Borrowings	5.86%	5.71%	6.06%	5.55%
Cost of Funds of Long-Term Borrowings	6.31%	n/a	n/a	n/a
Total Cost of Funds	5.92%	5.71%	6.06%	5.55%
Cost of Hedging (as % of Borrowings)	0.14%	0.13%	0.19%	0.06%
Interest Rate Spread	0.68%	1.09%	1.11%	0.72%
Net Interest Margin (Net Interest Income/Assets)	1.14%	1.69%	2.17%	2.50%
Net Interest Income/Average Equity	11.27%	12.90%	11.03%	7.27%
SELECTED OPERATING RATIOS AND RETURN ON EQUITY				
Credit Provisions as a % of Assets	0.10%	0.17%	0.22%	0.00%
Credit Provisions as a % of Equity	0.95%	1.29%	1.14%	0.00%
Operating Expenses to Average Assets	0.15%	0.26%	0.51%	0.69%
Operating Expenses to Average Equity	1.52%	1.94%	2.61%	2.01%
Efficiency Ratio (Op. Exp./Net Int. Income)	13.47%	15.08%	23.66%	27.73%
Average Assets Per Employee ($MM)	$ 242	$ 109	$ 39	$ 12
GAAP Return on Total Equity	8.98%	9.66%	7.28%	5.25%
GAAP Return on Common Equity	8.87%	9.61%	7.28%	5.25%
Taxable Income Return on Total Equity	9.76%	11.55%	8.84%	4.86%
Taxable Income Return on Common Equity	9.73%	11.68%	8.84%	4.86%
GAAP Return on Average Assets	0.91%	1.27%	1.43%	1.81%
PRINCIPAL PAYDOWN AND PREPAYMENT RATES				
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities and Mortgage Loan Pools	25%	25%	19%	9%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Securities and Mortgage Loans	34%	27%	18%	7%
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Loan Pools	24%	26%	5%	n/a
Annualized Principal Payment as % of Average Principal Balance of Mortgage Loans	31%	35%	6%	n/a
Average Annual Conditional Prepayment Rate (CPR) of Underlying Mortgages in Mortgage Securities Pools	25%	24%	19%	9%
Annualized Principal Payment as % of Average Principal Balance of Mortgage Securities	36%	27%	19%	2%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>

TABLE 6

AVERAGE DAILY BALANCE SHEET (ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING MAR. 31, 1998	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>	<C>

Cash	$ 27,907	$ 28,592	$ 35,647	$ 19,307	$ 12,147
Mortgage Loans	1,546,869	1,360,029	1,155,099	758,445	574,781
Mortgage Securities	1,745,368	1,914,118	2,136,442	2,111,832	1,658,629
Credit Reserve	(5,126)	(4,679)	(3,873)	(3,083)	(2,394)
Market Valuation Adjustment, Mortgage Assets	(4,272)	5,937	6,072	1,913	1,022
Interest Rate Agreements	10,394	11,207	11,943	11,185	6,899
Market Valuation Adjustment, Interest Rate Agreements	(8,863)	(8,792)	(8,640)	(4,576)	(4,004)
Other Assets	98,835	117,643	85,689	75,928	58,856
Total Assets	3,411,112	3,424,055	3,418,379	2,970,951	2,305,936
Short-Term Borrowings	1,942,426	2,144,794	2,695,438	2,659,914	2,056,051
Long-Term Borrowings	1,124,190	910,870	355,028	0	0
Other Liabilities	14,602	20,912	24,714	20,530	15,691
Total Liabilities	3,081,218	3,076,576	3,075,181	2,680,444	2,071,742
Preferred Stock	26,733	26,733	26,733	28,946	29,545
Common Stock	321,423	328,384	321,492	265,561	208,426
Market Valuation Adjustment	(13,136)	(2,855)	(2,568)	(2,663)	(2,982)
Retained Earnings, after Dividend	(5,127)	(4,783)	(2,458)	(1,337)	(795)
Stockholders' Equity	$ 329,894	$ 347,479	$ 343,199	$ 290,507	$ 234,194
Amortized Cost of Total Assets	$3,424,247	$3,426,910	$3,420,947	$2,973,614	$2,308,918
Equity, before Market Valuation Adjustments	343,029	350,334	345,767	293,170	237,176
BORROWING COMPOSITION (AT END OF PERIOD)					
Short-Term Borrowings: 1 to 6 Month LIBOR, no caps	67.8%	62.0%	84.1%	100.0%	100.0%
Long-Term Borrowings: 1 Month LIBOR, 10% cap	11.4%	13.8%	9.9%	0.0%	0.0%
Long-Term Borrowings: Federal Funds, 10% cap	4.2%	5.3%	6.0%	0.0%	0.0%
Long-Term Borrowings: 1 Year Treasury, 10% cap	16.6%	18.9%	0.0%	0.0%	0.0%
Total Borrowings %	100.0%	100.0%	100.0%	100.0%	100.0%
Total Borrowings $	$3,369,297	$3,087,326	$3,137,140	$3,102,784	$2,373,279
LIQUIDITY (AT END OF PERIOD)					
Unrestricted Cash	$ 6,468	$ 24,893	$ 28,758	$ 29,425	$ 12,985
Estimated Borrowing Capacity	174,702	182,713	206,442	160,338	140,561
Total Liquidity	$ 181,170	$ 207,606	$ 235,200	$ 189,763	$ 153,546
Total Liquidity as Percent of Short-Term Borrowings	8%	11%	9%	6%	6%
NET PREMIUM AS % OF EQUITY AND ASSETS (AT END OF PERIOD)					
Unamortized Premium of Mortgage Assets	$ 85,048	$ 86,173	$ 86,934	$ 87,661	$ 65,107
Unamortized Discount of Mortgage Assets	(12,131)	(12,442)	(14,387)	(15,091)	(15,641)
Unamortized Premium of Long-Term Debt	(5,551)	(5,795)	0	0	0
Net Premium	$ 67,366	$ 67,937	$ 72,548	$ 72,569	$ 49,466
Net Premium as % of Equity (before Market Value Adjustments)	19.7%	19.7%	20.5%	24.4%	20.1%
Net Premium as Percent of Assets (Amortized Cost)	1.8%	2.0%	2.1%	2.1%	1.9%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 6 (CONTINUED)
AVERAGE DAILY BALANCE SHEET

