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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: JUNE 30, 1999

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

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 ($.01 par value)	909,518 as of August 10, 1999
Common Stock ($.01 par value)	9,408,617 as of August 10, 1999

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REDWOOD TRUST, INC.
FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

REDWOOD TRUST, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

<TABLE>
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	June 30, 1999	December 31, 1998
ASSETS	(Unaudited)	
<S>	<C>	<C>
Mortgage loans: held-for-sale		
Residential	$ 67,452	$ 265,914
Commercial	19,614	8,287
	87,066	274,201
Mortgage loans: held-for-investment, net		
Residential	1,089,778	1,131,300
	1,089,778	1,131,300
Mortgage securities: trading	941,618	1,257,655
Mortgage securities: available-for-sale, net	7,937	7,707
U.S. Treasury securities	--	48,009
Cash and cash equivalents	66,502	55,627
Restricted cash	8,547	12,857
Interest rate agreements	2,697	2,517

Accrued interest receivable	12,952	18,482
Investment in RWT Holdings, Inc.	18,782	15,124
Loan to RWT Holdings, Inc.	2,000	6,500
Receivable from RWT Holdings, Inc.	209	445
Other assets	2,013	2,024
	$ 2,240,101	$ 2,832,448
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Short-term debt	$ 922,745	$ 1,257,570
Long-term debt, net	1,066,976	1,305,560
Accrued interest payable	5,286	10,820
Accrued expenses and other liabilities	2,833	3,022
Dividends payable	687	686
	1,998,527	2,577,658
Commitments and contingencies (See Note 13)		
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 shares authorized; 9,929,717 and 11,251,556 issued and outstanding	99	113
Additional paid-in capital	259,184	279,201
Accumulated other comprehensive income	(1,918)	(370)
Cumulative earnings	16,149	6,412
Cumulative distributions to stockholders	(58,676)	(57,302)
	241,574	254,790
	$ 2,240,101	$ 2,832,448

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended June 30, 1999	Three Months Ended June 30, 1998	Six Months Ended June 30, 1999	Six Months Ended June 30, 1998
<S>	<C>	<C>	<C>	<C>
INTEREST INCOME				
Mortgage loans: held-for-sale				
Residential	$ 1,427	$ --	$ 5,714	$ --
Commercial	293	--	369	--
	1,720	--	6,083	--
Mortgage loans: held-for-investment				
Residential	16,545	29,905	32,830	55,715
	16,545	29,905	32,830	55,715

Mortgage securities: trading	16,090	--	35,064	--
Mortgage securities: available-for-sale	859	23,423	1,662	51,090
U.S. Treasury securities	380	--	913	--
Cash and cash equivalents	497	455	1,270	839
Total interest income	36,091	53,783	77,822	107,644
INTEREST EXPENSE				
Short-term debt	(11,880)	(33,282)	(26,630)	(61,285)
Long-term debt	(16,657)	(16,887)	(35,398)	(34,981)
Total interest expense	(28,537)	(50,169)	(62,028)	(96,266)
Net interest rate agreements expense	(737)	(1,624)	(1,070)	(3,002)
NET INTEREST INCOME	6,817	1,990	14,724	8,376
Net unrealized and realized gains (losses) on assets	1,413	--	3,582	(723)
Provision for credit losses	(371)	(763)	(716)	(1,364)
Equity in earnings (losses) of RWT Holdings, Inc.	(3,757)	(581)	(6,241)	(581)
Operating expenses	(939)	(589)	(1,653)	(2,514)
Other income	33	139	41	139
NET INCOME (LOSS)	3,196	196	9,737	3,333
Cash dividends on Class B preferred stock	(687)	(687)	(1,374)	(1,374)
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 2,509	$ (491)	$ 8,363	$ 1,959
EARNINGS PER SHARE:				
Basic	$ 0.25	$ (0.03)	$ 0.80	$ 0.14
Diluted	$ 0.25	$ (0.03)	$ 0.79	$ 0.14
Weighted average shares of common stock and common stock equivalents:				
Basic	10,051,565	14,106,828	10,412,855	14,115,342
Diluted	10,172,960	14,255,858	10,523,329	14,368,616

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

<TABLE>
<CAPTION>

	Class B Preferred stock		Common stock		Additional paid-in capital	Accumulated other comprehensive income	Cumulative earnings	Cumulative distributions to stockholders	Total
	Shares	Amount	Shares	Amount					
Balance, December 31, 1998	909,518	$26,736	11,251,556	$ 113	$ 279,201	$ (370)	$ 6,412	$(57,302)	$ 254,790
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Comprehensive income:									
Income before preferred dividend	--	--	--	--	--	--	6,541	--	6,541
Net unrealized loss on assets available-for-sale	--	--	--	--	--	(412)	--	--	(412)
Total comprehensive income	--	--	--	--	--	--	--	--	6,129
Issuance of common stock	--	--	12,361	--	1	--	--	--	1
Repurchase of common stock	--	--	(1,077,600)	(11)	(16,024)	--	--	--	(16,035)
Dividends declared:									
Preferred	--	--	--	--	--	--	--	(687)	(687)
Common	--	--	--	--	--	--	--	--	--
Balance, March 31, 1999	909,518	26,736	10,186,317	102	263,178	(782)	12,953	(57,989)	244,198
Comprehensive income:									
Income before preferred dividend	--	--	--	--	--	--	3,196	--	3,196
Net unrealized loss on assets available-for-sale	--	--	--	--	--	(1,136)	--	--	(1,136)
Total comprehensive income	--	--	--	--	--	--	--	--	2,060
Repurchase of common stock	--	--	(256,600)	(3)	(3,994)	--	--	--	(3,997)
Dividends declared:									
Preferred	--	--	--	--	--	--	--	(687)	(687)
Common	--	--	--	--	--	--	--	--	--
Balance, June 30, 1999	909,518	$26,736	9,929,717	$ 99	$ 259,184	$(1,918)	$16,149	$(58,676)	$ 241,574

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended June 30, 1999	Three Months Ended June 30, 1998	Six Months Ended June 30, 1999	Six Months Ended June 30, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income (loss) available to common stockholders	$ 2,509	$ (491)	$ 8,363	$ 1,959
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	1,868	12,715	4,389	22,425
Provision for credit losses	371	763	716	1,364
Equity in (earnings) losses of RWT Holdings, Inc.	3,757	581	6,241	581
Net unrealized and realized (gains) losses on assets	(1,413)	--	(3,582)	723
Purchases of mortgage loans: held-for-sale	(65,343)	--	(71,755)	--
Proceeds from sales of mortgage loans: held-for-sale	7,509	--	50,138	--
Principal payments on mortgage loans: held-for-sale	19,990	--	55,239	--
Purchases of mortgage securities: trading	(3,725)	--	(3,725)	--
Proceeds from sales of mortgage securities: trading	7,668	--	7,668	--
Principal payments on mortgage securities: trading	146,019	--	315,001	--
Purchases of U.S. Treasury securities	--	--	(45,844)	--
Proceeds from sales of U.S. Treasury securities	32,077	--	90,519	--
Purchases of interest rate agreements	(224)	--	(633)	--
Proceeds from sales of interest rate agreements	1,121	--	1,121	--
Decrease in accrued interest receivable	2,460	2,332	5,530	1,565
(Increase) decrease in other assets	906	(2,235)	(81)	(3,006)
Increase (decrease) in accrued interest payable	(409)	1,463	(5,534)	(801)
Increase (decrease) in accrued expenses and other liabilities	1,222	395	(189)	20
Net cash provided by operating activities	156,363	15,523	413,582	24,830
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of mortgage loans: held-for-investment	--	(525,510)	--	(967,472)
Principal payments on mortgage loans: held-for-investment	84,487	169,766	191,849	288,472
Purchases of mortgage securities: available-for-sale	(934)	(69,326)	(934)	(231,167)
Proceeds from sales of mortgage securities: available-for-sale	--	--	--	9,296
Principal payments on mortgage securities: available-for-sale	72	255,526	130	442,931
Purchases of interest rate agreements	--	(1,127)	--	(2,024)
Net decrease in restricted cash	2,944	4,174	4,310	

				3,097
Investment in RWT Holdings, Inc., net of dividends received	(9,900)	--	(9,900)	(9,900)
Repayments from RWT Holdings, Inc.	11,700	--	4,500	--
(Increase) decrease in receivable from RWT Holdings, Inc.	(67)	(831)	236	(831)
	---------	---------	---------	---------
Net cash provided by (used in) investing activities	88,302	(167,328)	190,191	(467,598)
	---------	---------	---------	---------
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net proceeds from issuance of (repayments on) short-term debt	(110,897)	(351,860)	(334,825)	21,633
Proceeds (costs) from issuance of long-term debt	(337)	635,193	(337)	635,193
Repayments on long-term debt	(103,570)	(123,238)	(237,706)	(214,918)
Net proceeds from issuance of common stock	--	1,588	1	1,588
Repurchases of common stock	(3,997)	(1,183)	(20,032)	(5,458)
Increase in dividends payable - preferred	--	--	1	--
Dividends paid on common stock	--	(3,809)	--	(8,808)
	---------	---------	---------	---------
Net cash provided by (used in) financing activities	(218,801)	156,691	(592,898)	429,230
	---------	---------	---------	---------
Net increase (decrease) in cash and cash equivalents	25,864	4,886	10,875	(13,538)
Cash and cash equivalents at beginning of period	40,638	6,468	55,627	24,892
	---------	---------	---------	---------
Cash and cash equivalents at end of period	$ 66,502	$ 11,354	$ 66,502	$ 11,354
	=========	=========	=========	=========
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest	$ 28,946	$ 48,818	$ 67,562	$ 97,237
	=========	=========	=========	=========

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1999
(UNAUDITED)

NOTE 1. THE COMPANY

Redwood Trust, Inc. ("Redwood Trust") was incorporated in Maryland on April 11, 1994 and commenced operations on August 19, 1994. During 1997, Redwood Trust formed Sequoia Mortgage Funding Corporation ("Sequoia"), a special-purpose finance subsidiary. Redwood Trust acquired an equity interest in RWT Holdings, Inc. ("Holdings"), a taxable affiliate of Redwood Trust, during the first quarter of 1998. For financial reporting purposes, references to the "Company" mean Redwood Trust, Sequoia and Redwood Trust's equity interest in Holdings. Redwood Trust, together with its affiliates, is a finance company specializing in 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"). Its primary activity is the financing of high quality residential mortgage loans with funds raised through long-term debt issuance. The Company also finances commercial mortgage loans and residential mortgage securities. Through its affiliate operations, the Company is developing its ability to create mortgage assets of significant value for its own portfolio and for sale to institutional mortgage investors.

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 inter-company balances and transactions with Sequoia have been eliminated in the consolidation of the Company. Certain amounts for prior periods have been reclassified to conform to the 1998 presentation.

During March 1998, the Company acquired an equity interest in Holdings, which originates, acquires, accumulates, services and sells residential and commercial Mortgage Loans. The Company owns all of the preferred stock and has a non-voting, 99% economic interest in Holdings. As the Company does not own the voting common stock of Holdings or control Holdings, its investment in Holdings is accounted for under the equity method. Under this method, original equity investments in Holdings are recorded at cost and adjusted by the Company's share of earnings or losses and decreased by dividends received.

USE OF ESTIMATES

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

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

Reserve for Credit Losses. A reserve for credit losses is maintained at a level deemed appropriate by management to provide for known, future losses as well as potential losses inherent in its Mortgage Asset portfolio. The reserve 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 reserve for credit losses, the Company'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, which are charged to income from operations. When a loan or portions of a loan are determined to be uncollectible, the portion deemed uncollectible is charged against the reserve and subsequent recoveries, if any, are credited to the reserve. The Company's actual credit losses may differ from those estimates used to establish the reserve. Summary information regarding the Reserve for Credit Losses is presented in Note 4.

ADOPTION OF SFAS NO. 133

The Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, effective July 1, 1998. In accordance with the transition provisions of SFAS No. 133, the Company recorded a net-of-tax cumulative-effect-type transition adjustment of $10.1 million (loss) in earnings to recognize at fair value the ineffective portion of all interest rate agreements that were previously designated as part of a hedging relationship.

The Company, upon its adoption of SFAS No. 133, also reclassified $1.53 billion of mortgage securities from available-for-sale to trading. This reclassification resulted in an $11.9 million reclassification loss adjustment, which was transferred from other comprehensive income to current earnings effective July 1, 1998. Under the provisions of SFAS No. 133, such a reclassification does not call into question the Company's intent to hold current or future debt securities to their maturity. Immediately after the adoption of SFAS No. 133 and the reclassification, the Company elected to not seek hedge accounting for any of the Company's interest rate agreements.

MORTGAGE ASSETS

The Company's Mortgage Assets consist of Mortgage Loans and Mortgage Securities. Interest is recognized as revenue when earned according to the terms of the loans and when, in the opinion of management, it is collectible. Discounts and premiums relating to Mortgage Assets are amortized into interest income over the lives of the Mortgage Assets using 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: Held-for-Sale

Effective September 30, 1998, the Company elected to reclassify certain short-funded Mortgage Loans from held-for-investment to held-for-sale. These Mortgage Loans are carried at the lower of cost or aggregate market value ("LOCOM"). Realized and unrealized gains and losses on these loans are recognized in "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

Some of the Mortgage Loans purchased by the Company for which securitization or sale is contemplated are committed for sale by the Company to Holdings, or a subsidiary of Holdings, under a Master Forward Commitment Agreement. As the forward commitment is entered into on the same date that the Company commits to purchase the loans, the price under the forward commitment is the same as the price that the Company paid for the Mortgage Loans, as established by the external market. Fair value is therefore equal to the commitment price, which is the carrying value of the Mortgage Loans. Accordingly, no gain or loss is recognized on the subsequent sales of these Mortgage Loans to Holdings or subsidiaries of Holdings.

Mortgage Loans: Held-for-Investment

Mortgage Loans held-for-investment are carried at their unpaid principal balance adjusted for net unamortized premiums or discounts, and net of the related allowance for credit losses.

Mortgage Securities: Trading

Effective July 1, 1998, concurrent with the adoption of SFAS No. 133, the Company elected to reclassify all of its short-funded Mortgage Securities from available-for-sale to trading. Mortgage Securities classified as trading are

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

Mortgage Securities: Available-for-Sale

Prior to the adoption of SFAS No. 133, the Company, in accordance with SFAS No. 115, classified all of its Mortgage Securities as available-for-sale investments as the Company, from time to time, sold some of its Mortgage Securities as part of its overall management of its balance sheet. Effective July 1, 1998, the Company reclassified all of its short-funded Mortgage Securities as trading investments, while all equity-funded Mortgage Securities remained in the available-for-sale classification. All Mortgage Securities classified as available-for-sale are carried at their estimated fair value. Current period unrealized gains and losses are excluded from net income and reported as a component of Other Comprehensive Income in Stockholders' Equity with cumulative unrealized gains and losses classified as Accumulated Other Comprehensive Income in Stockholders' Equity.

Unrealized losses on Mortgage Securities classified as available-for-sale that are considered other-than-temporary, are recognized in income and the carrying value of the Mortgage Security is adjusted. 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.

U.S. TREASURY SECURITIES

U.S. Treasury securities include notes issued by the U.S. Government. Interest is recognized as revenue when earned according to the terms of the Treasury securities. Discounts and premiums are amortized into interest income over the life of the security using methods that approximate the effective yield method. U.S. Treasury securities are classified as trading and, accordingly, are recorded at their estimated fair market value with unrealized gains and losses recognized as a component of "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand and highly liquid investments with original maturities of three months or less. At June 30, 1999 and December 31, 1998, cash equivalents included $32 million and $25 million in repurchase agreements, respectively.

RESTRICTED CASH

Restricted cash of the Company includes principal and interest payments on mortgage loans held as collateral for the Company's Long-Term Debt, and cash pledged as collateral on certain interest rate agreements.

INTEREST RATE AGREEMENTS

The Company maintains an overall interest-rate risk-management strategy that incorporates the use of derivative interest rate agreements to minimize significant unplanned fluctuations in earnings that are caused by interest-rate volatility. Interest rate agreements that are used as part of the Company's interest-rate risk management strategy include interest rate options, swaps, options on swaps, futures contracts, and options on futures contracts (collectively "Interest Rate Agreements"). On the date an Interest Rate Agreement is entered into, the Company designates the interest rate agreement as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge), or (3) held for trading ("trading" instruments). Concurrent with the adoption of SFAS No. 133, the Company has elected to designate all of its existing Interest Rate Agreements as trading instruments.

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

Interest Rate Agreements Classified as Trading

Interest Rate Agreements that are designated as trading are not linked to specific assets and liabilities or to a forecasted transaction, or otherwise are not designated and, therefore do not qualify for hedge accounting. Accordingly, interest rate agreements classified as trading are reported at their estimated fair value with changes in their fair value reported in current-period earnings in "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

Interest Rate Agreements Classified as Hedges

Interest Rate Agreements that are designated as hedges are linked to specific assets and liabilities on the balance sheet or to a forecasted transaction, or otherwise qualify for hedge accounting. The Company currently does not have any Interest Rate Agreements classified as hedges.

Prior to the adoption of SFAS No. 133, Interest Rate Agreements that were hedging Mortgage Securities available-for-sale were 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 were used to hedge Mortgage Loans, Short-Term Debt or Long-Term Debt were carried at amortized cost. Realized gains and losses from the settlement or early termination of Interest Rate Agreements were 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.

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.

INCOME TAXES

The Company has elected to be taxed as a Real Estate Investment Trust ("REIT") under the Internal Revenue Code (the "Code") and the corresponding provisions of State law. In order to qualify as a REIT, the Company must annually distribute at least 95% of its taxable income to stockholders and meet certain other requirements. If these requirements are met, the Company generally will not be subject to Federal or state income taxation at the corporate level with respect to the taxable income it distributes to its stockholders. Because the Company believes it meets the REIT requirements and also intends to distribute all of its taxable income, no provision has been made for income taxes in the accompanying consolidated financial statements.

Under the Code, a dividend declared by a REIT in October, November or December of a calendar year and payable to shareholders of record as of a specified date in such month, will be deemed to have been paid by the Company and received by the shareholders on the last day of that calendar year, provided the dividend is actually paid before February 1st of the following calendar year, and provided that the REIT has any remaining undistributed taxable income on the record date. The Company expects to pay a total of $3.4 million of preferred dividends in 1999 from 1999 taxable income. The Company will not declare a common stock dividend until the 1999 taxable income exceeds the preferred dividend requirements.

NET INCOME PER SHARE

Net income per share for the three and six months ended June 30, 1999 and 1998 is shown in accordance with SFAS No. 128, Earnings Per Share. Basic net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income available to common stockholders by the weighted average number of common shares and common equivalent shares outstanding during the period. The common equivalent shares are calculated using the treasury stock method, which assumes that all dilutive common stock

equivalents are exercised and the funds generated by the exercise are used to buy back outstanding common stock at the average market price during the reporting period.

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

<TABLE>
<CAPTION>

(IN THOUSANDS, EXCEPT SHARE DATA)	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
NUMERATOR:				
Numerator for basic and diluted earnings per share--				
Net income	$ 3,196	$ 196	$ 9,737	$ 3,333
Cash dividends on Class B preferred stock	(687)	(687)	(1,374)	(1,374)
Basic and Diluted EPS - Income available to common stockholders	$ 2,509	$ (491)	$ 8,363	$ 1,959
DENOMINATOR:				
Denominator for basic earnings per share--				
Weighted average number of common shares outstanding during the period	10,051,565	14,106,828	10,412,855	14,115,342
Net effect of dilutive stock options	121,395	149,030	110,474	253,274
Denominator for diluted earnings per share--	10,172,960	14,255,858	10,523,329	14,368,616

Net earnings per share--basic	$ 0.25	$ (0.03)	$ 0.80	$ 0.14
Net earnings per share--diluted	$ 0.25	$ (0.03)	$ 0.79	$ 0.14

</TABLE>

COMPREHENSIVE INCOME

SFAS No. 130, Reporting Comprehensive Income, requires the Company to classify items of "other comprehensive income" 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. At June 30, 1999 and December 31, 1998, the only component of Accumulated Other Comprehensive Income was unrealized gains and losses on assets available-for-sale.

NOTE 3. MORTGAGE ASSETS

At June 30, 1999 and December 31, 1998, investments in Mortgage Assets consisted of interests in adjustable-rate, hybrid or fixed-rate mortgages on residential and commercial properties. The hybrid mortgages have an initial fixed coupon rate for three to ten 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 June 30, 1999 and December 31, 1998, the average annualized effective yield after taking into account the amortization expense due to prepayments on the Mortgage Assets was 6.51% and 6.95%, respectively, based on the reported cost of the assets. Of the Mortgage Assets owned by the Company at June 30, 1999, 74% were adjustable-rate mortgages, 22% were hybrid mortgages and 4% were fixed-rate mortgages. The coupons on 69% of the adjustable-rate Mortgage Assets are limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every six months or 2% every year) while another 31% are not limited by such periodic caps. Most of the coupons on the adjustable-rate and hybrid Mortgage Assets owned by the Company are limited by

lifetime caps. At June 30, 1999 and December 31, 1998, the weighted average lifetime cap on the adjustable-rate Mortgage Assets was 11.77% and 11.81%, respectively.

At June 30, 1999 and December 31, 1998, Mortgage Assets consisted of the following:

MORTGAGE LOANS: HELD-FOR-SALE

<TABLE>
<CAPTION>

(IN THOUSANDS)	JUNE 30, 1999	DECEMBER 31, 1998
Current Face	$ 88,963	$ 274,630
Unamortized Discount	(1,897)	(1,099)
Unamortized Premium	0	670
Carrying Value	$ 87,066	$ 274,201

</TABLE>

During the three and six months ended June 30, 1999, the Company recognized net gains of $110,675 and $85,846 as a result of LOCOM adjustments on Mortgage Loans held-for-sale, respectively. Also during the three and six months ended June 30, 1999, the Company sold Mortgage Loans held-for-sale for proceeds of $7.5 million and $50.1 million, resulting in net gains of $9,777 and $27,718, respectively. Additionally, as a result of the call and subsequent restructuring of a portion of the Long-Term Debt, the Company reclassified $154 million of Mortgage Loans held-for-sale to Mortgage Loans held-for-investment (see Note 9). The LOCOM adjustments and net gains on sales are reflected as a component of "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations. There were no LOCOM adjustments or sale transactions on held-for-sale Mortgage Loans for the three and six months ended June 30, 1998, as the Mortgage Loans were not reclassified to held-for-sale until September 30, 1998.

MORTGAGE LOANS: HELD-FOR-INVESTMENT

(IN THOUSANDS)	JUNE 30, 1999	DECEMBER 31, 1998
Current Face	$ 1,079,971	$ 1,118,375
Unamortized Premium	14,293	16,709
Amortized Cost	1,094,264	1,135,084
Allowance for Credit Losses	(4,487)	(3,784)
Carrying Value	$ 1,089,777	$ 1,131,300

There were no sales of Mortgage Loans held-for-investment for the three and six months ended June 30, 1999 and 1998. During the second quarter of 1999, as a result of the call and subsequent restructuring of a portion of the Long-Term Debt, the Company reclassified $154 million of Mortgage Loans held-for-sale to Mortgage Loans held-for-investment (see Note 9).

MORTGAGE SECURITIES: TRADING

(IN THOUSANDS)	JUNE 30, 1999 AGENCY	JUNE 30, 1999 NON-AGENCY	JUNE 30, 1999 TOTAL	DECEMBER 31, 1998 AGENCY	DECEMBER 31, 1998 NON-AGENCY	DECEMBER 31, 1998 TOTAL
Current Face	$484,554	$ 448,379	$ 932,933	$ 609,826	$ 640,923	$ 1,250,749
Unamortized Discount	0	(3,098)	(3,098)	(5)	(3,084)	(3,089)
Unamortized Premium	9,281	2,502	11,783	7,602	2,393	9,995
Carrying Value	$493,835	$ 447,783	$ 941,618	$ 617,423	$ 640,232	$ 1,257,655

For the three and six months ended June 30, 1999, the Company recognized a mark-to-market gain of $0.3 million and $5.1 million on Mortgage Securities classified as trading and sold Mortgage Securities classified as trading for proceeds of $7.7 million, respectively. As the Company did not reclassify all of its short-funded

Mortgage Securities from available-for-sale to trading until July 1, 1998 (see Note 2), there were no such mark-to-market adjustments for the three and six months ended June 30, 1998. The mark to market adjustments are reflected as a component of "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

MORTGAGE SECURITIES: AVAILABLE-FOR-SALE

(IN THOUSANDS)	JUNE 30, 1999 NON-AGENCY	DECEMBER 31, 1998 NON-AGENCY
Current Face	$ 18,156	$ 17,281
Unamortized Discount	(7,294)	(8,015)
Amortized Cost	10,862	9,266
Allowance for Credit Losses	(1,007)	(1,189)
Gross Unrealized Gains	3	313
Gross Unrealized Losses	(1,921)	(683)
Carrying Value	$ 7,937	$ 7,707

No sales or write-downs of Mortgage Securities available-for-sale occurred during the three and six months ended June 30, 1999. During the six months ended June 30, 1998, the Company sold Mortgage Securities available-for-sale with an amortized cost of $9.3 million for proceeds of $9.3 million, resulting in a net gain of $5,689. The Company also recognized a $0.7 million loss on the write-down of certain Mortgage Securities available-for-sale during the six months ended June 30, 1998. The gains and losses on the sales and write-downs of Mortgage Securities available-for-sale are reflected as a component of "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

NOTE 4. RESERVE FOR CREDIT LOSSES

The following table summarizes the Reserve for Credit Losses activity:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
(IN THOUSANDS)	1999	1998	1999	1998
Balance at beginning of period	$ 5,197	$ 5,484	$ 4,973	$ 4,931
Provision for credit losses	371	763	716	1,364
Charge-offs	(74)	(463)	(195)	(511)
Balance at end of period	$ 5,494	$ 5,784	$ 5,494	$ 5,784

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

NOTE 5. U.S. TREASURY SECURITIES

At June 30, 1999 and December 31, 1998 U.S. Treasury securities consisted of the following:

(IN THOUSANDS)	JUNE 30, 1999	DECEMBER 31, 1998
Current Face	--	$45,000
Unamortized Premium	--	3,009
Carrying Value	--	$48,009

For the three and six months ended June 30, 1999, the Company recognized mark-to-market losses of $1.4 million and $3.3 million on U.S. Treasury securities and sold U.S. Treasury securities for proceeds of $32.1 million and $90.5 million, respectively. The mark to market adjustments are reflected as a component of "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

NOTE 6. COLLATERAL FOR LONG-TERM DEBT

The Company 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 and hybrid, conventional, 30-year mortgage loans secured by first liens on one- to four-family residential properties. All Bond Collateral is pledged to secure repayment of the related Long-Term Debt obligation. All principal and interest (less servicing and related fees) on the Bond Collateral is remitted to a trustee and is available for payment on the Long-Term Debt obligation. The Company's exposure to loss on the Bond Collateral is limited to its net investment, as the Long-Term Debt is non-recourse to the Company.

During the second quarter of 1999, as a result of the call and subsequent restructuring of a portion of the Long-Term Debt, the Company reclassified $154 million of Mortgage Loans held-for-sale to Mortgage Loans held-for-investment (see Note 9).

The components of the Bond Collateral are summarized as follows:

(IN THOUSANDS)	JUNE 30, 1999	DECEMBER 31, 1998
Mortgage loans: held-for-sale	$ 0	$ 197,646
Mortgage loans: held-for-investment, net	1,089,778	1,131,300

Restricted cash	8,035	12,857
Accrued interest receivable	6,073	7,707
	$1,103,886	$1,349,510

</TABLE>

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

NOTE 7. INTEREST RATE AGREEMENTS

At June 30, 1999 and December 31, 1998, all of the Company's Interest Rate Agreements were classified as trading, and therefore, reported at fair value.

During the three and six months ended June 30, 1999, the Company recognized net gains of $2.4 million and $1.6 million, respectively, as a result of mark-to-market adjustments on interest rate agreements classified as trading. As the Company did not classify its interest rate agreements as trading instruments until July 1, 1998 (see Note 2), there were no related mark-to-market adjustments recognized during the three and six months ended June 30, 1998. The mark-to-market gains are reflected as a component of "Net unrealized and realized gains (losses) on assets" on the Consolidated Statements of Operations.

The following table summarizes the aggregate notional amounts of all of the Company's Interest Rate Agreements as well as the credit exposure related to these instruments.

<TABLE>
<CAPTION>

	NOTIONAL AMOUNTS		CREDIT EXPOSURE(a)	
(IN THOUSANDS)	JUNE 30, 1999	DECEMBER 31, 1998	JUNE 30, 1999	DECEMBER 31, 1998
<S>	<C>	<C>		
Interest Rate Options Purchased	$3,261,900	$3,569,200	--	--
Interest Rate Swaps	410,000	440,000	$6,976	$8,673
Interest Rate Futures	325,000	--	512	--
Total	$3,996,900	$4,009,200	$7,488	$8,673

</TABLE>

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

Interest Rate Options purchased (written), which may include caps, floors, call and put corridors, options on futures and swaption collars (collectively, "Options"), are agreements which transfer, modify or reduce interest rate risk in exchange for the payment (receipt) of a premium when the contract is initiated. Purchased interest rate cap agreements provide cash flows to the Company to the extent that a specific interest rate index exceeds a fixed rate. Conversely, purchased interest rate floor agreements produce cash flows to the Company to the extent that the referenced interest rate index falls below the agreed upon fixed rate. Purchased call (put) corridors will cause the Company to incur a gain (loss) to the extent that the yield of the specified index is below (above) the strike rate at the time of the option expiration. [The maximum gain or loss on a call (put) corridor is established at the time of the transaction by establishing a minimum (maximum) index rate]. The Company will receive cash on the purchased options on futures if the futures price exceeds (is below) the call (put) option strike price at the expiration of the option. For the written options on futures, the Company receives an up-front premium for selling the option, however, the Company will pay cash on the written option if the futures price exceeds (is below) the call (put) option strike price at the expiration of the option. Purchased receiver (payor) swaption collars will cause the Company to incur a gain (loss) should the index rate be below (above) the strike rate as of the expiration date. [The maximum gain or loss on a receiver (payor) swaption is established at the time of the transaction by establishing a minimum (maximum) index rate]. The Company's credit risk on the purchased Options is limited to the carrying value of the Options agreements. The credit risk on options on futures is limited due to the fact that the exchange and its members are required to satisfy the obligations of any member that fails to perform.

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

Interest Rate Futures ("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 the Company has sold (bought) the futures, the Company will generally receive additional cash flows if interest rates rise (fall). Conversely, the Company will generally pay additional cash flows if interest rates fall (rise). Similar to options on futures, the credit risk on futures is limited by the requirement that the exchange and its members make good on obligations of any member that fails to perform.

In general, the Company 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, the Company would not receive the cash to which it would otherwise be entitled under the Interest Rate Agreement. In order to mitigate this risk, the Company has only entered into Interest Rate Agreements that

are either a) transacted on a national exchange or b) transacted with counterparties that are either i) designated by the U.S. Department of the Treasury as a "primary government dealer", ii) affiliates of "primary government dealers", or iii) rated BBB or higher. Furthermore, the Company has entered into Interest Rate Agreements with several different counterparties in order to diversify the credit risk exposure.

NOTE 8. SHORT-TERM DEBT

The Company 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 the Company's Mortgage Assets and U.S. Treasury securities.

At June 30, 1999, the Company had $923 million of Short-Term Debt outstanding with a weighted-average borrowing rate of 5.30% and a weighted average remaining maturity of 232 days. This debt was collateralized with $961 million of Mortgage Assets. At December 31, 1998, the Company had $1.3 billion of Short-Term Debt outstanding with a weighted average borrowing rate of 5.62% and a weighted average remaining maturity of 48 days. This debt was collateralized with $1.3 billion of Mortgage Assets and U.S. Treasury securities.

At June 30, 1999 and December 31, 1998, the Short-Term Debt had the following remaining maturities:

<TABLE>
<CAPTION>

(IN THOUSANDS)	JUNE 30, 1999	DECEMBER 31, 1998
<S> <C>	<C>	<C>
Within 30 days	$ 98,642	$ 428,292
30 to 90 days	22,244	714,114
Over 90 days	801,859	115,164
Total Short-Term Debt	$922,745	$1,257,570

</TABLE>

For the three and six months ended June 30, 1999, the average balance of Short-Term Debt was $0.9 billion and $1.0 billion with a weighted average interest cost of 5.07% and 5.10%, respectively. For the three and six months ended June 30, 1998, the average balance of Short-Term Debt was $2.3 billion and $2.1 billion with a weighted average interest cost of 5.88% and 5.83%, respectively. The maximum balance outstanding during the six months ended June 30, 1999 and 1998 was $1.3 billion and $1.0 billion, respectively.

NOTE 9. LONG-TERM DEBT

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

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

During the second quarter of 1999, the Company exercised its right to call the Long-Term Debt of Sequoia Mortgage Trust 1 ("Sequoia 1"), a series of debt issued by Sequoia. This Long-Term Debt was called on May 4, 1999. In conjunction with this call, the Company restructured and contributed the Sequoia 1 debt to Sequoia Mortgage Trust 1A ("Sequoia 1A"), a newly formed trust, and Sequoia 1A issued Long-Term Debt collateralized by Sequoia 1 debt. Under the terms of this new structure, the Sequoia 1A debt is not likely to be called within the next twelve months. As a result, the $154 million of Bond Collateral in the form of Mortgage Loans held-for-sale

was reclassified to Mortgage Loans held-for-investment to reflect the shift in the expected holding period of the Mortgage Assets.

The components of the Long-Term Debt at June 30, 1999 and December 31, 1998 along with selected other information are summarized below:

<TABLE>
<CAPTION>

(IN THOUSANDS)	JUNE 30, 1999	DECEMBER 31, 1998
<S>	<C>	<C>
Long-Term Debt	$ 1,065,700	$ 1,303,405
Unamortized premium on Long-Term Debt	4,580	5,783
Deferred bond issuance costs	(3,304)	(3,628)
Total Long-Term Debt	$ 1,066,976	$ 1,305,560
Range of weighted-average interest rates, by series	5.36% to 6.47%	5.75% to 6.55%
Stated maturities	2017 - 2029	2017 - 2029
Number of series	3	3

</TABLE>

For the three and six months ended June 30, 1999, the average effective interest cost for Long-Term Debt, as adjusted for the amortization of bond premium, deferred bond issuance costs and other related expenses, was 5.96% and 6.00%, respectively. For the three and six months ended June 30, 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 6.45% and 6.44%, respectively. At June 30, 1999 and December 31, 1998, interest payable on Long-Term Debt was $3.2 million and $4.2 million, respectively, and is reflected as a component of Accrued Interest Payable on the Consolidated Balance Sheets.

NOTE 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying values and estimated fair values of the Company's financial instruments at June 30, 1999 and December 31, 1998.

<TABLE>
<CAPTION>

(IN THOUSANDS)	JUNE 30, 1999		DECEMBER 31, 1998	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Assets				
Mortgage Loans: held-for-sale	$ 87,066	$ 87,066	$ 274,201	$ 274,302
Mortgage Loans: held-for-investment	$1,089,778	$1,081,407	$1,131,300	$1,120,376
Mortgage Securities: trading	$ 941,611	$ 941,611	$1,257,655	$1,257,655
Mortgage Securities: available-for-sale	$ 7,944	$ 7,944	$ 7,707	$ 7,707
U.S. Treasury Securities	--	--	$ 48,009	$ 48,009
Interest Rate Agreements	$ 2,697	$ 2,697	$ 2,517	$ 2,517
Investment in RWT Holdings, Inc.	$ 18,782	$ 19,261	$ 15,124	$ 15,124
Liabilities				
Long-Term Debt	$1,066,976	$1,058,450	$1,305,560	$1,302,330

</TABLE>

The carrying values 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 11. STOCKHOLDERS' EQUITY

CLASS B 9.74% CUMULATIVE CONVERTIBLE PREFERRED STOCK

On August 8, 1996, the Company issued 1,006,250 shares of Class B Preferred Stock ("Preferred Stock"). Each share of the Preferred Stock is convertible at the option of the holder at any time into one share of Common Stock. After September 30, 1999, the Company can either redeem or, under certain circumstances, cause a

conversion of the Preferred Stock. The Preferred Stock pays a dividend equal to the greater of (i) $0.755 per quarter or (ii) an amount equal to the quarterly dividend declared on the number of shares of the Common Stock into which the Preferred Stock is convertible. The Preferred Stock ranks senior to the Company's Common Stock as to the payment of dividends and liquidation rights. The liquidation preference entitles the holders of the Preferred Stock to receive $31.00 per share plus any accrued dividends before any distribution is made on the Common Stock.