(ALL DOLLARS IN THOUSANDS)	AT OR FOR THREE MONTHS ENDING DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>
Cash	$ 16,137	$ 18,854	$ 14,402	$ 14,639
Mortgage Loans	143,368	93,991	45,313	25,279
Mortgage Securities	1,347,617	1,010,853	688,697	457,841
Credit Reserve	(1,952)	(1,491)	(1,002)	(594)
Market Valuation Adjustment, Mortgage Assets	603	(2,279)	(3,865)	(3,880)
Interest Rate Agreements	4,681	3,185	2,737	2,503
Market Valuation Adjustment, Interest Rate Agreements	(3,513)	(1,352)	(1,080)	(1,836)
Other Assets	41,430	30,129	21,566	13,094
Total Assets	1,548,371	1,151,890	766,768	507,046
Short-Term Borrowings	1,351,510	999,229	651,643	435,979
Long-Term Borrowings	0	0	0	0
Other Liabilities	14,898	8,728	2,472	2,324
Total Liabilities	1,366,408	1,007,957	654,115	438,303
Preferred Stock	29,671	15,179	0	0
Common Stock	156,594	132,924	117,695	73,998
Market Valuation Adjustment	(2,910)	(3,631)	(4,945)	(5,716)
Retained Earnings, after Dividend	(1,392)	(539)	(97)	461
Stockholders' Equity	$ 181,963	$ 143,933	$ 112,653	$ 68,743
Amortized Cost of Total Assets	$ 1,551,281	$ 1,155,521	$ 771,713	$ 512,762
Equity, before Market Valuation Adjustments	184,873	147,564	117,598	74,459
BORROWING COMPOSITION (AT END OF PERIOD)				
Short-Term Borrowings: 1 to 6 Month LIBOR, no caps	100.0%	100.0%	100.0%	100.0%
Long-Term Borrowings: 1 Month LIBOR, 10% cap	0.0%	0.0%	0.0%	0.0%
Long-Term Borrowings: Federal Funds, 10% cap	0.0%	0.0%	0.0%	0.0%
Long-Term Borrowings: 1 Year Treasury, 10% cap	0.0%	0.0%	0.0%	0.0%
Total Borrowings %	100.0%	100.0%	100.0%	100.0%
Total Borrowings $	$ 1,953,103	$ 1,225,094	$ 896,214	$ 508,721
LIQUIDITY (AT END OF PERIOD)				
Unrestricted Cash	$ 11,068	$ 14,599	$ 10,407	$ 9,705
Estimated Borrowing Capacity	123,995	99,126	69,581	29,153
Total Liquidity	$ 135,063	$ 113,725	$ 79,988	$ 38,858
Total Liquidity as Percent of Short-Term Borrowings	7%	9%	9%	8%
NET PREMIUM AS % OF EQUITY AND ASSETS (AT END OF PERIOD)				
Unamortized Premium of Mortgage Assets	$ 54,318	$ 32,607	$ 22,690	$ 12,790
Unamortized Discount of Mortgage Assets	(16,093)	(16,338)	(16,608)	(16,854)
Unamortized Premium of Long-Term Debt	0	0	0	0
Net Premium	$ 38,225	$ 16,270	$ 6,082	$ (4,064)
Net Premium as % of Equity (before Market Value Adjustments)	17.8%	9.8%	4.7%	-5.6%
Net Premium as Percent of Assets (Amortized Cost)	1.7%	1.2%	0.6%	-0.7%

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TABLE 6 (CONTINUED)
AVERAGE DAILY BALANCE SHEET

(ALL DOLLARS IN THOUSANDS)	AT OR FOR YEAR ENDING DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
Cash	$ 24,001	$ 16,016	$ 4,272	$ 6,627
Mortgage Loans	964,768	77,215	5,006	0
Mortgage Securities	1,956,452	877,907	204,284	50,080
Credit Reserve	(3,514)	(1,262)	(92)	0
Market Valuation Adjustment, Mortgage Assets	(1,134)	(2,347)	(78)	(583)
Interest Rate Agreements	10,325	3,280	2,039	759
Market Valuation Adjustment, Interest Rate Agreements	(2,482)	(1,948)	(1,046)	31
Other Assets	84,693	26,606	5,107	948
Total Assets	3,033,108	995,467	219,492	57,862
Short-Term Borrowings	2,390,132	861,316	174,926	37,910
Long-Term Borrowings	319,076	0	0	0
Other Liabilities	20,488	7,131	2,342	367
Total Liabilities	2,729,696	868,447	177,268	38,277
Preferred Stock	27,978	11,274	0	0
Common Stock	281,405	120,436	43,390	20,941
Market Valuation Adjustment	(3,617)	(4,295)	(1,124)	(552)
Retained Earnings, after Dividend	(2,354)	(395)	(42)	(804)
Stockholders' Equity	$ 303,412	$ 127,020	$ 42,224	$ 19,585
Amortized Cost of Total Assets	$ 3,036,725	$ 999,762	$ 220,616	$ 58,414
Equity, before Market Valuation Adjustments	307,029	131,315	43,349	20,137
BORROWING COMPOSITION (AT END OF PERIOD)				
Short-Term Borrowings: 1 to 6 Month LIBOR, no caps	62.0%	100.0%	100.0%	100.0%
Long-Term Borrowings: 1 Month LIBOR, 10% cap	13.8%	0.0%	0.0%	0.0%
Long-Term Borrowings: Federal Funds, 10% cap	5.3%	0.0%	0.0%	0.0%
Long-Term Borrowings: 1 Year Treasury, 10% cap	18.9%	0.0%	0.0%	0.0%
Total Borrowings %	100.0%	100.0%	100.0%	100.0%
Total Borrowings $	$ 3,087,326	$ 1,953,103	$ 370,316	$ 100,376
LIQUIDITY (AT END OF PERIOD)				
Unrestricted Cash	$ 24,893	$ 11,068	$ 4,825	$ 1,027
Estimated Borrowing Capacity	182,713	123,995	38,698	11,907
Total Liquidity	$ 207,606	$ 135,063	$ 43,523	$ 12,934
Total Liquidity as Percent of Short-Term Borrowings	11%	7%	12%	13%
NET PREMIUM AS % OF EQUITY AND ASSETS (AT END OF PERIOD)				
Unamortized Premium of Mortgage Assets	$ 86,173	$ 54,318	$ 9,644	$ 827
Unamortized Discount of Mortgage Assets	(12,442)	(16,093)	(17,032)	(1,320)
Unamortized Premium of Long-Term Debt	(5,795)	0	0	0
Net Premium	$ 67,937	$ 38,225	$ (7,389)	$ (493)
Net Premium as % of Equity (before Market Value Adjustments)	19.7%	17.8%	-10.0%	-2.2%
Net Premium as Percent of Assets (Amortized Cost)	2.0%	1.7%	-1.7%	-0.4%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>

TABLE 7
ESTIMATED PERIOD-END BID-SIDE MARKET VALUE / REALIZABLE VALUE

(ALL DOLLARS IN THOUSANDS)	MAR. 31, 1998	AT OR FOR THREE MONTHS ENDING DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>	<C>

Cash	$ 32,202	$ 49,549	$ 57,696	$ 29,425	$ 12,985
Mortgage Loans	1,872,775	1,552,586	1,379,166	1,136,004	729,561
Mortgage Securities	1,770,566	1,814,796	2,059,595	2,227,389	1,874,679
Interest Rate Agreements	2,584	1,522	2,169	4,206	5,773
Other Assets	36,522	25,156	26,048	25,857	19,291
Short-Term Borrowings	2,288,018	1,914,525	2,639,773	3,102,784	2,373,279
Long-Term Borrowings	1,080,530	1,172,938	497,465	0	0
Other Liabilities	13,288	21,201	30,628	27,515	23,411
	----------	----------	----------	----------	----------
"Mark-To-Market" of Total Equity	332,812	334,945	356,808	292,582	245,598
Liquidation Cost of Preferred Equity	28,195	28,195	28,195	28,195	30,989
	----------	----------	----------	----------	----------
"Mark-To-Market" of Common Equity	$304,617	$306,750	$328,613	$264,387	$214,610
"Mark-To-Market" of Common Equity / Common Share Outstanding	$ 21.65	$ 21.47	$ 22.54	$ 19.95	$ 18.03
Reported Common Equity Per Common Share Outstanding	$ 21.53	$ 21.55	$ 22.61	$ 20.11	$ 18.17
Historical Cost of Common Equity Per Common Share Outstanding	$ 22.46	$ 22.25	$ 22.49	$ 20.39	$ 18.16

AVERAGE BALANCE SHEET UTILIZATION DURING PERIOD VERSUS RISK-ADJUSTED CAPITAL GUIDELINES

Actual Average Equity/Assets	10.0%	10.2%	10.1%	9.9%	10.3%
Average Risk-Adjusted Capital Guideline	7.8%	8.1%	9.0%	9.5%	10.1%
Average Balance Sheet Capacity Utilization	77%	79%	89%	96%	98%
Excess Capital and Asset Growth Potential At Period End					
Ending Actual Equity/Assets	8.88%	9.71%	10.12%	8.55%	9.28%
Ending Risk-Adjusted Capital Guideline	7.59%	7.51%	8.59%	9.41%	10.09%
Excess Capital	$ 50,814	$ 76,189	$ 54,038	$(29,417)	$(21,029)
Estimated Asset Growth Potential (Same Asset Mix and Funding)	$669,357	$1,013,956	$629,081	$(312,637)	$(208,706)
Estimated Asset Growth Potential Assuming All Assets (existing and future) Use Long-Term Funding	$4,386,544	$4,748,787	$5,373,637	$4,005,833	$3,589,525

INVESTMENT OF RISK-ADJUSTED CAPITAL

Equity Invesments in Assets with Short-Term Funding					
Agencies	22.0%	24.1%	26.2%	36.0%	37.1%
Mortgage Securities Rated "AAA" or "AA"	27.8%	27.6%	27.0%	36.6%	37.2%
Mortgage Securities Rated "A" or below	0.0%	0.0%	6.0%	6.4%	7.6%
Whole Loans	18.1%	8.2%	18.3%	31.1%	26.7%
	----------	----------	----------	----------	----------
Equity Investment in Assets with Short-Term Funding	67.9%	59.9%	77.5%	110.1%	108.6%
Equity Investment in Assets with Long-Term, Non-Recourse Funding (Mortgage Equity Interests)					
Mortgage Securities Rated "A" or below	2.8%	2.7%	0.0%	0.0%	0.0%
Whole Loans	14.0%	14.7%	7.4%	0.0%	0.0%
	----------	----------	----------	----------	----------
Equity Investment in Assets with Long-Term, Non-Recourse Funding	16.8%	17.4%	7.4%	0.0%	0.0%
Excess Capital	15.3%	22.7%	15.1%	-10.1%	-8.6%
	----------	----------	----------	----------	----------
Total Market-Value of Capital %	100.0%	100.0%	100.0%	100.0%	100.0%
Total Market-Value of Capital $	$332,812	$334,945	$356,808	$292,582	

$245,598

Capital Utilization at Period-End	85%	77%	85%	110%	109%
Capital Utilization at Period-End assuming all Whole Loans use Long-Term, Non-Recourse Funding	76%	73%	76%	95%	95%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>

TABLE 7 (CONTINUED)
ESTIMATED PERIOD-END BID-SIDE MARKET VALUE / REALIZABLE VALUE
(ALL DOLLARS IN THOUSANDS)