As of June 30, 1999 and December 31, 1998, 96,732 shares of the Preferred Stock have been converted into 96,732 shares of the Company's Common Stock. At June 30, 1999 and December 31, 1998, there were 909,518 shares of the Preferred Stock outstanding.

STOCK OPTION PLAN

The Company has adopted a Stock Option Plan for executive officers, employees and non-employee directors (the "Plan"). The Plan authorizes the Board of Directors (or a committee appointed by the Board of Directors) to grant "incentive stock options" as defined under Section 422 of the Code ("ISOs"), options not so qualified ("NQSOs"), deferred stock, restricted stock, performance shares, stock appreciation rights 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 the Company's total outstanding shares of Common Stock. The total outstanding shares are determined as the highest number of shares outstanding prior to any stock repurchases. At June 30, 1999 and December 31, 1998, 304,784 and 273,312 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 June 30, 1999 and December 31, 1998, 384,970 and 381,298 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.

The Company's Plan permits certain stock options granted under the plan to accrue stock DERs. There were no stock DERs accrued for the three and six months ended June 30, 1999. For the three and six months ended June 30, 1998, the stock DERs accrued on NQSOs that had a stock DER feature resulted in charges to operating expenses of $1,994 and $55,222, respectively. Stock DERs represent shares of stock which are issuable to holders of stock options when the holders exercise the underlying stock options. The number of stock DER shares accrued is based on the level of the Company's dividends and on the price of the stock on the related dividend payment date.

A summary of the status of the Company's Plan as of June 30, 1999 and changes during the periods ending on that date is presented below.

<TABLE>
<CAPTION>

	THREE MONTHS ENDED		SIX MONTHS ENDED	
(IN THOUSANDS, EXCEPT SHARE DATA)	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>
Outstanding options at beginning of period	1,627,905	$ 23.16	1,739,787	$ 23.58
Options granted	91,300	$ 16.62	133,300	$ 15.95
Options exercised	--	--	(12,361)	$ 0.11
Options canceled	(23,252)	$ 20.03	(164,772)	$ 27.70
Outstanding options at end of period	1,695,953	$ 22.75	1,695,953	$ 22.75

</TABLE>

STOCK REPURCHASES

Since September 1997, the Company's Board of Directors has approved the repurchase of 6,455,000 shares of the Company's Common Stock. Pursuant to this repurchase program, the Company repurchased 256,600 and 1,334,200 shares of its Common Stock for $4.0 million and $20.0 million during the three and six months ended June 30, 1999, respectively. At June 30, 1999, there were 1,149,300 shares available for repurchase. The repurchased shares have been returned to the Company's authorized but unissued shares of Common Stock.

NOTE 12. RELATED PARTY TRANSACTIONS

SALE OF MORTGAGE LOANS

During the three and six months ended June 30, 1999, the Company sold $0 and $8 million, respectively, of commercial mortgage loans to Redwood Commercial Funding ("RCF"), a subsidiary of Holdings. Pursuant to the Master Forward Commitment Agreement, the Company sold the Mortgage Loans to RCF at the same price for which the Company acquired the Mortgage Loans. Similarly, the Company purchased or committed to purchase $21 million and $24 million of commercial mortgage loans during the three and six months ended June 30, 1999, respectively, and, under the terms of the Master Forward Commitment Agreement, committed to sell the Mortgage Loans to RCF during the second half of 1999.

During June 1999, the Company purchased $49 million of residential mortgage loans. Pursuant to the Master Forward Commitment Agreement with Redwood Residential Funding ("RRF"), a subsidiary of Holdings, the Company committed to sell the Mortgage Loans to RRF during the third quarter of 1999.

OTHER

Under a revolving credit facility arrangement, the Company may loan funds to Holdings to finance certain Mortgage Loans owned by Holdings. These loans are typically unsecured and are repaid within six months. Such loans bear interest at a rate of 3.5% over the London Interbank Offered Rate ("LIBOR"). At June 30, 1999 and December 31, 1998, the Company had loaned $2.0 million and $6.5 million, respectively, to Holdings in accordance with the provisions of this arrangement. During the three and six months ended June 30, 1999, the Company earned $0.2 million and $0.4 million, respectively in interest on loans to Holdings. During both the three and six months ended June 30, 1998, the Company earned $15,243 in interest on loans to Holdings.

The Company shares many of the operating expenses of Holdings, including personnel and related expenses, subject to full reimbursement by Holdings. During the three and six months ended June 30, 1999, $0.8 million and $1.5 million, respectively, of Holdings' operating expenses were paid by the Company. For both the three and six months ended June 30, 1998, the Company paid $0.7 million of Holdings' expenses.

The Company may provide credit support to Holdings to facilitate Holdings' financings from third-party lenders and/or hedging arrangements with counterparties. As part of this arrangement, Holdings is authorized as a co-borrower under some of the Company's Short-Term Debt agreements subject to the Company continuing to remain jointly and severally liable for repayment. Accordingly, Holdings pays the Company credit support fees on borrowings subject to this arrangement. At June 30, 1999, the Company was providing credit support on $53.1 million of Holdings' Short-Term Debt. No such arrangements were outstanding at December 31, 1998. During the three and six months ended June 30, 1999, the Company recognized $32,948 and $40,858 of credit support fees. Credit support fees for both the three and six months ended June 30, 1998 were $138,966. Credit support fees are reflected as a component of "Other Income" on the Consolidated Statements of Operations.

NOTE 13. COMMITMENTS AND CONTINGENCIES

At June 30, 1999, the Company had entered into commitments to purchase $4 million of commercial Mortgage Loans and $3 million of residential Mortgage Securities for settlement during July 1999. At June 30, 1999, the Company had also entered into commitments to sell $24 million of commercial Mortgage Loans to RCF and $49 million of residential Mortgage Loans to RRF for settlement during the third quarter of 1999.

At June 30, 1999, the Company 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: 1999 - $140,662; 2000 - $281,324; 2001 - $117,219.

NOTE 14. SUBSEQUENT EVENTS

Through August 10, 1999, pursuant to its stock repurchase program (see Note 11), the Company repurchased 521,100 shares of the Company's Common Stock for $8.7 million.

On August 10, 1999, Holdings announced that it intends to merge the operations of its two residential mortgage production subsidiaries, Redwood Financial Services and Redwood Residential Funding. As a result of this consolidation, Holdings currently expects to take a one-time third quarter restructuring charge of up to $2 million. This charge reflects costs to be incurred in connection with anticipated staff reductions, planned dispositions of certain facilities, premises and equipment, and other restructuring costs. As the Company accounts for Holdings under the equity method, the Company's earnings for the third quarter of 1999 will reflect 99% of Holdings' restructuring charge.

RWT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

<TABLE>
<CAPTION>

<S>	June 30, 1999 (Unaudited) <C>	December 31, 1998 <C>
ASSETS		
Mortgage loans: held-for sale		
Residential	$ 13,057	$ 12,247
Commercial	8,080	--
	21,137	12,247
Mortgage securities: trading	42,128	--
Cash and cash equivalents	8,826	9,711
Accrued interest receivable	143	78
Property, equipment and leasehold improvements, net	2,708	622
Other assets	629	120
	$ 75,571	$ 22,778
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Short-term debt	$ 53,103	$ --
Loan from Redwood Trust, Inc.	2,000	6,500
Payable to Redwood Trust, Inc.	209	445
Accrued expenses and other liabilities	1,287	557
	56,599	7,502
Commitments and contingencies (See Note 9)		
STOCKHOLDERS' EQUITY		
Series A preferred stock, par value $0.01 per share; 10,000 shares authorized; 5,940 issued and outstanding ($5,940 aggregate liquidation preference)	29,700	19,800
Common stock, par value $0.01 per share; 10,000 shares authorized; 3,000 issued and outstanding	--	--
Additional paid-in capital	300	200
Accumulated deficit	(11,028)	(4,724)
	18,972	15,276
	$ 75,571	$ 22,778

</TABLE>

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

RWT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended June 30, 1999	Three Months Ended June 30, 1998	Six Months Ended June 30, 1999	For the period from April 1, 1998 (commencement of operations) to June 30, 1998
<S>	<C>	<C>	<C>	<C>
REVENUES				
Interest income				
Mortgage loans: held-for-sale				
Residential	$ 253	$ 2,779	$ 307	$ 2,779
Commercial	197	--	323	--
	450	2,779	630	2,779
Mortgage securities: trading	447	--	654	--
Cash and cash equivalents	107	57	216	57
Total interest income	1,004	2,836	1,500	2,836
Interest expense				
Short-term debt	(497)	(2,503)	(604)	(2,503)
Credit support fees	(33)	(139)	(41)	(139)
Loans from Redwood Trust, Inc.	(196)	(15)	(355)	(15)
Total interest expense	(726)	(2,657)	(1,000)	(2,657)
Net interest income	278	179	500	179
Net unrealized and realized gains on assets	137	22	614	22
Other income (expense)	(8)	--	48	--
Net revenues	407	201	1,162	201
EXPENSES				
Compensation and benefits	(2,553)	(520)	(4,812)	(520)
General and administrative	(1,649)	(268)	(2,655)	(268)
Total expenses	(4,202)	(788)	(7,467)	(788)
NET LOSS	$(3,795)	$ (587)	$(6,305)	$ (587)

</TABLE>

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

RWT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In thousands, except share data)
(Unaudited)

<TABLE>
<CAPTION>

	Series A Preferred stock		Common stock		Additional		
	Shares	Amount	Shares	Amount	paid-in capital	Accumulated deficit	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1998	3,960	$19,800	2,000	$--	$200	$ (4,724)	$ 15,276
Comprehensive income:							
Net loss	--	--	--	--	--	(2,509)	(2,509)
Balance, March 31, 1999	3,960	19,800	2,000	--	200	(7,233)	12,767
Comprehensive income:							
Net loss	--	--	--	--	--	(3,795)	(3,795)
Issuance of preferred stock	1,980	9,900	--	--	--	--	9,900
Issuance of common stock	--	--	1,000	--	100	--	100
Balance, June 30, 1999	5,940	$29,700	3,000	$--	$300	$(11,028)	$ 18,972

</TABLE>

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

RWT HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended		Six Months Ended	For the period from April 1, 1998 (commencement of operations) to
	June 30, 1999	June 30, 1998	June 30, 1999	June 30, 1998
<S>	<C>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$ (3,795)	$ (587)	$ (6,305)	$ (587)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	93	27	196	27
Net unrealized and realized gains on assets	(137)	(22)	(615)	

				(22)
Purchases of mortgage loans: held for sale	(49,839)	(531,038)	(152,181)	(531,038)
Proceeds from sales of mortgage loans: held for sale	26,176	525,418	44,017	525,418
Principal payments on mortgage loans: held for sale	778	5,615	808	5,615
Proceeds from sales of mortgage securities: trading	44,018	--	54,520	--
Principal payments on mortgage securities: trading	1,825	--	2,343	--
(Increase) decrease in accrued interest receivable	50	(16)	(65)	(16)
(Increase) decrease in other assets	817	(18)	(418)	(18)
Increase (decrease) in amounts due to Redwood Trust	67	831	(236)	831
Increase in accrued expenses and other liabilities	515	41	730	41
Net cash provided by (used in) operating activities	20,568	251	(57,206)	251
CASH FLOWS FROM INVESTING ACTIVITIES:				
Purchases of property, equipment and leasehold improvements	(1,452)	(35)	(2,282)	(35)
Net cash used in investing activities	(1,452)	(35)	(2,282)	(35)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from issuance of short-term debt	58,874	519,347	148,179	519,347
Repayments on short-term debt	(78,084)	(519,347)	(95,076)	(519,347)
Loans from Redwood Trust, Inc.	46,744	4,000	60,444	4,000
Repayment of loans from Redwood Trust, Inc.	(58,444)	(4,000)	(64,944)	(4,000)
Net proceeds from issuance of preferred stock	9,900	9,900	9,900	9,900
Net proceeds from issuance of common stock	100	100	100	100
Net cash provided by (used in) financing activities	(20,910)	10,000	58,603	10,000
Net increase (decrease) in cash and cash equivalents	(1,794)	10,216	(885)	10,216
Cash and cash equivalents at beginning of period	10,620	--	9,711	--
Cash and cash equivalents at end of period	$ 8,826	$ 10,216	$ 8,826	$ 10,216
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for interest expense	$ 794	$ 2,518	$ 947	$ 2,518
Non-cash transaction:				
Securitization of mortgage loans into mortgage securities	$ 35,447	$ --	$ 98,290	$ --

</TABLE>

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

RWT HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1999
(UNAUDITED)

NOTE 1. THE COMPANY

RWT Holdings, Inc. ("Holdings") was incorporated in Delaware on February 13, 1998 and commenced operations on April 1, 1998. Holdings' first fiscal year-end was December 31, 1998. Holdings originates, acquires, accumulates, services and sells real estate mortgage assets ("Mortgage Assets") which may be acquired or sold as whole loans ("Mortgage Loans") or as mortgage securities representing interests in or obligations backed by pools of mortgage loans ("Mortgage Securities"). Redwood Trust, Inc. ("Redwood Trust") owns all of the preferred stock and has a non-voting, 99% economic interest in Holdings. Holdings has three subsidiaries which are included in the consolidated financial statements. Redwood Financial Services, Inc. ("RFS") acquires seasoned loan portfolios from banks and thrifts and sells this product to institutional mortgage investors. Redwood Residential Funding, Inc. ("RRF") acquires newly-closed residential loans from mortgage bankers and sells mortgage securities, loans and servicing to investors. Redwood Commercial Funding, Inc. ("RCF") originates small balance commercial mortgages and sells them to depository institutions. Holdings and its subsidiaries currently utilize both debt and equity to finance acquisitions. References to Holdings in the following footnotes refer to Holdings and its subsidiaries.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Holdings and its subsidiaries. All significant intercompany balances and transactions with Holdings' consolidated subsidiaries have been eliminated.

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 the 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. Management estimates the fair value of its financial instruments using available market information and other appropriate valuation methodologies. The fair value of a financial instrument, as defined by Statement of Financial Accounting Standards ("SFAS") No. 107, Disclosures about Fair Value of Financial Instruments, is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Management's estimates are inherently subjective in nature and involve matters of uncertainty and judgement to interpret relevant market and other data. Accordingly, amounts realized in actual sales may differ from the fair values presented in Note 6.

ADOPTION OF SFAS NO. 133

Holdings adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, effective July 1, 1998. Upon the adoption of SFAS No. 133, Holdings did not record a transition adjustment, as there were no outstanding derivative instruments. Immediately after the adoption of SFAS No. 133, Holdings elected to not seek hedge accounting for any of its derivative financial instruments employed for hedging activities.

MORTGAGE ASSETS

Holdings' Mortgage Assets consist of Mortgage Loans and Mortgage Securities. Interest is recognized as revenue when earned according to the terms of the loans and when, in the opinion of management, it is collectible.

Mortgage Loans: Held-for-Sale

Mortgage Loans are recorded at the lower of cost or aggregate market value. Cost generally consists of the loan principal balance net of any unamortized premium or discount. Interest income is accrued based on the outstanding principal amount of the Mortgage Loans and their contractual terms. Realized and unrealized gains or losses on the loans are based on the specific identification method and are recognized in "Net unrealized and realized gains on assets" on the Consolidated Statements of Operations.

Some of the Mortgage Loans purchased by Redwood Trust for which securitization or sale is contemplated are committed for sale by Redwood Trust to Holdings, or a subsidiary of Holdings, under a Master Forward Commitment Agreement. As the forward commitment is entered into on the same date that Redwood Trust commits to purchase the loans, the price under the forward commitment is the same as the price Redwood Trust paid for the Mortgage Loans, as established by the external market.

Mortgage Securities: Trading

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

LOAN ORIGINATION FEES

Loan fees, discount points and certain direct origination costs are recorded as an adjustment to the cost of the loan and are recorded in earnings when the loan is sold.

CASH AND CASH EQUIVALENTS

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

DERIVATIVE FINANCIAL INSTRUMENTS

Holdings utilizes various derivative financial instruments to mitigate the risks that a change in interest rates will result in a change in the value of the Mortgage Assets. As of June 30, 1999, Holdings has entered into forward contracts for the sale of mortgage-backed securities. Holdings currently designates all derivative financial instruments as trading instruments. Accordingly, such instruments are recorded at their estimated fair market value with unrealized and realized gains and losses on these instruments recognized as a component of "Net unrealized and realized gains on assets" on the Consolidated Statements of Operations. During both the three and six months ended June 30, 1999, Holdings recognized mark-to-market gains on derivative financial instruments of $0.1 million. There were no derivative financial instruments outstanding during the three and six months ended June 30, 1998.

INCOME TAXES

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

COMPREHENSIVE INCOME

SFAS No. 130, Reporting Comprehensive Income, requires Holdings to classify items of "other comprehensive income" 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. As of June 30, 1999 there was no other comprehensive income.

NOTE 3. MORTGAGE ASSETS

At June 30, 1999 and December 31, 1998 Mortgage Assets consisted of the following:

MORTGAGE LOANS: HELD-FOR-SALE

<TABLE>
<CAPTION>

(IN THOUSANDS)	JUNE 30, 1999	DECEMBER 31, 1998
<S>	<C>	<C>
Current Face	$21,601	$12,072
Unamortized Premium (Discount)	(464)	175

Carrying Value	$21,137	$12,247
	=======	=======

</TABLE>

For the three and six months ended June 30, 1999 Holdings recognized a lower of cost or market loss adjustment of $116,626 and $177,034 on Mortgage Loans held-for-sale, respectively. This loss is reflected as a component of "Net unrealized and realized gains on assets" on the Consolidated Statements of Operations. Also, during the three and six months ended June 30, 1999, Holdings sold Mortgage Loans held-for-sale for proceeds of $26 million and $44 million, respectively. For both the three and six months ended June 30, 1998, Holdings sold Mortgage Loans for proceeds of $525.4 million, resulting in a net gain of $18,953.

MORTGAGE SECURITIES: TRADING

<TABLE>
<CAPTION>

(IN THOUSANDS)	JUNE 30, 1999
	AGENCY
<S>	<C>
Current Face	$41,819
Unamortized Premium	309

Carrying Value	$42,128
	=======

</TABLE>

For the three and six months ended June 30, 1999, Holdings recognized a mark-to-market gain of $153,790 and $700,780, respectively, on Mortgage Securities classified as trading. This gain is reflected as a component of "Net unrealized and realized gains on assets" on the Consolidated Statements of Operations. Also during the three and six months ended June 30, 1999, Holdings sold Mortgage Securities classified as trading for proceeds of $44 million and $55 million, respectively. Holdings did not own any Mortgage Securities prior to 1999.

NOTE 4. SHORT-TERM DEBT

Holdings has entered into reverse repurchase agreements ("Short-Term Debt") in order to finance acquisitions of a portion of its Mortgage Assets. The average balance of Short-Term Debt outstanding during the three and six months ended June 30, 1999 was $37.6 million and $23.4 million with a weighted average borrowing rate of 5.29% and 5.17%, respectively. The maximum balance outstanding during the six months ended June 30, 1999 was $87.6 million. The average balance of Short-Term Debt outstanding during both the three and six months ended June 30, 1998 was $157.1 million with a weighted-average borrowing rate of 6.37%. The maximum balance outstanding during the six months ended June 30, 1998 was $367.1 million.

Redwood Trust may provide credit support to Holdings to facilitate Holdings' financings from third-party lenders and/or hedging arrangements with counterparties. As part of this arrangement, Holdings is authorized as a co-borrower under some of Redwood Trust's Short-Term Debt agreements subject to Redwood Trust continuing to remain jointly and severally liable for repayment. Accordingly, Holdings pays Redwood Trust credit support fees on borrowings subject to this arrangement. At June 30, 1999, Redwood Trust was providing credit support on $53.1 million of Holdings' Short-Term Debt. No such arrangements were outstanding at December 31, 1998. These expenses are reflected as "Credit support fees" on the Consolidated Statements of Operations.

NOTE 5. INCOME TAXES

The provision for income taxes for the period from January 1, 1999 through June 30, 1999 amounted to $3,200 and represents minimum California franchise taxes. No tax provision has been recorded for the six months ended June 30, 1999, as Holdings reported a loss for the period. Due to the uncertainty of realization of net operating losses, no tax benefit has been provided against the loss for the period. In addition, a valuation allowance has been provided to eliminate the deferred tax asset related to net operating loss carryforwards at June 30, 1999 and December 31, 1998. At June 30, 1999 and December 31, 1998 the valuation allowance amounted to $4.3 million and $1.8 million, respectively. At December 31, 1998, Holdings had net operating loss carryforwards of approximately $4.6 million for both federal and state income tax purposes. The federal and state carryforwards expire through 2013 and 2003, respectively.

NOTE 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying values and estimated fair values of

Holdings' financial instruments at June 30, 1999 and December 31, 1998.

<TABLE>
<CAPTION>

(IN THOUSANDS)	JUNE 30, 1999 CARRYING VALUE	JUNE 30, 1999 FAIR VALUE	DECEMBER 31, 1998 CARRYING VALUE	DECEMBER 31, 1998 FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Assets				
Mortgage Loans: held-for-sale	$21,137	$21,621	$12,247	$12,255
Mortgage Securities: trading	$42,128	$42,128	--	--

</TABLE>

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 7. STOCKHOLDERS' EQUITY

The authorized capital stock of Holdings consists of Series A Preferred Stock ("Preferred Stock") and Common Stock. Holdings is authorized to issue 10,000 shares of Common Stock, each having a par value of $0.01, and 10,000 shares of Preferred Stock, each having a par value of $0.01. All voting power is vested in the common stock.

Holdings has issued a total of 5,940 shares of Preferred Stock to Redwood Trust. The Preferred Stock entitles Redwood Trust to receive 99% of the aggregate amount of any such dividends or distributions made by Holdings. The holders of the Common Stock are entitled to receive the remaining 1% of the aggregate amount of such dividends or distributions. The Preferred Stock ranks senior to the Common Stock as to the payment of dividends and liquidation rights. The liquidation preference entitles the holders of the Preferred Stock to receive $1,000 per share liquidation preference before any distribution is made on the Common Stock. After the liquidation preference, the holders of Preferred Stock are entitled to 99% of any remaining assets.

NOTE 8. RELATED PARTY TRANSACTIONS

PURCHASE OF MORTGAGE LOANS

During the three and six months ended June 30, 1999, RCF purchased $0 and $8 million, respectively, of commercial mortgage loans from Redwood Trust. Pursuant to the Master Forward Commitment Agreement, RCF purchased the Mortgage Loans from Redwood Trust at the same price for which Redwood Trust acquired the Mortgage Loans. Similarly, Redwood Trust purchased, or committed to purchase, $21 million and $24.0 million of commercial mortgage loans during the three and six months ended June 30, 1999, respectively. Under

the terms of the Master Forward Commitment Agreement, Redwood Trust committed to sell the Mortgage Loans to RCF during the second half of 1999.

During June 1999, Redwood Trust purchased $49 million of residential mortgage loans, and, pursuant to the terms of the Master Forward Commitment Agreement with RRF, committed to sell the Mortgage Loans to RRF during the third quarter of 1999.

OTHER

Under a revolving credit facility arrangement, Redwood Trust may loan funds to Holdings to finance certain Mortgage Assets owned by Holdings. These loans are typically unsecured and are repaid within six months. Such loans bear interest at a rate of 3.5% over the London Interbank Offered Rate ("LIBOR"). At June 30, 1999 and December 31, 1998, Holdings had borrowed $2.0 million and $6.5 million, respectively, from Redwood Trust in accordance with the provisions of this arrangement. These expenses are reflected as "Loans from Redwood Trust, Inc" on the Consolidated Statements of Operations.

Redwood Trust shares many of the operating expenses of Holdings, including personnel and related expenses, subject to full reimbursement by Holdings. During the three and six months ended June 30, 1999, $0.8 million and $1.5 million, respectively, of Holdings' operating expenses were paid by Redwood Trust. For both the three and six months ended June 30, 1998, Redwood Trust paid $0.7 million of Holdings' expenses.

Holdings may borrow under several of Redwood Trust's Short-Term Debt agreements as a co-borrower. As of June 30, 1999, Holdings had borrowings of $53.1 million subject to this arrangement. At December 31, 1998, Holdings had no outstanding borrowings under these agreements (see Note 4).

NOTE 9. COMMITMENTS AND CONTINGENCIES

At June 30, 1999, Holdings is obligated under non-cancelable operating leases with expiration dates through 2006. The future minimum lease payments under these non-cancelable leases are as follows: 1999 - $286,532; 2000- $578,526; 2001 - $545,360; 2002 - $377,848; 2003 - $355,950; 2004 through 2006 - $83,388.

Rent expense was $180,283 and $385,712 for the three and six months ended June 30, 1999. For both the three and six months ended June 30, 1998, rent expense was $53,467.

At June 30, 1999, RCF had entered into commitments to purchase $24 million of commercial Mortgage Loans from Redwood Trust for settlement during the second half of 1999. At June 30, 1999, RCF had also entered into a commitment to sell $0.3 million of commercial Mortgage Loans for settlement in July 1999.

At June 30, 1999, RFS had entered into a commitment to purchase $8 million of residential Mortgage Loans for settlement in July 1999.

At June 30, 1999, RRF had entered into a commitment to purchase $49 million of residential Mortgage Loans from Redwood Trust for settlement during the third quarter of 1999.

NOTE 10. SUBSEQUENT EVENT

On August 10, 1999, Holdings announced that it intends to merge the operations of RFS into RRF. As a result of this consolidation, Holdings currently expects to take a one-time third quarter restructuring charge of up to $2 million. This charge reflects costs to be incurred in connection with anticipated staff reductions, planned dispositions of certain facilities, premises and equipment, and other restructuring costs.

ITEM 2. REDWOOD TRUST, INC.

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., or "Redwood Trust", and our 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, we refer you to "Risk Factors" commencing on Page 16 of our 1998 Annual Report.

OVERVIEW

Redwood Trust, together with its affiliates, is a finance company specializing in real estate lending. Our primary activity is the financing of high-quality residential mortgage loans with funds raised through issuance of long-term debt. We also finance commercial mortgage loans and residential mortgage securities. Through our affiliate operations, we are developing the ability to create mortgage assets of significant value for our own portfolio and for sale to institutional mortgage investors.

Our mortgage finance activities are conducted through Redwood Trust, which is a qualified real estate investment trust ("REIT"). Generally, our REIT status allows us to avoid corporate income taxes by distributing to our shareholders an amount equal to at least 95% of taxable income. Our mortgage production activities are conducted through RWT Holdings, Inc. ("Holdings"), an affiliate of Redwood Trust. Earnings at Holdings are subject to regular corporate taxation. Redwood Trust owns a 99% economic interest in Holdings.

Holdings originates, acquires, aggregates and resells mortgage loans and securities. Holdings is a start-up business, and for the most part its most important operations are in their early stages of production or will start production in the third quarter of 1999. Holdings has been conducting its business through three wholly owned subsidiaries: Redwood Residential Funding, Inc., Redwood Commercial Funding, Inc., and Redwood Financial Services, Inc. On August 10, 1999, Holdings integrated the operations of its two residential mortgage production subsidiaries, Redwood Residential Funding and Redwood Financial Services. This integration will result in a reduction in overhead and a third quarter restructuring charge of up to $2 million. Redwood Residential Funding is the surviving enterprise. Holdings businesses will generally continue as before, but under the revised corporate structure.

<TABLE>
<CAPTION>

RESULTS OF OPERATIONS (IN THOUSANDS, EXCEPT SHARE DATE)	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 1999	JUNE 30, 1998	JUNE 30, 1999	JUNE 30, 1998
<S>	<C>	<C>	<C>	<C>
Mortgage Finance Income	$ 6,953	$ 777	$ 15,978	$ 3,914
Mortgage Production Income	(3,757)	(581)	(6,241)	(581)
Net Income	3,196	196	9,737	3,333
Preferred Dividends	(687)	(687)	(1,374)	(1,374)
Net Income to Common Shareholders	$ 2,509	$(491)	$ 8,363	$ 1,959
Earning Per Share	$ 0.25	$(0.03)	$ 0.79	$ 0.14
Common Dividends Per Share	$ 0.00	$0.01	$ 0.00	$ 0.28

</TABLE>

Income available to common shareholders totaled $2.5 million in the second quarter of 1999, or $0.25 per common share, as compared to a $0.5 million loss or $(0.03) per common share in the second quarter of 1998. Net income for the first half of 1999 was $8.4 million, or $0.79 per share. In the same period one year earlier, we earned $2.0 million, or $0.14 per share.

For more information, please visit our Web site on the Internet at: http://www.redwoodtrust.com.

FINANCIAL CONDITION

At June 30, 1999, our reported balance sheet had $2.2 billion of assets funded with $2.0 billion of borrowings and $242 million of equity. The portion of our balance sheet that is subject to recourse to Redwood Trust is $1.1 billion of assets, $0.9 billion of borrowings and $242 million of equity. The ratio of equity to recourse assets was 20.6%. The ratio of recourse liabilities to equity was 3.8 to 1.0.

Our $1.1 billion of non-recourse assets and liabilities are owned by our three Sequoia financing trusts. The Sequoia trusts are "bankruptcy-remote" with respect to Redwood Trust. Although the net earnings of the trusts accrue to Redwood Trust, Redwood Trust is not responsible for the repayment of Sequoia debt and Sequoia has no call on the liquidity of Redwood Trust. Our recourse exposure to Sequoia's mortgage assets is limited to our equity investments in these trusts. At June 30, 1999, these equity investments had a reported value of $35 million.

At December 31, 1998, we reported $2.8 billion in assets, of which $1.5 billion were recourse, and $2.6 billion of liabilities, of which $1.3 billion were recourse. Equity capital was $255 million. The ratio of equity to recourse assets was 16.7% and the ratio of recourse liabilities to equity was 4.9 to 1.0.

MORTGAGE LOANS: HELD FOR SALE

RESIDENTIAL

We owned $67 million residential mortgage loans at June 30, 1999. All these loans are carried on our balance sheet at the lower-of-cost-or-market. At December 31, 1998, we reported $266 million of residential mortgage loans in this category, of which $198 million were part of Sequoia Mortgage Trust 1 (see below) and $68 million were funded with short-term debt and equity.

COMMERCIAL

At June 30, 1999, we owned $20 million of commercial mortgage loans originated by Redwood Commercial Funding, Inc. and carried on our balance sheet as "Mortgage Loans: Held for Sale: Commercial". At December 31, 1998, we owned $8 million of commercial mortgage loans.

MORTGAGE LOANS: HELD FOR INVESTMENT

We own $1.1 billion of residential mortgage loans that are financed long-term through our financing subsidiary, Sequoia Mortgage Funding Corporation ("Sequoia"). The amount of Sequoia long-term debt outstanding amortizes as the underlying mortgages pay down. As the equity owner of these trusts, we are entitled to distributions of the net earnings of the trusts, which principally consist of the interest income earned from mortgages in each trust less the interest expense of the debt of each trust.

We currently have three series outstanding as discussed below. We consolidate the assets and liabilities of Sequoia on our balance sheet. Sequoia balance sheet components appear on our balance sheet as part of "Mortgage Loans: Held for Investment", "Restricted Cash", "Long-Term Debt", and "Accrued Interest Receivable".

SEQUOIA MORTGAGE TRUST 1

Sequoia Mortgage Trust 1, "Sequoia 1", owned $146 million in principal value of adjustable residential mortgage loans and $8 million of cash at June 30, 1999 funded with $149 million of floating-rate collateralized mortgage bonds.

Our credit risk with respect to these loans is limited to our investment in the equity of Sequoia 1. The reported basis of this investment was $7 million at June 30, 1999.

In May 1999, we effectively reduced the cost of our long-term financing arrangement for Sequoia 1's mortgage loans by exercising our right to call Sequoia 1's debt. We restructured Sequoia 1's debt and contributed the debt to Sequoia Mortgage Trust 1A ("Sequoia 1A"), a newly formed trust. Sequoia 1A issued lower-cost long-term debt collateralized by Sequoia 1 debt.

At December 31, 1998, the principal value of Sequoia 1's loans totaled $197 million. We also reported $13 million of cash owned by Sequoia 1 as "Restricted Cash". Total Sequoia 1 debt was $202 million.

SEQUOIA MORTGAGE TRUST 2

Sequoia Mortgage Trust 2, "Sequoia 2", owned $494 million of principal value of adjustable-rate residential mortgage loans at June 30, 1999 funded with $489 million of floating-rate collateralized mortgage bonds.

Our credit risk with respect to these loans is limited to our investment in the equity of Sequoia 2. The reported basis of this equity interest was $18 million.

We will have the right to call Sequoia 2's debt and re-acquire Sequoia 2's loans when the underlying mortgage loans collateral has been paid down to less than 25% of its initial balance. As of June 30, 1999, the balance was at 64% of its initial level and it most likely will be several years before we gain the right to call this debt.

At December 31, 1998, Sequoia 2's loans totaled $579 million and total Sequoia 2 debt was $571 million.

SEQUOIA MORTGAGE TRUST 3

Sequoia Mortgage Trust 3, "Sequoia 3", owned $439 million of principal value of residential mortgage loans at June 30, 1999 funded with $429 million of long-term debt. Both the mortgage loans and debt of Sequoia 3 are fixed rate until December 2002 and then become floating rate.

Our credit risk with respect to these loans is limited to our investment in the equity of Sequoia 3. This investment had a reported basis of $10 million.

We will have the right to call Sequoia 3's debt and re-acquire Sequoia 3's loans beginning in December 2002.

At December 31, 1998, Sequoia 3's loans totaled $540 million and total Sequoia 3 debt was $530 million.

MORTGAGE SECURITIES: TRADING

At June 30, 1999 and December 31, 1998, all our mortgage securities represented interests in pools of residential mortgage loans. Our mortgage securities portfolio is marked-to-market for income statement purposes except for the 1% of mortgage securities we own that is rated "A" or below. For the mark-to-market securities, the estimated bid-side market value was $0.9 billion at June 30, 1999. These appear on our balance sheet as "Mortgage Securities: Trading." We owned $1.3 billion in market value of these securities at December 31, 1998. For a discussion of our investments in lower-rated mortgage securities we refer you to the section titled "Mortgage Securities: Available for Sale" below.

At June 30, 1999, 51.6% of our mark-to-market residential mortgage securities portfolio consisted of residential adjustable-rate mortgage securities issued and credit-enhanced by Fannie Mae or Freddie Mac and effectively rated "AAA". These securities totaled $0.5 billion at June 30, 1999 and $0.6 billion at December 31, 1998.

At June 30, 1999, 38.5% of this residential mortgage securities portfolio consisted of residential adjustable-rate mortgage securities issued by private-label security issuers. These securities were credit-enhanced through subordination or other means and were rated "AAA" or "AA". The value of these securities was $0.4 billion at June 30, 1999 and $0.6 billion at December 31, 1998.

At June 30, 1999, 6.0% of this residential mortgage securities portfolio consisted of mortgage securities rated "AAA" or "AA" which were backed by home equity loans, or "HEL". The value of these securities was $56 million at June 30, 1999; floating-rate HEL securities were $55 million and fixed-rate HEL securities were $1

million. The value of these securities was $71 million at December 31, 1998; floating-rate HEL securities were $68 million and fixed-rate HEL securities were $3 million.

At June 30, 1999, 1.8% of this residential mortgage securities portfolio consisted of fixed-rate, private label collateralized mortgage obligations. These are commonly referred to as CMO's. They are rated "AAA" or "AA" and have average lives of 1 to 2 years. The value of these securities was $17 million at June 30, 1999 and $19 million at December 31, 1998.