<S>	AT OR FOR THREE MONTHS ENDING DEC. 31, 1996 <C>	SEP. 30, 1996 <C>	JUN. 30, 1996 <C>	MAR. 31, 1996 <C>
Cash	$ 11,068	$ 14,599	$ 10,407	$ 9,705
Mortgage Loans	525,475	127,694	69,666	24,861
Mortgage Securities	1,627,953	1,248,176	937,814	540,298
Interest Rate Agreements	2,601	873	1,351	1,233
Other Assets	16,778	11,766	8,864	4,987
Short-Term Borrowings	1,953,103	1,225,094	896,214	508,721
Long-Term Borrowings	0	0	0	0
Other Liabilities	19,531	14,457	7,522	4,240
"Mark-To-Market" of Total Equity	211,241	163,557	124,366	68,123
Liquidation Cost of Preferred Equity	31,194	31,194	0	0
"Mark-To-Market" of Common Equity	$ 180,047	$ 132,363	$ 124,366	$ 68,123
"Mark-To-Market" of Common Equity / Common Share Outstanding	$ 16.37	$ 14.59	$ 14.60	$ 12.34
Reported Common Equity Per Common Share Outstanding	$ 16.50	$ 14.75	$ 14.59	$ 12.34
Historical Cost of Common Equity Per Common Share Outstanding	$ 16.81	$ 14.98	$ 15.12	$ 13.26
AVERAGE BALANCE SHEET UTILIZATION DURING PERIOD VERSUS RISK-ADJUSTED CAPITAL GUIDELINES				
Actual Average Equity/Assets	11.9%	12.8%	15.2%	14.5%
Average Risk-Adjusted Capital Guideline	10.2%	10.7%	11.4%	12.8%
Average Balance Sheet Capacity Utilization	86%	84%	75%	88%
Excess Capital and Asset Growth Potential At Period End				
Ending Actual Equity/Assets	9.66%	11.65%	12.09%	11.72%
Ending Risk-Adjusted Capital Guideline	9.97%	10.32%	10.77%	11.72%
Excess Capital	$ (6,798)	$ 18,664	$ 13,566	$ 26
Estimated Asset Growth Potential (Same Asset Mix and Funding)	$ (68,169)	$ 180,836	$ 125,972	$ 227
Estimated Asset Growth Potential Assuming All Assets (existing and future) Use Long-Term Funding	$ 3,181,906	$ 2,767,399	$ 2,155,950	$ 1,192,215
INVESTMENT OF RISK-ADJUSTED CAPITAL				
Equity Invesments in Assets with Short-Term Funding				
Agencies	39.1%	48.0%	44.9%	36.0%
Mortgage Securities Rated "AAA" or "AA"	32.4%	22.2%	24.4%	33.6%
Mortgage Securities Rated "A" or below	8.9%	11.4%	14.8%	27.1%
Whole Loans	22.8%	7.0%	5.0%	3.3%
Equity Investment in Assets with Short-Term Funding	103.2%	88.6%	89.1%	100.0%
Equity Investment in Assets with Long-Term, Non-Recourse Funding (Mortgage Equity Interests)				
Mortgage Securities Rated "A" or below	0.0%	0.0%	0.0%	0.0%
Whole Loans	0.0%	0.0%	0.0%	0.0%
Equity Investment in Assets with Long-Term, Non-Recourse Funding	0.0%	0.0%	0.0%	0.0%
Excess Capital	-3.2%	11.4%	10.9%	0.0%
Total Market-Value of Capital %	100.0%	100.0%	100.0%	100.0%
Total Market-Value of Capital $	$ 211,241	$ 163,557	$ 124,366	$ 68,123
Capital Utilization at Period-End	103%	89%	89%	100%
Capital Utilization at Period-End assuming all Whole Loans use Long-Term, Non-Recourse Funding	92%	85%	87%	98%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

<TABLE>
<CAPTION>
TABLE 7 (CONTINUED)
ESTIMATED PERIOD-END BID-SIDE MARKET VALUE / REALIZABLE VALUE
(ALL DOLLARS IN THOUSANDS)

	AT OR FOR YEAR ENDING			
	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
Cash	$ 49,549	$ 11,068	$ 4,825	$ 1,027
Mortgage Loans	1,552,586	525,475	26,450	0
Mortgage Securities	1,814,796	1,627,953	405,794	117,477
Interest Rate Agreements	1,522	2,601	547	1,892
Other Assets	25,156	16,778	3,671	888
Short-Term Borrowings	1,914,525	1,953,103	370,316	100,376
Long-Term Borrowings	1,172,938	0	0	0
Other Liabilities	21,201	19,531	2,829	872
"Mark-To-Market" of Total Equity	334,945	211,241	68,142	20,036
Liquidation Cost of Preferred Equity	28,195	31,194	0	0
"Mark-To-Market" of Common Equity	$ 306,750	$ 180,047	$ 68,142	$ 20,036
"Mark-To-Market" of Common Equity / Common Share Outstanding	$ 21.47	$ 16.37	$ 12.35	$ 10.69
Reported Common Equity Per Common Share Outstanding	$ 21.55	$ 16.50	$ 12.38	$ 10.82
Historical Cost of Common Equity Per Common Share Outstanding	$ 22.25	$ 16.81	$ 13.37	$ 12.18
AVERAGE BALANCE SHEET UTILIZATION DURING PERIOD VERSUS RISK-ADJUSTED CAPITAL GUIDELINES				
Actual Average Equity/Assets	10.1%	13.1%	19.6%	34.5%
Average Risk-Adjusted Capital Guideline	9.1%	10.9%	13.4%	10.6%
Average Balance Sheet Capacity Utilization	90%	83%	68%	31%
Excess Capital and Asset Growth Potential At Period End				
Ending Actual Equity/Assets	9.71%	9.66%	15.47%	16.69%
Ending Risk-Adjusted Capital Guideline	7.51%	9.97%	12.59%	10.84%
Excess Capital	$ 76,189	$ (6,798)	$ 12,028	$ 6,716
Estimated Asset Growth Potential (Same Asset Mix and Funding)	$ 1,013,956	$ (68,169)	$ 100,874	$ 65,519
Estimated Asset Growth Potential Assuming All Assets (existing and future) Use Long-Term Funding	$ 4,748,787	$ 3,181,906	$ 1,325,602	$ 392,001
INVESTMENT OF RISK-ADJUSTED CAPITAL				
Equity Investments in Assets with Short-Term Funding				
Agencies	24.1%	39.1%	29.3%	33.0%
Mortgage Securities Rated "AAA" or "AA"	27.6%	32.4%	22.7%	18.8%
Mortgage Securities Rated "A" or below	0.0%	8.9%	26.8%	14.7%
Whole Loans	8.2%	22.8%	3.5%	0.0%
Equity Investment in Assets with Short-Term Funding	59.9%	103.2%	82.3%	66.5%
Equity Investment in Assets with Long-Term, Non-Recourse Funding (Mortgage Equity Interests)				
Mortgage Securities Rated "A" or below	2.7%	0.0%	0.0%	0.0%
Whole Loans	14.7%	0.0%	0.0%	0.0%
Equity Investment in Assets with Long-Term, Non-Recourse Funding	17.4%	0.0%	0.0%	0.0%
Excess Capital	22.7%	-3.2%	17.7%	33.5%
Total Market-Value of Capital %	100.0%	100.0%	100.0%	100.0%
Total Market-Value of Capital $	$ 334,945	$ 211,241	$ 68,142	$ 20,036
Capital Utilization at Period-End	77%	103%	82%	66%
Capital Utilization at Period-End assuming all Whole Loans use Long-Term, Non-Recourse Funding	73%	92%	81%	66%

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 8
CREDIT PROVISIONS AND CREDIT RESERVES

(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AT OR FOR THREE MONTHS ENDING				
	MAR. 31, 1998	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>	<C>
MORTGAGE LOANS					
Credit Provision During Period	$ 601	$ 1,516	$ 473	$ 299	$ 215
Actual Losses During Period	7	23	40	0	13
Cumulative Actual Losses	83	76	53	13	13
Mortgage Loan Credit Reserve at End of Period	3,450	2,855	1,363	929	630
Annualized Mortgage Loan Credit Provision as % of Average Amortized Cost of Mortgage Loans	0.16%	0.45%	0.16%	0.16%	0.15%
Mortgage Loan Credit Reserve as % of Amortized Cost of Mortgage Loans at Period End	0.18%	0.18%	0.10%	0.08%	0.09%
Non-Performing Assets: 90+ Days Delinquent, Foreclosures, Bankruptcies, and REO					
Number of Loans	19	17	13	12	6
Non-Performing Assets Loan Balance	$ 4,358	$ 3,903	$ 2,792	$ 2,366	$ 1,220
Non-Performing Assets as % of Amortized Cost of Mortgage Loans	0.23%	0.25%	0.20%	0.21%	0.17%
Non-Performing Assets as % of Amortized Cost of Total Assets	0.12%	0.11%	0.08%	0.07%	0.05%
Mortgage Loan Credit Reserve as % of Non-Performing Assets	79%	73%	49%	39%	52%
Credit Experience of Mortgage Loans					
Liquidated Defaulted Loans (Cumulative)	7	6	4	1	1
Average Loss Severity Experience (Cumulative)	6%	7%	6%	7%	7%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Non-Performing Mortgage Loans Default:					
At 10% Loss Severity	$ 444	$ 396	$ 283	$ 241	$ 124
At 20% Loss Severity	888	793	567	481	248
At 30% Loss Severity	1,331	1,189	850	722	372
At 40% Loss Severity	1,775	1,586	1,133	962	496
Mortgage Loan Credit Reserve at End of Period	$ 3,450	$ 2,855	$ 1,363	$ 929	$ 630
MORTGAGE SECURITIES					
Credit Provision During Period	$ --	$(1,000)	$ 470	$ 477	$ 480
Actual Losses During Period	42	17	28	29	29
Cumulative Actual Losses	156	113	97	69	40
Mortgage Securities Credit Reserve at End of Period	2,033	2,076	3,093	2,651	2,203
Annualized Mortgage Securities Credit Provision as % of Average Amortized Cost of Mortgage Securities Rated < BBB	0.0%	-20.9%	6.4%	6.6%	6.6%
Mortgage Securities Credit Reserve as % of Amortized Cost of Mortgage Securities Rated < BBB at End of Period	22.3%	22.8%	10.6%	9.1%	7.6%
Amortized Cost of Mortgage Securities Rated < BBB at End of Period	$ 9,137	$ 9,109	$29,189	$29,113	$28,955
Credit Experience of Loans in Pools Underlying Mortgage Securities Rated < BBB (Since Acquisition)					
Resolved Defaulted Loans (Cumulative)	284	256	182	137	90
Average Loss Severity Experience (Cumulative)	21%	21%	23%	24%	25%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Seriously Delinquent Loans in Mortgage Pools Underlying < BBB Rated Securities Default:					
At 10% Loss Severity	$ 480	$ 389	$ 724	$ 109	$

80

At 20% Loss Severity	951	894	2,286	1,488	792
At 30% Loss Severity	1,170	1,163	3,789	3,702	2,845
At 40% Loss Severity	1,824	1,825	6,437	6,410	5,103
Mortgage Securities Credit Reserve at End of Period	$ 2,033	$ 2,076	$ 3,093	$ 2,651	$ 2,203