At June 30, 1999, 1.3% of this residential mortgage securities portfolio consisted of fixed-rate, private label mortgage securities rated "AA" and backed by residential mortgage loans with loan-to-value ratios in excess of 100%. The value of these securities was $12 million at June 30, 1999 and $12 million at December 31, 1998.

At June 30, 1999, 0.8% of this residential mortgage securities portfolio consisted of floating-rate CMO's issued by Fannie Mae or Freddie Mac and effectively rated "AAA". These securities totaled $8 million at June 30, 1999 and $17 million at December 31, 1998.

At June 30, 1999, 0.03% of this residential mortgage securities portfolio consisted of interest-only mortgage securities rated "AAA" or "AA". The value of these securities was $0.2 million at June 30, 1999 and $0.4 million at December 31, 1998.

MORTGAGES SECURITIES: AVAILABLE FOR SALE

In 1994 and 1995, we acquired a portfolio of subordinated mortgage securities. These securities were interests in pools of residential mortgage loans that served as the credit-enhancement for the "AAA" and other securities issued from those pools. Through ownership of these securities, we assumed most of the credit risk of the underlying mortgage loans. These securities were either not rated or were rated "A" through "B". We sold these subordinated securities to a trust, SMFC 97-A, in December 1997. SMFC 97-A issued mortgage securities to fund its acquisition of this portfolio.

We acquired from SMFC 97-A certain subordinated interests. At June 30, 1999, these securities effectively bore most of the credit risk related to $0.4 billion of underlying mortgages. Changes in market valuations of SMFC 97-A are not included in our income statement as these assets are funded with equity. The reported value of SMFC 97-A was $7 million at June 30, 1999 and $8 million at December 31, 1998. Our credit risk from SMFC 97-A is limited to our investment.

In the second quarter of 1999, we resumed the acquisition of lower-rated mortgage securities with the acquisition of one fixed-rate security, rated "B", at a cost of $0.9 million. This security is reported at cost for income statement purposes with mark-to-market adjustments included on the balance sheet. We also began providing for potential credit losses from this security and we will continue to add to its credit reserve over time. At December 31, 1998, we did not own any such securities. We generally intend to acquire additional subordinated mortgage securities in the future, both from Holdings and from other mortgage market participants.

U.S. TREASURY SECURITIES

At December 31, 1998, we owned $48 million of ten-year U.S. Treasury securities as part of our asset/liability management and hedging program. We sold our ten-year U.S. Treasury securities during the first half of 1999.

CASH

We had $67 million of unrestricted cash at June 30, 1999 and $56 million at year-end 1998.

Sequoia owned cash totaling $8 million at June 30, 1999 and $13 million at year-end 1998. In consolidating Sequoia assets on our balance sheet, we reflect this cash as restricted cash since it will be used for the specific purpose of making payments to Sequoia bondholders and is not available for general corporate purposes.

INTEREST RATE AGREEMENTS

Our interest rate agreements are carried on our balance sheet at estimated market value, which was $2.7 million at June 30, 1999 and $2.5 million at December 31, 1998. Please see "Note 2. Summary of Significant Accounting Policies", "Note 7. Interest Rate Agreements" and "Note 10. Fair Value of Financial Instruments" in the Notes to Consolidated Financial Statements for more information.

INVESTMENT IN RWT HOLDINGS, INC.

We do not consolidate the assets and liabilities of Holdings on our balance sheet. We reflect the net book value of our individual investment in one line item on our balance sheet labeled "Investment in RWT Holdings, Inc."

Through June 30, 1999, we have invested $29.7 million in the preferred stock of Holdings. Our share of the operating losses at Holdings has reduced the carrying value of this investment. The carrying value was $18.8 million at June 30, 1999 and $15.1 million at December 31, 1998.

At June 30, 1999, our assets also included a loan to Holdings of $2.0 million and a receivable from Holdings of $0.2 million. At December 31, 1998, loans to Holdings totaled $6.5 million and receivables from Holdings were $0.4 million.

OTHER ASSETS

Our other assets include accrued interest receivables, other receivables, fixed assets, leasehold improvements and prepaid expenses. These totaled $15 million at June 30, 1999 and $21 million at December 31, 1998.

SHORT-TERM DEBT

Short-term borrowings totaled $923 million at June 30, 1999. We pledged a portion of our mortgage securities portfolio, mortgage loan portfolio, and other investments to secure this debt. Short-term debt totaled $1.3 billion at December 31, 1998. Maturities on this debt typically range from one month to one year. The interest rate on most of this debt typically adjusts monthly to a spread over or under the one month LIBOR interest rate.

LONG-TERM DEBT

At June 30, 1999, we had a total of $1.1 billion in long-term mortgage-backed debt outstanding, net of unamortized premiums on bonds and deferred bond issuance costs. Sequoia 1 debt of $149 million and Sequoia 2 debt of $489 million is floating rate debt. Sequoia 3 debt of $429 million is fixed-rate until December 2002 after which time it becomes floating rate debt.

At December 31, 1998, Sequoia 1 had $202 million, Sequoia 2 had $574 million, and Sequoia 3 had $530 million of long-term mortgage-backed debt outstanding net of unamortized premiums on bonds and deferred bond issuance costs, for a total outstanding of $1.3 billion.

Sequoia debt is non-recourse to Redwood Trust. The debt is consolidated on our balance sheet and is reflected as long-term debt, which is carried at historical amortized cost. The original scheduled maturity of this debt was approximately thirty years. Since these debt balances are retired over time as principal payments are received on the underlying mortgages, the expected average life of this debt is two to six years.

OTHER LIABILITIES

Our other liabilities include accrued interest payable, accrued expenses, and dividends payable. The net balance of these accounts totaled $9 million at June 30, 1999 and $15 million at December 31, 1998. Most of the accrued interest payable is related to the Sequoia trusts discussed above.

STOCKHOLDERS' EQUITY

Total equity capital was $242 million at June 30, 1999. Preferred stock equity was $27 million. Reported common equity totaled $215 million, or $21.64 per common share outstanding.

In reporting equity at June 30, 1999, we marked-to-market all earning assets and interest rate agreements except mortgage loans that were financed to maturity (Sequoia). In accordance with Generally Accepted Accounting Principles, no liabilities were marked-to-market.

If we had marked-to-market all of our assets and liabilities, equity capital would have been reported as $241 million at June 30, 1999. After subtracting out the preference value of the preferred stock, common equity on a full mark-to-market basis was $214 million and the net mark-to-market value per common share was $21.56.

Reported equity capital was $255 million at December 31, 1998. Reported common equity was $228 million, or $20.27 per common share outstanding. Mark-to-market common equity was $220 million, or $19.53 per common share.

Real shareholder wealth increased from $19.53 to $21.56 per share, an increase of 10% or $2.03 per share, during the first half of 1999 due to net asset appreciation, retained earnings, and the effects of our stock repurchase program.

We acquired 1,334,200 shares of our common stock in the first half of 1999 at an average price of $15.01 per share. In the third quarter of 1999 through August 10, 1999, we acquired an additional 521,100 shares at an average price of $16.62 per share.

RESULTS OF OPERATIONS

Our operating results include all of the reported income of our mortgage finance operations plus, as one line item on our income statement, 99% of the after-tax results of mortgage production operations at Holdings. Detailed results at Holdings are discussed separately below.

INTEREST INCOME

In the second quarter of 1999, interest income generated by our mortgage finance operations, including consolidated Sequoia assets, was $36 million. Our portfolio had average earning assets of $2.2 billion and earned an average yield of 6.54%. During this quarter, the average coupon rate, or the cash-earning rate on mortgage principal, was 6.82%. The reported value of assets included a net purchase premium of 0.80% of mortgage principal totaling $17 million. We write off this premium balance as an expense over the life of the asset. Net premium amortization expense for the quarter was $1.6 million, which reduced earning asset yield by 0.23%. The prepayment rate on our mortgage assets, which drives the rate at which we write off premium balances, was at a 30% Conditional Prepayment Rate ("CPR") during the quarter. Other factors reduced the earning asset yield by 0.05%.

In the first quarter of 1999, interest income was $42 million. Our portfolio had average earning assets of $2.6 billion and earned an average yield of 6.55%. The coupon rate was 6.99%. The reported value of assets included a 0.71% net premium, or $18 million. Net premium amortization expense was $2.3 million, which reduced earning asset yield by 0.37%. Prepayments during the quarter were at a 33% CPR. Other factors reduced the earning asset yield by 0.07%.

Interest income declined from the first quarter of 1999 to the second quarter of 1999 as we continued reducing our earning asset balances in order to free capital to fund the start-up operations at Holdings and to support our stock repurchase program. Earning asset yields remained stable as lower coupon rates were offset by the effect of slower prepayment rates.

In the second quarter of 1998, interest income was $54 million. The portfolio had average earning assets of $3.5 billion and earned an average yield of 6.10%. The coupon rate was 7.52%. The reported value of assets included 1.98% of net premium, or $68 million. Net premium amortization expense was $11.0 million, which reduced earning asset yield by 1.26%. Prepayments during the quarter were at a 34% CPR. Other factors reduced the earning asset yield by 0.16%.

From the second quarter of 1998 to the second quarter of 1999, we reduced our earning asset balances in order to reduce our exposure to accelerating mortgage prepayment rates, free capital to fund the start-up operations at Holdings and fund our stock repurchases. In the third quarter of 1998, we began reporting many of our assets at market value for income statement purposes. This served to decrease our outstanding premium balance thereby reducing the effect prepayments had on our earning asset yields.

In the first six months of 1999, interest income was $78 million. The portfolio had average earning assets of $2.4 billion and earned an average yield of 6.54%. The coupon rate was 6.92%. The reported value of assets included a 0.75% net premium, or $17 million. Net premium amortization expense was $3.9 million, which reduced earning asset yield by 0.30%. Prepayments during the period were at a 31% CPR. Other factors reduced the earning asset yield by 0.08%.

In the first six months of 1998, interest income was $108 million. The portfolio had average earning assets of $3.4 billion and earned an average yield of 6.29%.

The coupon rate was 7.58%. The reported value of assets included a 2.09% net premium, or $69 million. Net premium amortization expense was $19.2 million, which reduced earning asset yield by 1.13%. Prepayments during the period were 30% CPR. Other factors reduced the earning asset yield by 0.16%.

INTEREST EXPENSE

Interest expense in the second quarter of 1999 was $29 million. We funded our mortgage finance portfolio and other assets with an average of $243 million of equity and $2.1 billion of borrowings, including consolidated Sequoia debt. We paid an average cost of funds of 5.55% for these borrowings. Short-term debt averaged 46% of total debt and cost us 5.07%. Long-term debt averaged 54% of total debt and cost us 5.96%.

In the first quarter of 1999, interest expense was $33 million. We funded our mortgage finance portfolio with an average of $250 million of equity and $2.4 billion of borrowings. We paid an average cost of funds of 5.59% for these borrowings. Short-term debt averaged 48% of total debt and cost us 5.12%. Long-term debt averaged 52% of total debt and cost us 6.03%.

From the first quarter of 1999 to the second quarter of 1999, total interest expense decreased as the size of our portfolio has decreased. Our cost of funds fell slightly as the average short-term rates declined. We refinanced the long-term debt of Sequoia 1; this also contributed to a lower overall cost of funds.

In the second quarter of 1998, interest expense was $50 million. We funded our mortgage finance portfolio with an average of $329 million of equity and $3.3 billion of borrowings. We paid an average cost of funds of 6.06% for these borrowings. Short-term debt averaged 68% of total debt and cost us 5.88%. Long-term debt averaged 32% of total debt and cost us 6.45%.

From the second quarter of 1998 to the second quarter of 1999, total interest expense was lower due to a reduction in the size of the portfolio. The cost of funds decreased as short-term interest rates fell. Our borrowing costs did not fall by the full amount of the decrease in short-term interest rates during this period, as we utilized an increasing percentage of more expensive long-term debt.

In the first six months of 1999, interest expense was $62 million. We funded our portfolio with an average of $247 million of equity and $2.2 billion of borrowings. We paid an average cost of funds of 5.58% for these borrowings. Short-term debt averaged 47% of total debt and cost us 5.10%. Long-term debt averaged 53% of total debt and cost us 6.00%.

In the first six months of 1998, interest expense was $96 million. We funded our mortgage finance portfolio with an average of $329 million of equity and $3.2 billion of borrowings. We paid an average cost of funds of 6.04% for these borrowings. Short-term debt averaged 66% of total debt and cost us 5.83%. Long-term debt averaged 34% of total debt and cost us 6.44%.

INTEREST RATE AGREEMENTS EXPENSE

We hedge using interest rate agreements in order to strengthen our balance sheet, increase liquidity, and dampen potential earnings volatility. Net interest rate agreements expense was $0.7 million in the second quarter of 1999, or 0.14% of average borrowings. In the first quarter of 1999, interest rate agreement expense was $0.3 million or 0.06% of average borrowings. In the second quarter of 1998, interest rate agreement expense was $1.6 million or 0.19% of average borrowings.

In adopting mark-to-market accounting for our interest rate agreements in the third quarter of 1998 through the early adoption of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, we wrote down our basis in our interest rate agreements. This market value adjustment had the effect of reducing interest rate agreement amortization expense on an on-going basis. Total interest rate agreement expense has also fallen as the size of our balance sheet decreased. We refer you to "Note 7. Interest Rate Agreements" in the Notes to Consolidated Financial Statements for additional details.

Net interest rate agreements expense was $1.1 million in the first six months of 1999, or 0.19% of average borrowings. In the first six months of 1998, interest rate agreements expense was $3.0 million or 0.10% of average borrowings.

NET INTEREST INCOME

Net interest income, which equals interest income less interest expense less interest rate agreements expense, was $6.8 million in the second quarter of 1999. Our interest rate spread, which equals the yield on earning assets less the cost of funds and hedging, was 0.85%. Our net interest margin, which equals net interest income divided by average assets, was 1.18% during this period.

In the first quarter of 1999, net interest income was $7.9 million, the interest rate spread was 0.90%, and the net interest margin was 1.19%. Net interest income was lower in the second quarter of 1999 than in the first quarter of 1999 due to a lower average portfolio balance during the later period.

In the second quarter of 1998, net interest income was $2.0 million, the interest rate spread was negative 0.15%, and the net interest margin was 0.22%. Our spread and margin increased in 1999 due to our efforts to reduce mortgage prepayment risk.

In the first six months of 1999, net interest income was $14.7 million, the interest rate spread was 0.87%, and the net interest margin was 1.19. In the first six months of 1998, net interest income was $8.4 million, the interest rate spread was 0.06%, and the net interest margin was 0.47%.

NET UNREALIZED AND REALIZED GAINS AND LOSSES ON ASSETS

In the second quarter of 1999, the net appreciation income on our portfolio assets that were marked-to-market for income statement purposes was $1.4 million. This net gain consisted of a $0.4 million market value gain on mortgage assets, a $1.4 million market value loss on U.S. Treasury securities, and a $2.4 million market value gain on interest rate agreements. Market values for our assets changed as interest rates rose and anticipated future prepayments speeds fell.

In the first quarter of 1999, total net asset appreciation income was $2.2 million. This included a $4.9 million gain on mortgage assets, a $1.9 million loss on U.S. Treasury securities, and a $0.8 million market value loss on interest rate agreements.

In the second quarter of 1998, we had not yet adopted mark-to-market accounting. As a result, most of the unrealized market value gains and losses incurred during that quarter were not recognized in earnings. Since we did not sell any assets in this quarter, there were no realized gains or losses during the period.

In the first six months of 1999, the net gain on asset market valuations was $3.6 million. In the first six months of 1998, prior to adopting mark-to-market accounting, asset value losses were $0.7 million.

PROVISION FOR CREDIT LOSSES

In the second quarter of 1999, credit provisions were $0.4 million. In the first quarter of 1999, credit provisions totaled $0.3 million. In the second quarter of 1998, credit provisions were $0.8 million. Actual realized credit losses totaled $0.1 million in the second quarter of 1999, $0.1 million in the first quarter of 1999 and $0.3 million in the second quarter of 1998.

In the first six months of 1999, total credit provisions were $0.7 million. In the first six months of 1998, total credit provisions were $1.4 million. Credit provision expenses have declined over time as the portfolio of assets requiring such reserve has decreased in size from mid-1998 to mid-1999.

We establish a credit reserve through credit provisions to cover estimated future losses from mortgage loans and securities. We take these provisions for residential mortgage loans held for investment and for mortgage securities rated lower than "BBB".

OPERATING EXPENSES

In the second quarter of 1999, total operating expenses for our mortgage finance operations were $0.9 million. Total operating expenses for the first quarter of 1999 were $0.7 million. Total operating expenses for the second quarter of 1998 were $0.6 million.

On-going operating expenses as a percentage of assets were 0.16% in the second quarter of 1999, 0.11% in the first quarter of 1999, and 0.06% in the second quarter of 1998. Operating expenses as a percentage of equity were 1.54% in the second quarter of 1999, 1.14% in the first quarter of 1999, and 0.69% in the second quarter of 1998. These ratios have increased over time as we have decreased the size of our portfolio and reduced our equity through the repurchase of stock. In addition, operating expenses have risen as we prepare for future growth.

Total operating expenses for the mortgage finance operations for the first six months of 1999 were $1.7 million. Total operating expenses for the first six months of 1998 were $2.5 million.

Operating expenses as a percentage of assets were 0.13% in the first six months of 1999 and 0.14% in the first six months of 1998. Operating expenses as a percentage of equity were 1.47% in the first six months of 1999, and 1.34% in the first six months of 1998.

NET EARNINGS FROM MORTGAGE FINANCE OPERATIONS

Net earnings from mortgage finance operations, which equals net operating revenue less operating expenses, were $7.0 million in the second quarter of 1999. In the first quarter of 1999, net earnings were $9.0 million. In the second quarter of 1998, net earnings were $0.8 million.

In the first six months of 1999, net earnings totaled $16.0 million. In the first six months of 1998, net earnings were $3.9 million.

EQUITY IN EARNINGS (LOSSES) OF RWT HOLDINGS, INC.

Our share of the losses generated by start-up operations at Holdings, our mortgage production affiliate, was $3.8 million in the second quarter of 1999. We recognized losses from Holdings of $2.5 million in the first quarter of 1999 and a loss of $0.6 million in the second quarter of 1998.

In the first six months of 1999, our share of losses from Holdings was $6.3 million. During the first six months of 1998, our share of losses was $0.6 million.

We refer you to Holdings' "Consolidated Financial Statements and Notes" and Holdings' "Management's Discussion and Analysis" below for more information on Holdings.

NET INCOME

Net income for all of our operations was $3.2 million in the second quarter of 1999. After preferred dividends of $0.7 million, net income available to common stockholders was $2.5 million.

In the first quarter of 1999, net income from all of our operations was $6.6. After preferred dividends of $0.7 million, net income available to common shareholders was $5.9 million.

In the second quarter of 1998, our net income was $0.2 million. After preferred dividends of $0.7 million, the net loss was $0.5 million.

In the first six months of 1999, net income for all of our operations was $9.7 million. After preferred dividends of $1.4 million, net income available to common stockholders was $8.4 million.

In the first six months of 1998, net income for all of our operations was $3.3 million. After preferred dividends of $1.4 million, net income available to common stockholders was $2.0 million.

EARNINGS PER SHARE

Average diluted common shares outstanding were 10.2 million in the second quarter of 1999, 10.9 million in the first quarter of 1999, and 14.3 million in the second quarter of 1998. Diluted earnings per share were $0.25 in the second quarter of 1999, $0.54 in the first quarter of 1999, and negative $0.03 in the second quarter of 1998.

Average diluted common shares outstanding were 10.5 million in the first six months of 1999 compared to 14.4 million in the first six months of 1998. Diluted earnings per share were $0.79 in the first six months of 1999 and $0.14 in the first six months of 1998.

Shares outstanding declined as a result of our common stock repurchase program.

DIVIDENDS

We paid no common stock dividends for the first half of 1999. We paid common stock dividends totaling $0.28 per share in the first six months of 1998.

Under the minimum REIT dividend distribution rules, we were not required to declare a common stock dividend in the first or second quarter of 1999. While we had more than ample liquidity and balance sheet strength to pay a dividend in those quarters, we chose to retain our capital for use in our operations and our common stock repurchase program.

RISK MANAGEMENT

MARKET VALUE RISK

The market value of our assets can fluctuate due to changes in interest rates, prepayment rates, liquidity, financing, supply and demand, credit and other factors. These fluctuations affect our earnings.

At June 30, 1999, we owned mortgage securities and loans totaling $1.0 billion that we account for on a mark-to-market basis or, in the case of mortgage loans, on a lower-of-cost-or-market basis. Of these assets, 92% had adjustable-rate coupons and 8% had fixed-rate coupons.

Our interest rate agreements hedging program may offset some asset market value fluctuations due to interest rate changes. All of our $4 billion in notional amounts of interest rate agreements are marked-to-market for income statement purposes.

Market value fluctuations of as assets and interest rate agreements, especially to the extent assets are funded with short-term borrowings, can also affect our access to liquidity.

INTEREST RATE RISK

At June 30, 1999, we, including Sequoia, owned $2.2 billion of assets and had $2.0 billion of liabilities. The majority of the assets are adjustable-rate, as are a majority of the liabilities.

Fixed-rate assets and hybrid mortgage assets (with fixed-rate coupons for 3 to 7 years and adjustable-rate coupons thereafter) totaled $0.5 billion, or 25% of total assets. We had debt that had interest rate reset characteristics matched to these hybrid mortgages totaling $0.4 billion.

We owned interest rate agreements with a notional face of $4 billion.

On average, our cost of funds has the ability to rise or fall more quickly as a result of changes in short-term interest rates than does our earning rate on the assets. In the case of a large increase in short-term interest rates, periodic and lifetime caps for a portion of our assets could limit increases in interest income. The risk of reduced earnings in a rising interest rate environment is mitigated to some extent by our interest rate agreements hedging program.

Our net income may vary somewhat as the yield curve between one-month interest rates and six- and twelve-month interest rates varies. At June 30, 1999, we effectively owned $0.8 billion of adjustable-rate mortgages assets with interest rates that adjust every six or twelve months off of interest rates of the same maturity funded with $0.8 billion of our debt that has an interest rate that adjusts monthly off of one-month LIBOR interest rates.

Adjustable-rate assets with earnings rates dependent on U.S. Treasury rates totaled $0.6 billion at June 30, 1999. Liabilities with a cost of funds dependent on U.S. Treasury rates totaled $0.4 billion at that time. As part of our hedging program, we also had $0.3 billion notional amount of basis swaps that, in effect, increased our U.S. Treasury-based liabilities to $0.7 billion. Thus, at June 30, 1999, we had little earnings risk with respect to the risk of U.S. Treasury rates deviating from LIBOR market rates.

Changes in interest rates affect prepayment rates (see below) and influence other factors that may affect our results.

LIQUIDITY RISK

Our primary liquidity risk arises from financing long-term mortgage assets with short-term debt. Even if the interest rate adjustments of these assets and liabilities are well matched, maturities may not be matched. In addition, trends in the liquidity of the U.S. capital markets in general may affect our ability to roll-over short-term debt.

The assets that we pledge to secure short-term borrowings are high-quality, liquid assets. As a result, we have not had difficulty refinancing our short-term debt as it matures, even during the financial market liquidity crisis in late 1998. Still, changes in the market values of our assets, in our perceived credit worthiness, and in the capital markets, can impact our access to liquidity.

At June 30, 1999, we had $134 million of highly liquid assets which were unpledged and available to meet margin calls on short-term debt that could be caused by asset value declines or changes in lender over-collateralization requirements. These assets consisted of unrestricted cash and unpledged "AAA" rated mortgage securities. Total available liquidity equaled 15% of our short-term debt balances.

We have entered into borrowings with maturities beyond December 31, 1999 which fund the substantial majority of our assets in order to avoid the need to roll-over debt in advance of the beginning of the Year 2000.

PREPAYMENT RISK

As we receive repayments of mortgage principal, we amortize into income our mortgage premium balances as an expense and our mortgage discount balances as income. Mortgage premium balances arise when we acquire mortgage assets at a price in excess of the principal value of the mortgages. Premium balances are also created when an asset appreciates and is marked-to-market at a price above par. Mortgage discount balances arise when

we acquire mortgage assets at a price below the principal value of the mortgages, or when an asset depreciates in market value and is marked-to-market at a price below par. At June 30, 1999, mortgage premium balances were $26 million and mortgage discount balances were $12 million. Net mortgage premium was $14 million.

Sequoia's long-term debt has associated deferred bond issuance costs. These capitalized costs are amortized as an expense as the bonds are paid off with mortgage principal receipts. These deferred costs totaled $3 million at June 30, 1999. In addition, premium received from the issuance of bonds at prices over principal value is amortized as income as the bond issues pay down. These balances totaled $5 million at June 30, 1999. The combined effect of these two items was to reduce our effective mortgage-related premium by $1 million.

Our net premium at June 30, 1999 for assets and liabilities affected by the rate of mortgage principal receipts was $13 million. This net premium equaled 5.2% of total common equity. Amortization expense and income will vary as prepayment rates on mortgage assets vary. In addition, changes in prepayment rates will effect the market value of our assets and our earnings. Changes in the value of our assets, to the extent they are incorporated into the basis of our assets, will also affect future amortization expense.

CREDIT RISK

Our principal credit risk comes from mortgage loans owned by Sequoia, mortgage loans held in portfolio, and our lower-rated mortgage securities. We also have credit risk with counter-parties with whom we do business.

Not including Sequoia, we owned $67 million in residential mortgage loans at June 30, 1999. Of these, $0.4 million were seriously delinquent (delinquent over 90 days, in foreclosure, in bankruptcy, or real estate owned). We also owned $20 million in commercial mortgage loans. These commercial mortgage loans were all current at June 30, 1999.

The three Sequoia trusts owned $1.1 billion in residential mortgage loans at June 30, 1999. Our total credit risk from these trusts is limited to our equity investment in these trusts. These equity investments had a reported value of $35 million at June 30, 1999. At that time, $6.3 million of the underlying loans, or 0.58%, were seriously delinquent.

At June 30, 1999, we had $4.5 million loan of credit reserves to provide for potential future credit losses from our mortgage loans. Total seriously delinquent loans had a loan balance of $6.7 million. To date, our realized credit losses from defaulted residential mortgage loans have averaged 8% of the loan balance of the defaulted loans. Loss severity may increase in the future, however, particularly if real estate values decline.

We believe our current level of reserve and credit provision policy is reasonable and we will continue to increase our credit reserve over time in anticipated of future potential losses.

At June 30, 1999, we also had $1.0 million credit reserves for our lower rated mortgage securities. Our total potential credit exposure from these securities (after this credit reserve) was $8 million. We believe this reserve is likely to be sufficient to cover currently foreseen credit losses. As we acquire additional subordinated securities, we will continue to build up this reserve in anticipation of future potential losses.

CAPITAL RISK

Our capital levels, and thus our access to borrowings and liquidity, may be tested, particularly if the market value of our assets securing short-term borrowings declines.

Through our risk-adjusted capital policy, we assign a guideline capital adequacy amount, expressed as a guideline equity-to-assets ratio, to each of our mortgage assets. For short-term funded assets, this ratio will fluctuate over time, based on changes in that asset's credit quality, liquidity characteristics, potential for market value fluctuation, interest rate risk, prepayment risk, and the over-collateralization requirements for that asset set by our collateralized short-term lenders. Capital requirements for equity interests in Sequoia trusts and for lower rated mortgage securities generally equal our net investment. The sum of the capital adequacy amounts for all of our mortgage assets is our aggregate guideline capital adequacy amount.

The total guideline equity-to-assets ratio capital amount has declined over the last few years as we have eliminated some of the risks of short-term debt funding through issuing long-term debt. In the most recent quarters, however, the total guideline ratio has increased as we have acquired new types of assets such as commercial loans.

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

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

Growth in assets and earnings may be limited when our access to new equity capital is limited. Holdings can benefit over time from the re-investment of retained earnings at Holdings. Our mortgage finance operations, however, are generally required to distribute at least 95% of taxable income as dividends.

INFLATION RISK

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

Our financial statements are prepared in accordance with Generally Accepted Accounting Principles and our dividends are generally determined based on our REIT net income as calculated for tax purposes. In each case, our activities and balance sheet are measured with reference to historical cost or fair market value without considering inflation.

YEAR 2000 READINESS DISCLOSURE

In 1998, we established a Year 2000 Project. The goal of this on-going project is to ensure that our communications, data, and information systems are ready for the Year 2000 and to employ prudent management to minimize any potential negative impact of the Year 2000 on our business partners and our investors. Senior management has taken an active role in the Year 2000 Project and provides updates to the Board of Directors as necessary.

Our definition of "Readiness for the Year 2000" includes testing 100% of our internal systems (hardware and software) to ensure that Year 2000 dates are retained and correctly roll from December 31, 1999 to January 1, 2000 and from February 28, to February 29, to March 1, 2000. It also includes having an enterprise-wide contingency and disaster recovery plan for any known Year 2000 issues (and to the extent possible, other unforeseeable circumstances).

Our project management strategies include system risk assessment, system upgrades or workarounds, and contingency planning. We believe we are devoting the necessary resources to address all appropriate Year 2000 issues. We do not currently anticipate incurring costs related to the Year 2000 issue that would be material to our financial position, results of operations, or cash flows in future periods.

We commenced operations within the past five years and have built our internal systems on a client-server model. Thus, we are not aware of any internal "legacy" computer systems or software issues.

Existing internal computer systems have been successfully tested and any additions to the existing systems and new systems are tested upon installation. Hardware testing included forward date testing of the December 31, 1999 to

January 1, 2000 rollover and leap year 2000. Critical software applications used to manage our businesses were also successfully tested.

As systems are modified or new hardware or software systems are implemented in the normal course of business, our policy is to receive certification of Year 2000 compliance and to test for Year 2000 compliance upon installation.

We continue to gather and assess information regarding our business partners' Year 2000 readiness. We solicited Year 2000 disclosures directly through our own questionnaire and initiated direct discussions with certain key business partners. A majority of questionnaire responses was received prior to July 1999. No significant year 2000 issues have been identified through this process. We will continue to monitor public disclosures by key business partners into the Year 2000.

Business partners that provide information or services through externally controlled or externally coordinated systems have been identified. Joint testing of certain systems has been initiated. External joint testing is targeted for completion by September 30, 1999.

We, together with our affiliates, are developing contingency plans and workaround systems for critical systems. Workarounds may include substituting compliant business partners for those who are non-compliant. The benefit of this contingency plan is likely to be limited due to our lack of control on external vendors and inability to replace certain business partners efficiently.

We believe we are devoting the necessary technical and management resources to address the Year 2000 issues over which we have control. While it is inherently difficult to assess the impact our vendors and their vendors may have on us in the event they are unable to successfully manage their own year 2000 issues, we believe we are on plan to reach our Year 2000 Project goals by October 1999.

RWT HOLDINGS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

RWT Holdings, Inc., or "Holdings" was incorporated in Delaware in February 1998 and commenced operations on April 1, 1998. Holdings' start-up operations have been funded primarily by Redwood Trust, which has a significant investment in Holdings through the ownership of all of Holdings' preferred stock. We refer you to "Note 1. The Company" in the Notes to the Consolidated Financial Statements of RWT Holdings, Inc. and Subsidiaries for additional information on Holdings' initial capitalization.

At June 30, 1999, Holdings owned $13 million of residential mortgage loans, $8 million of commercial mortgage loans, and $42 million of residential mortgage securities. Holdings also had $9 million in cash and $4 million in other assets, for total assets of $76 million. Holdings had commitments to acquire $24 million of commercial loans and $49 million of residential mortgage loans from Redwood Trust.

The loans owned by Holdings were funded with short-term borrowings and equity. Short-term debt was $53 million, loans from Redwood Trust were $2 million, and other liabilities totaled $2 million. Total equity at June 30, 1999 was $19 million.

At December 31, 1998, Holdings owned $12 million of residential mortgage loans, $10 million in cash, and $1 million in other assets, for total assets of $23 million. Loans from Redwood Trust totaled $7 million and other liabilities were $1 million. Equity at this time totaled $15 million.

In the second quarter of 1999, net operating revenue totaled $0.4 million, including interest income of $1.0 million, net asset appreciation income of $0.1 million, and interest expenses of $0.7 million. Operating expenses at Holdings totaled $4.2 million in the second quarter of 1999. Holdings' net loss in the second quarter of 1999 was $3.8 million.

In the first quarter of 1999, net operating revenue totaled $0.4 million, including interest income of $1.0 million, net asset appreciation income of $0.1 million, and interest expenses of $0.7 million. In the first quarter of 1999, operating expenses at Holdings totaled $3.3 million and Holdings' net loss was $2.5 million.

In the second quarter of 1998, net operating revenue totaled $0.2 million, including interest income of $2.9 million, minimal net asset appreciation income, and interest expenses of $2.7 million. In the second quarter of 1998, operating expenses at Holdings totaled $0.8 million and Holdings' net loss was $0.6 million.

In the first six months of 1999, net operating revenue totaled $1.2 million, including interest income of $1.5 million, net asset appreciation income of $0.6 million, and interest expenses of $1.0 million. Operating expenses at Holdings totaled $7.5 million in the first six months of 1999. Holdings' net loss during this six-month period was $6.3 million.

In the first six months of 1998, net operating revenue totaled $0.2 million, including interest income of $2.9 million, minimal net asset appreciation income, and interest expenses of $2.7 million. In the first six months of 1998, operating expenses at Holdings totaled $0.8 million and Holdings' net loss was $0.6 million.

Holdings pre-tax loss as reported for GAAP currently equals its after-tax loss. Due to the start-up nature of its operations, Holdings is not able to accrue a tax benefit relating to its operating losses for GAAP at this time. Each of the Holdings' operations is still in start-up mode. Holdings currently expects these operations to become profitable in the first half of year 2000.

On August 10, 1999, we announced our intention to consolidate the operations of our two residential mortgage production subsidiaries, RFS and RRF. The sales, marketing, trading, technology, and securitization operations of these two units will be integrated together. Overall headcount will be reduced. In connection with this consolidation, Holdings expects to take a restructuring charge of up to $2 million in the third quarter of 1999.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

At June 30, 1999, there were no pending legal proceedings to which the Company was a party or of which any of its property was subject.

Item 2. Changes in Securities

In May, 1999, the Bonds issued pursuant to the Indenture, dated as of June 1, 1997, between Sequoia Mortgage Trust 1 and First Union National Bank, as Trustee, were redeemed, restructured and contributed to Sequoia Mortgage Trust 1A, interests in which were then privately placed with investors.

Item 3. Defaults Upon Senior Securities

Not applicable

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

(a) The Annual Meeting of Shareholders of the Company was held on May 6, 1999.

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

<TABLE>
<CAPTION>

	Votes For	Votes Against	Votes Abstain
<S>	<C>	<C>	<C>
1. Election of Directors			
Thomas F. Farb	9,746,601	1,000	--
Douglas B. Hansen	9,747,601	--	--
Charles J. Toeniskoetter	9,688,701	58,900	--
Thomas C. Brown	9,746,099	1,502	--

</TABLE>

The following Directors' terms of office continue after the meeting:
George E. Bull
Mariann Byerwalter
Dan A. Emmett
Nello Gonfiantini

<TABLE>
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Votes

	For	Against	Abstain
2. Approval of amendment to the Company's Stock Option Plan.	8,982,773	747,722	59,028

	Votes		
	For	Against	Abstain
3. Ratification of PricewaterhouseCoopers LLP as the Company's independent public accountants for the fiscal year ending December 31, 1999.	9,765,618	12,131	11,774

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 4.4 - In May, 1999, the Bonds issued pursuant to the Indenture, dated as of June 1, 1997, between Sequoia Mortgage Trust 1 and First Union National Bank, as Trustee, were redeemed, restructured and contributed to Sequoia Mortgage Trust 1A, interests in which were then privately placed with investors.

Exhibit 4.4.2 - Sequoia Mortgage Trust 1A Trust Agreement, dated as of May 4, 1999 between Sequoia Mortgage Trust 1 and First Union National Bank.

Exhibit 11.1 to Part I - Computation of Earnings Per Share for the three and six months ended June 30, 1999 and June 30, 1998.

Exhibit 27 - Financial Data Schedule

(b) Reports

None

SIGNATURES

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

REDWOOD TRUST, INC.