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 8 (CONTINUED)
CREDIT PROVISIONS AND CREDIT RESERVES

(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AT OR FOR THREE MONTHS ENDING			
	DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>
MORTGAGE LOANS				
Credit Provision During Period	$ 35	$ 178	$ 140	$ (5)
Actual Losses During Period	0	0	0	0
Cumulative Actual Losses	0	0	0	0
Mortgage Loan Credit Reserve at End of Period	428	393	214	74
Annualized Mortgage Loan Credit Provision as % of Average Amortized Cost of Mortgage Loans	0.10%	0.76%	1.23%	-0.08%
Mortgage Loan Credit Reserve as % of Amortized Cost of Mortgage Loans at Period End	0.08%	0.31%	0.31%	0.30%
Non-Performing Assets: 90+ Days Delinquent, Foreclosures, Bankruptcies, and REO				
Number of Loans	7	3	2	1
Non-Performing Assets Loan Balance	$ 1,249	$ 404	$ 279	$ 190
Non-Performing Assets as % of Amortized Cost of Mortgage Loans	0.24%	0.32%	0.40%	0.77%
Non-Performing Assets as % of Amortized Cost of Total Assets	0.06%	0.03%	0.03%	0.03%
Mortgage Loan Credit Reserve as % of Non-Performing Assets	34%	97%	77%	39%
Credit Experience of Mortgage Loans				
Liquidated Defaulted Loans (Cumulative)	0	0	0	0
Average Loss Severity Experience (Cumulative)	0%	0%	0%	0%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Non-Performing Mortgage Loans Default:				
At 10% Loss Severity	$ 127	$ 41	$ 28	$ 19
At 20% Loss Severity	253	82	56	39
At 30% Loss Severity	380	123	85	58
At 40% Loss Severity	506	164	113	77
Mortgage Loan Credit Reserve at End of Period	$ 428	$ 393	$ 214	$ 74
MORTGAGE SECURITIES				
Credit Provision During Period	$ 337	$ 338	$ 337	$ 336
Actual Losses During Period	7	--	--	--
Cumulative Actual Losses	11	4	4	4
Mortgage Securities Credit Reserve at End of Period	1,752	1,421	1,084	747
Annualized Mortgage Securities Credit Provision as % of Average Amortized Cost of Mortgage Securities Rated < BBB	4.7%	4.7%	4.7%	4.7%
Mortgage Securities Credit Reserve as % of Amortized Cost of Mortgage Securities Rated < BBB at End of Period	6.1%	4.9%	3.8%	2.7%
Amortized Cost of Mortgage Securities Rated < BBB at End of Period	$ 28,935	$ 28,906	$ 28,858	$ 28,051
Credit Experience of Loans in Pools Underlying Mortgage Securities Rated < BBB (Since Acquisition)				
Resolved Defaulted Loans (Cumulative)	59	28	15	4
Average Loss Severity Experience (Cumulative)	27%	22%	16%	10%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Seriously Delinquent Loans in Mortgage Pools Underlying < BBB Rated Securities Default:				
At 10% Loss Severity	$ 63	$ 61	$ 40	$ 20
At 20% Loss Severity	608	123	91	39
At 30% Loss Severity	2,040	1,131	1,364	597
At 40% Loss Severity	3,647	3,041	3,148	2,162
Mortgage Securities Credit Reserve at End of Period	$ 1,752	$ 1,421	$ 1,084	$ 747

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SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 8 (CONTINUED)

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CREDIT PROVISIONS AND CREDIT RESERVES (ALL DOLLARS IN THOUSANDS)	AT OR FOR YEAR ENDING DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
MORTGAGE LOANS				
Credit Provision During Period	$ 2,503	$ 349	$ 79	$ 0
Actual Losses During Period	76	0	0	0
Cumulative Actual Losses	76	0	0	0
Mortgage Loan Credit Reserve at End of Period	2,855	428	79	0
Annualized Mortgage Loan Credit Provision as % of Average Amortized Cost of Mortgage Loans	0.26%	0.45%	1.58%	n/a
Mortgage Loan Credit Reserve as % of Amortized Cost of Mortgage Loans at Period End	0.18%	0.08%	0.30%	n/a
Non-Performing Assets: 90+ Days Delinquent, Foreclosures, Bankruptcies, and REO				
Number of Loans	17	7	0	0
Non-Performing Assets Loan Balance	$ 3,903	$ 1,249	$ 0	$ 0
Non-Performing Assets as % of Amortized Cost of Mortgage Loans	0.25%	0.24%	0.00%	0.00%
Non-Performing Assets as % of Amortized Cost of Total Assets	0.11%	0.06%	0.00%	0.00%
Mortgage Loan Credit Reserve as % of Non-Performing Assets	73%	34%	n/a	n/a
Credit Experience of Mortgage Loans				
Liquidated Defaulted Loans (Cumulative)	6	0	0	0
Average Loss Severity Experience (Cumulative)	7%	0%	0%	0%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Non-Performing Mortgage Loans Default:				
At 10% Loss Severity	$ 396	$ 127	$ 0	$ 0
At 20% Loss Severity	793	253	0	0
At 30% Loss Severity	1,189	380	0	0
At 40% Loss Severity	1,586	506	0	0
Mortgage Loan Credit Reserve at End of Period	$ 2,855	$ 428	$ 79	$ 0
MORTGAGE SECURITIES				
Credit Provision During Period	$ 427	$ 1,348	$ 414	$ 0
Actual Losses During Period	104	7	4	--
Cumulative Actual Losses	113	11	4	--
Mortgage Securities Credit Reserve at End of Period	2,076	1,752	411	0
Annualized Mortgage Securities Credit Provision as % of Average Amortized Cost of Mortgage Securities Rated < BBB	1.7%	4.7%	2.9%	0.0%
Mortgage Securities Credit Reserve as % of Amortized Cost of Mortgage Securities Rated < BBB at End of Period	22.8%	6.1%	1.4%	0.0%
Amortized Cost of Mortgage Securities Rated < BBB at End of Period	$ 9,109	$28,935	$28,869	$ 3,376
Credit Experience of Loans in Pools Underlying Mortgage Securities Rated <BBB (Since Acquisition)				
Resolved Defaulted Loans (Cumulative)	256	59	2	0
Average Loss Severity Experience (Cumulative)	21%	27%	9%	0%
Scenario Analysis of Potential Credit Losses Over Next 12 Months If All Current (But No Future) Seriously Delinquent Loans in Mortgage Pools Underlying < BBB Rated Securities Default:				
At 10% Loss Severity	$ 389	$ 63	$ 15	$ 0
At 20% Loss Severity	894	608	29	0
At 30% Loss Severity	1,163	2,040	103	0
At 40% Loss Severity	1,825	3,647	768	0
Mortgage Securities Credit Reserve at End of Period	$ 2,076	$ 1,752	$ 411	$ 0

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SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 9