Dated: August 10, 1999

By: /s/ Douglas B. Hansen

Douglas B. Hansen
President

(authorized officer of registrant)

Dated: August 10, 1999 By: /s/ Martin S. Hughes

Martin S. Hughes
Chief Financial Officer
(principal accounting officer)

REDWOOD TRUST, INC.
INDEX TO EXHIBIT

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<CAPTION>

Exhibit Number		Sequentially Numbered Page
<S>	<C>	<C>
4.4.2	Sequoia Mortgage Trust 1A Trust Agreement, dated as of May 4, 1999 between Sequoia Mortgage Trust 1 and First Union National Bank............	49
11.1	Computations of Earnings per Share..	98
27	Financial Data Schedule..	100

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EXHIBIT 4.4.2
EXECUTION

SEQUOIA MORTGAGE TRUST 1,

DEPOSITOR

AND

FIRST UNION NATIONAL BANK,

TRUSTEE

TRUST AGREEMENT

Dated May 4, 1999

$157,266,300

Mortgage Bond-Backed Certificates

Series 1999-A

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This Trust Agreement (this "Agreement"), dated May 4, 1999, is between SEQUOIA MORTGAGE TRUST 1, a Delaware business trust, as Depositor (the "Depositor"), and FIRST UNION NATIONAL BANK, a national banking association, as Trustee (the "Trustee").

WITNESSETH THAT:

In consideration of the mutual agreements herein contained, the Depositor and the Trustee agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions. Whenever used in this Agreement, the following words and phrases, unless the context otherwise requires, shall have the following meanings:

Accrual Period: With respect to any Distribution Date, the one-month period beginning on the immediately preceding Distribution Date and ending on the day immediately preceding the related Distribution Date.

Administrator: Norwest Bank Minnesota, N.A., as administrator under the Bond and Tax Administration Agreement, dated as of May 4, 1999, by and among the Depositor, the Company, Redwood Trust, the Trustee and the Administrator.

Available Interest Amount: With respect to any Distribution Date, the total amount paid in respect of interest on the Underlying Bonds on such Distribution Date.

Available Principal Amount: With respect to any Distribution Date, the total amount paid in respect of principal on the Underlying Bonds on such Distribution Date.

Book-Entry Certificate: Any Certificate registered in the name of the Depository or its nominee, ownership of which is reflected on the books of the Depository or on the books of a Person maintaining an account with such Depository (directly or as an indirect participant in accordance with the rules of such Depository).

Business Day: Any day other than a Saturday, Sunday or a day on which banking or savings institutions in the city and state in which the Trustee's Corporate Trust Office (or, if different, the corporate trust office of the Underlying Trustee) is located or in the State of Maryland or in New York, New York are authorized or obligated by law or executive order to be closed.

Carryforward Interest: With respect to any Distribution Date and each Class of Certificates, the sum of (a) the amount, if any, by which (i) the sum of (x) Current Interest for such Class for the immediately preceding Distribution Date and (y) any Unpaid Carryforward Interest for such Class for such immediately preceding Distribution Date exceeds (ii) the amount distributed in respect of interest on such Class on such immediately preceding Distribution Date and (b) accrued interest thereon at the applicable Interest Rate.

Certificate: Any one of the Certificates, each evidencing an undivided percentage ownership interest in the Trust Fund and executed by the Trustee, in substantially the form set forth in Exhibit A hereto.

Certificate Account: The trust account created and maintained with the Trustee pursuant to Section 3.01 and referred to therein as the Certificate Account. Funds deposited in the Certificate Account shall be held in trust for the Certificateholders for the uses and purposes set forth in Article III hereof.

Certificate Owner: With respect to any Book-Entry Certificate, the Person that is the beneficial owner thereof.

Certificate Register: Shall have the meaning provided in Section 4.02.

Certificateholder or Holder: The person in whose name a Certificate is registered in the Certificate Register, except that, solely for the purpose of giving any consent pursuant to this Agreement (except for any consent pursuant to Section 7.01), any Certificate registered in the name of the Depositor or the Trustee or any affiliate of either shall be deemed not to be outstanding.

Class: Collectively, all of the Certificates bearing the same designation.

Closing Date: May 4, 1999.

Code: The Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

Corporate Trust Office: The principal corporate trust office of the Trustee located at 230 South Tryon Street, Charlotte, North Carolina 28288-1179, or at such other address as the Trustee may designate from time to time by notice to the Certificateholders, or the principal corporate trust office of any successor Trustee.

Current Interest: With respect to each Class of Certificates and any Distribution Date, the aggregate amount of interest accrued during the immediately preceding Accrual Period at the applicable Interest Rate on the Principal Amount or Notional Amount of such Class for such Distribution Date.

Definitive Certificate: Any Certificate, issued in definitive, fully registered form.

Denomination: For each Certificate, the amount designated as the original principal amount or notional amount of such Certificate on the face thereof.

Depositor: Sequoia Mortgage Trust 1, a Delaware business trust, or its successor in interest.

Depository: The initial Depository shall be The Depository Trust Company, the nominee of which is Cede & Co. The Depository shall at all times be a "clearing corporation" as defined

in Section 8-102(a)(5) of the Uniform Commercial Code of the State of New York, as amended, or any successor provisions thereto.

Depository Participant: A broker, dealer, bank or other financial institution or other Person for which, from time to time, the Depository effects book-entry transfers and pledges of securities deposited with such Depository.

Distribution Date: The same meaning as "Payment Date" as defined in the Underlying Indenture.

Eligible Account: Either (i) an account or accounts maintained with a federal or state chartered depository institution or trust company (x) the short-term unsecured debt obligations of which (or, in the case of a depository institution or trust company that is the principal subsidiary of a holding company, the short-term unsecured debt obligations of such holding company) are rated "Aaa" by Moody's and "AAA" by S&P (or comparable ratings if Moody's and S&P are not the Rating Agencies) at the time any amounts are held on deposit therein, or (y) otherwise approved in writing by each Rating Agency, (ii) an account or accounts the deposits in which are insured by the FDIC or the FSLIC to the limits established by such corporations; provided that any amounts on deposit therein do not exceed such insurable limits, or (iii) a trust account or accounts (which shall be a "special deposit account") maintained with a federal or state chartered depository institution or trust company, acting in its fiduciary capacity, in a manner acceptable to each Rating Agency in respect of mortgage pass-through certificates rated in one of the two highest rating categories. If otherwise permitted by this definition, accounts maintained with the Trustee (or an affiliate thereof) may constitute Eligible Accounts.

ERISA: The Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

Final Distribution Date: The Distribution Date set forth in the notice delivered by the Trustee of the final distribution on the Certificates pursuant to Section 6.01.

Independent: When used with respect to any specified Person means such a Person who (i) is in fact independent of the Depositor, (ii) does not have any direct financial interest or any material indirect financial interest in the Depositor, and (iii) is not connected with the Depositor as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions.

Interest Rate: With respect to each Class of Certificates and each Distribution Date, the per annum rate of interest applicable to Certificates of such Class, as specified below:

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Class	Interest Rate
A	The lesser of (i) LIBOR plus 0.40% and (ii) 10.38%.
X	The amount, if any, by which (a) the interest rate applicable to the Underlying Bonds exceeds (b) the Interest Rate applicable to the Class A Certificates.

</TABLE>

LIBOR: As defined in the Underlying Master Servicing Agreement.

Moody's: Moody's Investors Service, or any successor thereto.

Mortgage Loan: Each mortgage loan included in the Underlying Trust Estate at any time.

Notional Amount: With respect to any Distribution Date and the Class X Certificates, an amount equal to the Principal Amount of the Class A Certificates for such Distribution Date.

Opinion of Counsel: A written opinion of counsel, which may be counsel for the Depositor or the Trustee, except that any opinion of counsel concerning certain matters with respect to ERISA, or the taxation, or the federal income tax status, of the Trust Fund, must be an opinion of Independent counsel.

Outstanding: With respect to the Certificates, as of any date of determination, all Certificates theretofore executed, authenticated and delivered under this Agreement except:

(i) Certificates theretofore cancelled by the Registrar or delivered to the Trustee for cancellation; and

(ii) Certificates in exchange for or in lieu of which other Certificates have been executed, authenticated and delivered pursuant to this Agreement unless proof satisfactory to the Trustee is presented that any such Certificates are held by a holder in due course.

Ownership Interest: As to any Certificate, any ownership or security interest in such Certificate, including any interest in such Certificate as the Holder thereof and any other interest therein, whether direct or indirect, legal or beneficial, as owner or as pledgee.

Percentage Interest: As to any Certificate, the percentage interest represented thereby, such percentage interest being equal to the percentage obtained by dividing the Denomination of such Certificate by the original aggregate Principal Amount or Notional Amount of such Class of Certificates.

Person: Any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

Principal Amount: With respect to any Distribution Date (without giving effect to distributions on such date) and the Class A Certificates, the original Principal Amount thereof less the sum of all previous distributions in reduction of the Principal Amount of such Class.

Private Placement Memorandum: The private placement memorandum dated April 30, 1999, relating to the Certificates.

Qualified Institutional Buyer: As defined in Rule 144A under the Securities Act.

Rating Agency: Each of Moody's and S&P.

Record Date: With respect to any Distribution Date, the last Business Day immediately preceding such Distribution Date, or in the case of the first Distribution Date, the Closing Date.

Registrar: Initially the Trustee, in its capacity as Registrar, or any successor to the Trustee in such capacity.

Responsible Officer: When used with respect to the Trustee, the Chairman or Vice Chairman of the Board of Directors or Trustees, the President, any senior vice president, any vice president, any assistant vice president, the Secretary, any assistant secretary, the Treasurer, any assistant treasurer in the Corporate Trust division, or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and having direct responsibility for the administration of this Agreement and, with respect to a particular matter, to whom such matter is referred because of such officer's knowledge of and familiarity with the particular subject.

S&P: Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., or any successor thereto.

Schedule of Underlying Bonds: The schedule attached as Exhibit B hereto, such schedule setting forth as to each Underlying Bond (i) the original principal amount and (ii) the principal amount after giving effect to any reduction in principal on or prior to the Closing Date.

Securities Act: The Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

Trust: The trust created by this Agreement.

Trust Fund: The corpus of the Trust consisting of (i) the Underlying Bonds described in the Schedule of Underlying Bonds, (ii) all payments on the Underlying Bonds payable after May 4, 1999, (iii) all amounts held from time to time by the Trustee in the Certificate Account, and (iv) the Certificate Account.

Trustee: First Union National Bank, in its capacity as trustee, or its successor in interest, or any successor trustee appointed as herein provided.

Underlying Bond: Each of the securities identified on Exhibit B hereto.

Underlying Distribution Date Statement: The report provided by the Underlying Trustee to the holders of related Underlying Bonds and to the Trustee in connection with each Distribution Date.

Underlying Indenture: The indenture dated as of June 1, 1997, between Sequoia Mortgage Trust 1, as the issuer, and First Union National Bank, as the trustee, pursuant to which the Underlying Bonds were issued.

Underlying Master Servicing Agreement: The master servicing agreement dated as of June 1, 1997, among Sequoia Mortgage Trust 1, as the issuer, Redwood Trust, Inc., Norwest Bank Minnesota, N.A., as the master servicer, and First Union National Bank, as the trustee.

Underlying Trust Estate: The collateral pledged to secure the Underlying Bonds pursuant to the Underlying Indenture.

Underlying Trustee: With respect to the Underlying Bonds, the trustee under the Underlying Indenture.

Unpaid Carryforward Interest: With respect to any Distribution Date and each Class of Certificates, the aggregate of all Carryforward Interest for such Class of Certificates for all previous Distribution Dates, less all distributions made with respect to such Class of Certificates in respect of Carryforward Interest on such previous Distribution Dates.

Section 1.02. Calculations Respecting Accrued Interest. Accrued interest, if any, on any Certificate shall be calculated based upon a 360 day year consisting of twelve 30 day months.

ARTICLE II

CONVEYANCE OF THE UNDERLYING BONDS; ORIGINAL ISSUANCE OF CERTIFICATES

Section 2.01. Conveyance of the Underlying Bonds. The Depositor, concurrently with the execution and delivery hereof, does hereby transfer, convey, sell and assign to the Trustee, on behalf of the Holders of the Certificates, without recourse, all the right, title and interest of the Depositor in and to the Underlying Bonds, including all payments thereon payable after May 4, 1999. In connection with such assignment, the Depositor shall have caused the Underlying Bonds to be registered in the name of, or endorsed to the order of, First Union National Bank, as trustee, or in a nominee name of the Trustee, and to be delivered or transferred to the Trustee. The assignment of the Underlying Bonds accomplished hereby is absolute and is intended as a sale. The Depositor represents and covenants that the Underlying Bonds as of the Closing Date are free and clear of any right, charge, security interest or lien or claim in favor of the Depositor or any person claiming through the Depositor (or any such security interest, lien or claim has been released) and that the Depositor has, as of the Closing Date, the right to assign the Underlying Bonds to the Trustee. The Depositor shall cooperate with the Trustee in providing any required transfer documentation with respect to such conveyance. Any payment received by the Depositor which shall be due to the Trustee hereunder shall be paid immediately to the Trustee on or prior to the Closing Date.

In the event that any Underlying Bond has not been delivered or transferred to the Trustee, together, in the case of Underlying Bonds in definitive form, with any documentation necessary to effect the assignment thereof to the Trustee, the Depositor shall, within two Business Days after its receipt of notice that such delivery or transfer has not occurred, immediately repurchase such Underlying Bond for a price equal to the principal amount thereof plus interest accrued thereon at the applicable interest rate.

It is the intention of the Depositor that the transfer and assignment of the Underlying Bonds shall constitute a sale from the Depositor to the Trust and that such Underlying Bonds not be a part of the Depositor's estate in the event of the insolvency of the Depositor. In the event the transfer and assignment of the Underlying Bonds contemplated by this Agreement is deemed to be other than a sale notwithstanding the intent of the parties hereto, this Agreement shall be deemed to be and in such event hereby is the grant of a security interest from the Depositor to the Trustee, and the Trustee shall have all the rights, powers and privileges of a secured party under the Uniform Commercial Code in effect in the applicable jurisdiction. In such event, the Depositor agrees to take such action and execute such documents as shall be necessary in order to fully realize the benefits of such secured party status, including, without limitation, powers of attorney, financing statements, notices of lien or other instruments or documents.

Section 2.02. Issuance of Certificates. The Trustee acknowledges the transfer and delivery to it of the Underlying Bonds in the manner described in Section 2.01 hereof and declares that the Trustee holds and will hold such Underlying Bonds in trust for the benefit of all present and future Certificateholders and, concurrently with such transfer and delivery, has caused to be duly executed, authenticated and delivered to or upon the order of the Depositor the Certificates in authorized Denominations, registered in such names as the Depositor has requested.

ARTICLE III

ADMINISTRATION OF THE UNDERLYING BONDS

Section 3.01. Collection of Payments on Underlying Bonds; Certificate Account. (a) The Trustee shall establish and maintain an account (the "Certificate Account") entitled "Sequoia Mortgage Trust 1A Mortgage Bond-Backed Certificates, Series 1999-A, Certificate Account," in which the Trustee shall deposit, as soon as practicable after receipt, each payment received by the Trustee with respect to the Underlying Bonds. The Certificate Account shall be an Eligible Account.

(b) If the bank, trust company or other fiduciary serving as Trustee hereunder is at any time not also serving as Underlying Trustee under the Underlying Indenture, the following provisions of this paragraph shall apply. If the Trustee shall not have received a payment with respect to an Underlying Bond by the Business Day after the date on which such payment was due and payable pursuant to the terms of such Underlying Bond, the Trustee shall request the Underlying Trustee to make such payment as promptly as possible and legally permitted and may, and at the direction of the Certificateholders shall, subject to the penultimate sentence of this paragraph, take any available legal action, including the prosecution of any claims in

connection therewith. The reasonable legal fees and expenses incurred by the Trustee in connection with the prosecution of any such legal action shall be reimbursed by the Depositor.

Section 3.02. Distributions. (a) On each Distribution Date the Trustee shall distribute to the Certificateholders of record on the immediately preceding Record Date, by wire transfer to an account specified in writing by such Certificateholders at least five Business Days prior to the preceding Record Date, or otherwise by check or by such other means of payment as such Person and the Trustee shall agree, all amounts on deposit in the Certificate Account; provided, however, that the Trustee shall not distribute to such Holders any amount required to be withheld from a payment to such Holder by the Code.

(b) Any amounts distributed to a particular Certificateholder pursuant to this Section shall equal the aggregate Percentage Interest evidenced by such Holder's Certificate(s) in the related Class multiplied by the aggregate of such amounts to be distributed to such Class.

(c) On each Distribution Date the Trustee shall withdraw from the Certificate Account the Available Interest Amount for such date and shall distribute such amount in the following order of priority:

(i) concurrently, to the Class A Certificates and Class X Certificates, in proportion to the amount of Current Interest for each such Class, Current Interest for each such Class and such Distribution Date; and

(ii) concurrently, to the Class A Certificates and Class X Certificates, in proportion to the amount of Carryforward Interest for each such Class, Carryforward Interest for each such Class and such Distribution Date.

(d) On each Distribution Date, the Trustee shall withdraw from the Certificate Account the Available Principal Amount for such date and shall distribute such amount to the Holders of the Class A Certificates in reduction of the Principal Amount thereof until the Principal Amount of the Class A Certificates has been reduced to zero.

(e) The final distribution on any Certificate shall be made by wire transfer or otherwise as above specified, after due notice by the Trustee to each Holder of the pendency of such distribution and only upon surrender of such Certificate at the Corporate Trust Office.

Section 3.03. [Reserved]

Section 3.04. Statements to Certificateholders. (a) On each

Distribution Date, the Trustee shall prepare, based on the information provided by the Administrator, and forward by mail a statement to each Certificateholder and each Rating Agency stating:

(i) the amount of principal distributable on such Distribution Date to the Holders of the Class A Certificates;

(ii) the amount of Current Interest distributable on such Distribution Date to the Holders of the Certificates;

(iii) the amount of Carryforward Interest distributable on such Distribution date to the Holders of the Certificates;

(iv) the Interest Rate applicable to each Class of Certificates with respect to such Distribution Date;

(v) the amount of principal and interest, if any, paid in respect of each of the Underlying Bonds on the related Distribution Date;

(vi) the outstanding principal balance of each of the Underlying Bonds and the Principal Amount or Notional Amount, as applicable, of each Class of Certificates as of such Distribution Date after giving effect to distributions of principal on such Distribution Date;

(vii) the amounts in (vi) above, expressed as percentages of the aggregate principal balance of the related Mortgage Loans; and

(viii) the aggregate principal balance of the related Mortgage Loans with respect to such Distribution Date.