<TABLE>
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SHARES OUTSTANDING AND PER SHARE DATA

AT OR
FOR THREE MONTHS ENDING

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(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	MAR. 31, 1998	DEC. 31, 1997	SEP. 30, 1997	JUN. 30, 1997	MAR. 31, 1997
<S>	<C>	<C>	<C>	<C>	<C>
Shares Outstanding and Receiving Dividends at Period End					
Common (RWT)	14,070,557	14,284,657	14,576,477	13,251,847	11,905,957
Class A Preferred (converted 9/95)	0	0	0	0	0
Class B Preferred (RTW-PB)	909,518	909,518	909,518	909,518	999,638
Total	14,980,075	15,194,175	15,485,995	14,161,365	12,905,595
Common Dividend Declared	$ 0.270	$ 0.350	$ 0.600	$ 0.600	$ 0.600
Class A Preferred Dividend Declared	n/a	n/a	n/a	n/a	n/a
Class B Preferred Dividends Declared	$ 0.755	$ 0.755	$ 0.755	$ 0.755	$ 0.755
Common Dividend Total	$ 3,809	$ 5,000	$ 8,746	$ 7,951	$ 7,144
Class A Preferred Dividend Total	0	0	0	0	0
Class B Preferred Dividends Total	687	686	687	687	755
Total Dividend	$ 4,496	$ 5,686	$ 9,433	$ 8,638	$ 7,899
Taxable Income Earned	$ 4,527	$ 5,586	$ 8,151	$ 8,315	$ 7,912
Dividend Pay-Out Ratio for Period	99%	102%	116%	104%	100%
Cumulative Dividend Pay-Out Ratio	102%	103%	103%	100%	98%
Warrants Outstanding at Period End (expired 12/31/97)	0	0	149,466	236,297	272,304
Average Shares Outstanding During Period					
Common	14,123,951	14,375,992	14,316,678	12,997,566	11,605,171
Class A Preferred	0	0	0	0	0
Class B Preferred	909,518	909,518	909,518	990,725	1,005,515
Total	15,033,469	15,285,510	15,226,196	13,988,291	12,610,686
Calculation of "Diluted" Common Shares					
Average Common Shares	14,123,951	14,375,992	14,316,678	12,997,566	11,605,171
Potential Dilution Due to Warrants	0	57,139	130,489	182,137	258,422
Potential Dilution Due to Options	110,474	99,383	177,434	291,227	253,274
Total Average "Diluted" Common Shares	14,234,425	14,532,514	14,624,601	13,470,930	12,116,867
Net Income to Common Shareholders	$ 2,450	$ 4,397	$ 6,859	$ 7,034	$ 6,456
Total Average "Diluted" Common Shares	14,234,425	14,532,514	14,624,601	13,470,930	12,116,867
Earnings Per Share ("Diluted")	$ 0.17	$ 0.30	$ 0.47	$ 0.52	$ 0.53
Earnings Per Share ("Basic")	$ 0.17	$ 0.31	$ 0.48	$ 0.54	$ 0.56
Per Share Ratios (Average Common and Preferred Shares Outstanding)					
Average Total Assets	$ 227.77	$ 224.19	$ 224.68	$ 212.58	$ 183.09
Average Total Equity	$ 22.82	$ 22.92	$ 22.71	$ 20.96	$ 18.81
Net Interest Income	$ 0.43	$ 0.40	$ 0.63	$ 0.70	$ 0.72
Credit Expenses	$ 0.04	$ 0.03	$ 0.06	$ 0.06	$ 0.06
Operating Expenses	$ 0.13	$ 0.07	$ 0.07	$ 0.09	$ 0.09
Gain/(Loss) on Sale	$ 0.00	$ 0.03	$ 0.00	$ 0.00	$ 0.00
Writedowns	$ 0.05	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net Income	$ 0.21	$ 0.33	$ 0.50	$ 0.55	$ 0.57

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

TABLE 9 (CONTINUED)

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SHARES OUTSTANDING AND PER SHARE DATA	AT OR FOR THREE MONTHS ENDING			
(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	DEC. 31, 1996	SEP. 30, 1996	JUN. 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>
Shares Outstanding and Receiving Dividends at Period End				
Common (RWT)	10,996,572	9,069,653	8,520,116	5,521,376

Class A Preferred (converted 9/95)	0	0	0	0
Class B Preferred (RTW-PB)	1,006,250	1,006,250	0	0
Total	12,002,822	10,075,903	8,520,116	5,521,376
Common Dividend Declared	$ 0.410	$ 0.400	$ 0.400	$ 0.460
Class A Preferred Dividend Declared	n/a	n/a	n/a	n/a
Class B Preferred Dividends Declared	$ 0.755	$ 0.386	n/a	n/a
Common Dividend Total	$ 4,508	$ 3,628	$ 3,408	$ 2,540
Class A Preferred Dividend Total	0	0	0	0
Class B Preferred Dividends Total	760	388	0	0
Total Dividend	$ 5,268	$ 4,016	$ 3,408	$ 2,540
Taxable Income Earned	$ 5,429	$ 4,048	$ 3,142	$ 2,549
Dividend Pay-Out Ratio for Period	97%	99%	108%	100%
Cumulative Dividend Pay-Out Ratio	98%	98%	98%	93%
Warrants Outstanding at Period End (expired 12/31/97)	412,894	1,076,431	1,563,957	1,665,063
Average Shares Outstanding During Period				
Common	9,705,138	8,732,326	7,813,974	5,521,376
Class A Preferred	0	0	0	0
Class B Preferred	1,006,250	514,063	0	0
Total	10,711,388	9,246,389	7,813,974	5,521,376
Calculation of "Diluted" Common Shares				
Average Common Shares	9,705,138	8,732,326	7,813,974	5,521,376
Potential Dilution Due to Warrants	570,415	621,455	603,426	443,984
Potential Dilution Due to Options	176,919	162,393	182,832	164,227
Total Average "Diluted" Common Shares	10,452,472	9,516,174	8,600,232	6,129,587
Net Income to Common Shareholders	$ 4,084	$ 2,999	$ 2,500	$ 1,954
Total Average "Diluted" Common Shares	10,452,472	9,516,174	8,600,232	6,129,587
Earnings Per Share ("Diluted")	$ 0.39	$ 0.32	$ 0.29	$ 0.32
Earnings Per Share ("Basic")	$ 0.42	$ 0.34	$ 0.32	$ 0.35
Per Share Ratios (Average Common and Preferred Shares Outstanding)				
Average Total Assets	$ 144.83	$ 124.97	$ 98.76	$ 92.87
Average Total Equity	$ 17.26	$ 15.96	$ 15.05	$ 13.49
Net Interest Income	$ 0.55	$ 0.50	$ 0.45	$ 0.50
Credit Expenses	$ 0.03	$ 0.06	$ 0.06	$ 0.06
Operating Expenses	$ 0.07	$ 0.07	$ 0.07	$ 0.09
Gain/(Loss) on Sale	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Writedowns	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Net Income	$ 0.45	$ 0.37	$ 0.32	$ 0.35

</TABLE>

SUPPLEMENTAL HISTORICAL INFORMATION

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TABLE 9 (CONTINUED)
SHARES OUTSTANDING AND PER SHARE DATA

(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	AT OR FOR YEAR ENDING			
	DEC. 31, 1997	DEC. 31, 1996	DEC. 31, 1995	DEC. 31, 1994
<S>	<C>	<C>	<C>	<C>
Shares Outstanding and Receiving Dividends at Period End				
Common (RWT)	14,284,657	10,996,572	5,517,299	208,332
Class A Preferred (converted 9/95)	0	0	0	1,666,063
Class B Preferred (RTW-PB)	909,518	1,006,250	0	0
Total	15,194,175	12,002,822	5,517,299	1,874,395
Common Dividend Declared	$ 2.150	$ 1.670	$ 0.460	n/a
Class A Preferred Dividend Declared	n/a	n/a	$ 0.500	$ 0.250
Class B Preferred Dividends Declared	$ 3.020	$ 1.141	n/a	n/a
Common Dividend Total	$ 28,840	$ 14,084	$ 2,537	$ 0
Class A Preferred Dividend Total	0	0	833	350
Class B Preferred Dividends Total	2,815	1,148	0	0

Total Dividend	$ 31,655	$ 15,232	$ 3,370	$ 350
Taxable Income Earned	$ 29,964	$ 15,168	$ 3,832	$ 353
Dividend Pay-Out Ratio for Period	106%	100%	88%	99%
Cumulative Dividend Pay-Out Ratio	103%	98%	89%	99%
Warrants Outstanding at Period End (expired 12/31/97)	0	412,894	1,665,063	1,666,063
Average Shares Outstanding During Period				
Common	13,334,163	7,950,175	2,487,857	208,332
Class A Preferred	--	--	826,185	1,467,748
Class B Preferred	953,435	382,155	--	--
Total	14,287,598	8,332,330	3,314,042	1,676,080
Calculation of "Diluted" Common Shares				
Average Common Shares	13,334,163	7,950,175	3,314,042	1,676,080
Potential Dilution Due to Warrants	191,513	618,618	221,112	240,766
Potential Dilution Due to Options	154,734	175,391	168,649	0
Total Average "Diluted" Common Shares	13,680,410	8,744,184	3,703,803	1,916,846
Net Income to Common Shareholders	$ 24,746	$ 11,537	$ 3,155	$ 382
Total Average "Diluted" Common Shares	13,680,410	8,744,184	3,703,803	1,916,846
Earnings Per Share ("Diluted")	$ 1.81	$ 1.32	$ 0.85	$ 0.20
Earnings Per Share ("Basic")	$ 1.86	$ 1.45	$ 0.95	$ 0.23
Per Share Ratios (Average Common and Preferred Shares Outstanding)				
Average Total Assets	$ 212.54	$ 119.99	$ 66.57	$ 34.85
Average Total Equity	$ 21.49	$ 15.76	$ 13.08	$ 12.01
Net Interest Income	$ 2.42	$ 2.03	$ 1.44	$ 0.32
Credit Expenses	$ 0.21	$ 0.20	$ 0.15	$ 0.00
Operating Expenses	$ 0.32	$ 0.31	$ 0.34	$ 0.09
Gain/(Loss) on Sale	$ 0.04	$ 0.00	$ 0.00	$ 0.00
Writedowns	$ 0.04	$ 0.00	$ 0.00	$ 0.00
Net Income	$ 1.93	$ 1.52	$ 0.95	$ 0.23

</TABLE>

PART II OTHER INFORMATION

Item 1. Legal Proceedings

At March 31, 1998, there were no pending legal proceedings to which the Company as a party or of which any of its property was subject.

Item 2. Changes in Securities

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 11.1 to Part I - Computation of Earnings Per Share for the three months ended March 31, 1998 and March 31, 1997.

Exhibit 27 - Financial Data Schedule.

(b) Reports

No filings on Form 8-K were made.

SIGNATURES

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

REDWOOD TRUST, INC.

Dated: May 11, 1998 By:/s/ Douglas B. Hansen

Douglas B. Hansen
President and Chief Financial Officer
(authorized officer of registrant)

Dated: May 11, 1998 By:/s/ Vickie L. Rath

Vickie L. Rath
Vice President, Treasurer and Controller
(principal accounting officer)

REDWOOD TRUST, INC.
INDEX TO EXHIBIT

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</TABLE>

EXHIBIT 11.1

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

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<S>	Three Months Ended March 31, 1998 <C>	Three Months Ended March 31, 1997 <C>
BASIC:		
Average common shares outstanding	14,123,951	11,605,171
Total	14,123,951	11,605,171
Net Income	$ 2,450,383	$ 6,456,238
Per Share Amount	$ 0.17	$ 0.56
DILUTED:		
Average common shares outstanding	14,123,951	11,605,171
Net effect of dilutive stock options outstanding during the period -- based on the treasury stock method	110,474	253,274
Net effect of dilutive stock warrants outstanding during the period -- based on the treasury stock method	na	258,422
Total	14,234,425	12,116,867
Net Income	$ 2,450,383	$ 6,456,238
Per Share Amount	$ 0.17	$ 0.53

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MARCH 31,
1998 QUARTERLY REPORT ON FORM 10-Q AND IS QUALIFIED IN ITS ENTIRETY BY
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