In the case of information furnished pursuant to subclauses (i) through (iii) above, the amounts shall be expressed as a dollar amount per Certificate with a $1,000 denomination. The information furnished pursuant to subclauses (iv) through (vii) inclusive shall be as reported in the Underlying Distribution Date Statements.

(b) The Trustee shall, upon the request of any Certificateholder, include copies of the most current Underlying Distribution Date Statements previously delivered to the Trustee with each statement delivered pursuant to subsection (a) above.

(c) For so long as any of the Certificates are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, each of the Depositor and the Trustee agree to cooperate with each other to provide to any Certificateholders and to any prospective purchaser of Certificates designated by such Certificateholder, upon the request of such Certificateholder or prospective purchaser, any information required to be provided to such holder or prospective purchaser to satisfy the condition set forth in Rule 144A(d)(4) under the Securities Act. Any reasonable, out-of-pocket expenses incurred by the Trustee in providing such information shall be reimbursed by the Depositor.

Section 3.05. No Segregation of Moneys. Money received by the Trustee hereunder need not be segregated in any manner except to the extent required by law, and as provided herein, and may be deposited under such general conditions as may be prescribed by law, and the Trustee shall not be liable for any interest thereon.

Section 3.06. Tax Status and Reporting. The Depositor has structured this Agreement, and the Certificates have been (or will be) issued with the intention that such Certificates qualify under applicable tax laws as indebtedness. The Depositor, its affiliates, the Trustee and each Certificateholder (or Certificate Owner) by acceptance of its Certificate (or, in the case of a Certificate Owner, by virtue of such Certificate Owner's acquisition of a beneficial interest

therein) agree to treat the Certificates (or beneficial interest therein) for purposes of federal, state and local income or franchise taxes and any other tax imposed on or measured by income, as indebtedness. Each Certificateholder agrees that it will cause any Certificate Owner acquiring an interest in a Certificate through it to comply with this Agreement as to treatment of the Certificate as indebtedness for certain tax purposes.

ARTICLE IV

THE CERTIFICATES

Section 4.01. The Certificates. The Certificates shall be issued substantially in the forms set forth in Exhibit A. The aggregate of the Denominations of the Class A Certificates issued as of the Closing Date is $157,266,300.00. The aggregate of the Denominations of the Class X Certificates issued as of the Closing Date is $157,266,300.00.

The Class A Certificates shall be issued in minimum Denominations in principal amount of $250,000 and integral multiples of $1 in excess thereof, and the Class X Certificates will be issued in minimum Denominations in notional amount of $20,000,000 and integral multiples of $1 in excess thereof; provided that one Certificate of each such Class may be issued in any amount in excess of such minimum denomination. The Certificates shall, on original issue, be executed by the Trustee, not in its individual capacity but solely as Trustee, authenticated by the Registrar and delivered by the Trustee to or upon the order of Depositor upon receipt by the Trustee of the Underlying Bonds pursuant to Section 2.01 hereof. The Class A Certificates shall initially be issued as Book-Entry Certificates. The Class X Certificates shall initially be issued and shall be maintained as Definitive Certificates. The Certificates shall be executed by manual or facsimile signature on behalf of the Trustee by a Responsible Officer. Certificates bearing the manual or facsimile signatures of individuals who were, at the time when such signatures were affixed, authorized to sign on behalf of the Trustee shall bind the Trustee, notwithstanding that such individuals or any of them have ceased to be so authorized prior to the authentication and delivery of such Certificates. No Certificate shall be entitled to any benefit under this Agreement, or be valid for any purpose, unless such Certificate shall have been manually authenticated by the Registrar substantially in the form set forth in Exhibit A, and such manual signature upon any Certificate shall be conclusive evidence, and the only evidence, that such Certificate has been duly authenticated and delivered hereunder. All Certificates shall be dated the date of their authentication and delivery.

Section 4.02. Registration of and Limitations on Transfer and Exchange of Certificates.

(a) The Registrar shall cause to be kept at its Corporate Trust Office a Certificate Register (the "Certificate Register") in which, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration of Certificates and of transfers and exchanges of Certificates as herein provided.

Subject to the restrictions and limitations set forth below, upon surrender for registration of transfer of any Certificate at the Corporate Trust Office, the Trustee shall execute and the Registrar shall authenticate and deliver, in the name of the designated transferee or transferees,

one or more new Certificates in authorized Denominations evidencing the same aggregate Percentage Interests.

At the option of the Certificateholders, Certificates may be exchanged for other Certificates in authorized Denominations evidencing the same aggregate Percentage Interests upon surrender of the Certificates to be exchanged at the Corporate Trust Office of the Registrar. Whenever any Certificates are so surrendered for exchange, the Trustee shall execute and the Registrar shall authenticate and deliver the Certificates which the Certificateholder making the exchange is entitled to receive. Each Certificate presented or surrendered for registration of transfer or exchange shall (if so required by the Registrar) be duly endorsed by, or be accompanied by a written instrument of transfer in form satisfactory to the Registrar duly executed by, the Holder thereof or his attorney duly authorized in writing. Certificates delivered upon any such transfer or exchange will evidence the same obligations, and will be entitled to the same rights and privileges, as the Certificates surrendered.

No service charge shall be made for any registration of transfer or exchange of Certificates, but the Registrar shall require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any registration of transfer or exchange of Certificates.

All Certificates surrendered for registration of transfer and exchange shall be cancelled by the Registrar and delivered to the Trustee for subsequent destruction without liability on the part of either.

(b) Except as to any Certificate of any Class of Book-Entry Certificates that is transferred to an entity other than a Qualified Institutional Buyer, the Book-Entry Certificates shall, except as provided below, at all times remain registered in the name of the Depository or its nominee and at all times: (i) registration thereof may not be transferred by the Trustee except to another Depository; (ii) the Depository shall maintain book-entry records with respect to the Certificate Owners and with respect to ownership and transfers of such Certificates; (iii) ownership and transfers of registration of the Certificates issued in book-entry form on the books of the

Depository shall be governed by applicable rules established by the Depository and the rights of Certificate Owners with respect to Book-Entry Certificates shall be governed by applicable law and agreements between such Certificate Owners and the Depository, Depository Participants, and indirect participating firms; (iv) the Depository may collect its usual and customary fees, charges and expenses from its Depository Participants; (v) the Trustee shall deal with the Depository, Depository Participants and indirect participating firms as authorized representatives of the Certificate Owners of the Certificates issued in book-entry form for all purposes including the making of payments due on the Book-Entry Certificates and exercising the rights of Holders under this Agreement, and requests and directions for and votes of such representatives shall not be deemed to be inconsistent if they are made with respect to different Certificate Owners; (vi) the Trustee may rely and shall be fully protected in relying upon information furnished by the Depository with respect to its Depository Participants and furnished by the Depository Participants with respect to indirect participating firms and persons shown on the books of such indirect participating firms as direct or indirect Certificate Owners; (vii) Certificate Owners shall not be entitled to certificates for the Book-Entry Certificates; and (viii)

the Trustee may establish a reasonable record date in connection with solicitations of consents from or voting by Certificateholders and give notice to the Depository of such record date.

Any Book-Entry Certificate or interest therein that is transferred to an entity other than a Qualified Institutional Buyer may, in accordance with the applicable rules established by the Depository, and subject to Section 4.02(e) of this Agreement, be issued in the form of a Definitive Certificate.

All transfers by Certificate Owners of Book-Entry Certificates shall be made in accordance with the procedures established by the Depository Participant or brokerage firm representing such Certificate Owner. Each Depository Participant shall only transfer Book-Entry Certificates of Certificate Owners it represents or of brokerage firms for which it acts as agent in accordance with the Depository's normal procedures. Except as provided herein, the Trustee shall have no duty to monitor or restrict the transfer of Certificates or interests therein, and shall have no liability for any transfer, including any transfer made through the book-entry facilities of the Depository or between or among Depository Participants or Certificate Owners, made in violation of applicable restrictions set forth herein, except in the event of the failure of the Trustee to perform its duties and fulfill its obligations under this Agreement with respect to such transfers.

(c) If (x)(i) the Depositor or the Depository advises the Trustee in writing that the Depository is no longer willing, qualified or able to properly discharge its responsibilities as Depository, and (ii) the Trustee or the Depositor is unable to locate a qualified successor or (y) the Depositor at its option advises the Trustee in writing that it elects to terminate the book-entry system through the Depository, the Trustee shall notify all Certificate Owners, through the Depository, of the occurrence of any such event and of the availability of Definitive Certificates to Certificate Owners requesting the same. Upon surrender to the Trustee of such Certificates by the Depository, accompanied by registration instructions from the Depository for registration, the Trustee shall issue the Definitive Certificates and deliver them to or upon the order of Certificate Owners. Neither the Depositor nor the Trustee shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such instructions. Upon the issuance of Definitive Certificates all references herein to obligations imposed upon or to be performed by the Depository shall be deemed to be imposed upon and performed by the Trustee, to the extent applicable with respect to such Definitive Certificates and the Trustee shall recognize the Holders of the Definitive Certificates as Certificateholders hereunder.

(d) On or prior to the Closing Date, there shall be delivered to the Depository, or to the Trustee as custodian therefor, one certificate for each Class of Book-Entry Certificates registered in the name of the Depository's nominee, Cede & Co. The face amount of each such Certificate shall represent 100% of the initial Principal Amount or Notional Amount thereof, except for such amount that does not constitute an acceptable denomination to the Depository. An additional Certificate of each Class of Book-Entry Certificates may be issued evidencing such remainder and, if so issued, will be held in physical certificated form by the Holders thereof. Each Certificate issued in book-entry form shall bear the following legend:

"Unless this Certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Trustee or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), any transfer, pledge or other use hereof for value or otherwise by or to any person is wrongful inasmuch as the registered owner hereof, Cede & Co., has an interest herein."

(e) Each transferee of a Book-Entry Certificate or interest therein, by its acceptance of such Certificate or interest, shall be deemed to have represented to the Trustee, the Depositor and the other Holders that (i) it is a "qualified institutional buyer," as such term is defined in Rule 144A under the Securities Act, or, if such Certificate or interest is to be purchased for one or more institutional accounts ("investor accounts") for which the Holder thereof is acting as fiduciary or agent (except if the Holder thereof is a bank as defined in Section 3(a)(2) of the Securities Act, or a savings and loan association or other institution as described in Section 3(a)(5)(A) of the Securities Act, whether acting in its individual or in a fiduciary capacity), each such investor account is a "qualified institutional buyer," (ii) it will not transfer such Certificate or interest except in accordance with this Agreement, and (iii) it will indemnify the Trustee and the Depositor against any liability that may result if any transfer of a Certificate is not exempt from the registration requirements of federal, state and foreign securities laws. No transfer of a Definitive Certificate shall be made unless the Trustee shall have received a representation letter from the proposed transferee in the form of Exhibit C or Exhibit D attached hereto.

(f) The Class X Certificates shall initially be registered in the name of AUER &CO. Notwithstanding any other provision herein, the Class X Certificate shall not be transferred to any Person other than the Depositor, Sequoia Mortgage Funding Corporation or Redwood Trust, Inc., and the Trustee shall not register any transfer thereof, unless the Depositor shall have first delivered to the Trustee an Opinion of Counsel to the effect that such transfer of ownership will not result in material adverse tax consequences to the holders of Class A Certificates, the Trust or the Depositor. Upon any transfer of the Class X Certificates, the Trustee shall give prompt notice of such transfer to the Administrator.

Section 4.03. Mutilated, Destroyed, Lost or Stolen Certificates. If (i) any mutilated Certificate is surrendered to the Registrar or the Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Certificate and of the ownership thereof, and (ii) there is delivered to the Trustee such security or indemnity as may be required by it to save it and the Registrar harmless, then, in the absence of receipt by the Trustee of written notice that such Certificate has been acquired by a bona fide purchaser, the Trustee shall execute and the Registrar shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Certificate, a new Certificate of like tenor. Upon the issuance of any new Certificate under this Section 4.03, the Registrar may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee or the Registrar) connected therewith. Any duplicate Certificate issued pursuant to this Section shall constitute complete and indefeasible evidence of ownership of a like Percentage Interest as if originally issued, whether or not the lost, stolen or destroyed Certificate shall be found at any time. All Certificates surrendered to the Registrar under the terms of this Section 4.03 shall be cancelled

by the Registrar and delivered to the Trustee for subsequent destruction without liability on the part of either.

Section 4.04. Persons Deemed Owners. Prior to due presentation of a Certificate for registration of transfer, the Trustee and any agent of the Trustee shall treat the Person in whose name any Certificate is registered as the owner of such Certificate for the purpose of receiving distributions pursuant to Section 3.02 and at any other time for all other purposes whatsoever, and neither the Trustee or the Registrar nor any agent of the Trustee or the Registrar shall be affected by notice to the contrary.

ARTICLE V

THE TRUSTEE

Section 5.01. Representation and Warranty. The Trustee represents and warrants to the Depositor, for the benefit of the Certificateholders, that this Agreement has been executed and delivered by its Responsible Officer who is duly authorized to execute and deliver such document in such capacity on its behalf.

Section 5.02. Directions to Trustee. The Trustee is hereby directed:

(a) to accept assignment of the Underlying Bonds and hold the Trust Fund in trust for the Certificateholders;

(b) to issue, execute and deliver the Certificates substantially in the forms prescribed by Exhibit A in accordance with the terms of this Agreement; and

(c) to take all other actions as shall be required to be taken by the terms of this Agreement.

Section 5.03. Liability of the Trustee. The Trustee shall be liable in accordance herewith only to the extent provided in Section 5.05 and only to the extent of the obligations specifically imposed upon and undertaken by the Trustee herein and no implied covenants or obligations shall be read into this Agreement against the Trustee.

The Trustee, upon receipt of all certificates, opinions, documents or other instruments furnished to the Trustee which are specifically required to be furnished pursuant to any provision of this Agreement, shall determine whether they are in the form required by this Agreement; provided, however, that the Trustee shall not be responsible for the accuracy or content of any such certificate, opinion, document or other instrument furnished to it pursuant to this Agreement.

Section 5.04. Merger or Consolidation of the Trustee. Any Person into which the Trustee may be merged or consolidated, or any Person resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any Person succeeding to the corporate trust business of the Trustee shall be the successor of the Trustee hereunder, without the execution or filing of any paper or any further act on the part of any of the parties hereto,

anything herein to the contrary notwithstanding; provided that such Person shall satisfy the requirements for a successor trustee specified in the first sentence of Section 5.08.

Section 5.05. Limitation on Liability of the Trustee and Others. In entering into this Agreement the Trustee acts solely as trustee hereunder and not in its individual capacity; and all persons having any claim under this Agreement or under the Certificates by reason of the transactions contemplated hereby shall look only to the Trust Fund for payment or satisfaction thereof, subject to this Section 5.05. The Trustee shall not be responsible for the validity or sufficiency of any Underlying Bond, the Trust Fund, any assignment or registration, or for any depreciation in the value of the Trust Fund, subject to this Section 5.05. The recitals and statements contained herein and in the Certificates (other than the signature of the Trustee, the authentication of the Registrar on the Certificates and the representation and warranty of the Trustee in Section 5.01) shall be taken as the statements of the Depositor, and the Trustee assumes no responsibility for the correctness of such recitals and statements.

Neither the Trustee nor any of the directors, officers, employees or agents of the Trustee shall be under any liability to the Trust Fund or the Certificateholders for any action taken, or for refraining from the taking of any action, in good faith (and shall be protected in acting or refraining from acting) pursuant to this Agreement, or for errors in judgment; provided, however, that this provision shall not protect the Trustee or any such person against liability for any breach of the warranty or representation made in Section 5.01 hereof or against any liability which would otherwise be imposed by reason of willful misfeasance, bad faith or negligence in the performance of duties or by reason of reckless disregard of obligations and duties hereunder. The Trustee and any director, officer, employee or agent of the Trustee may rely in good faith and shall be protected in acting or refraining from acting on any document of any kind prima facie properly executed and submitted by any Person respecting any matter arising hereunder. The Trustee and any director, officer, employee or agent of the Trustee shall be indemnified by the Depositor and held harmless against any loss, liability, damage, tax, claim, action, suit or expense (including, without limitation, any and all extraordinary expenses of the Trust, including any taxes or tax-related payments (other than filing fees) and any expenses involved in any tax examination, audit or proceeding, including professional fees incurred by the Trustee in connection with any such examination, audit or proceeding) incurred by, imposed on or asserted against the Trustee in any way relating to or arising out of this Agreement, the Underlying Bonds, the administration of the Trust Fund, the action or inaction of the Trustee hereunder, or in connection with investigating, preparing or defending any legal action, commenced or threatened, relating to this Agreement or the Underlying Bonds, other than any loss, liability, damage, tax, claim, action, suit or expense incurred by reason of willful misfeasance, bad faith or negligence in the performance of duties hereunder or by reason of reckless disregard of obligations and duties hereunder. All sums due the Trustee pursuant to the foregoing indemnity shall be reimbursed by the Depositor. The Trustee may consult counsel satisfactory to it and the opinion or advice of such counsel in any instance shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with the opinion or advice of such counsel. The Trustee may execute any of the powers of trust under this Agreement or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it. The Trustee shall not be deemed to have notice of any matter, including without limitation any event of default,

unless one of its Responsible Officers has actual knowledge thereof or unless written notice thereof is received by the Trustee at the Corporate Trust Office and such notice references the Certificates generally or this Agreement. The Trustee shall not be under any obligation (i) to make any investigation into the facts or matters stated in any document of any kind presented to it or (ii) to appear in, prosecute or defend any legal action except with respect to the Underlying Bonds under the circumstances described in Section 3.01; provided, however, that the Trustee shall at the request of Holders of Certificates evidencing Percentage Interests aggregating not less than 66-2/3% of each Class of Certificates undertake any such legal action which the Certificateholders making such request shall specify with respect to this Agreement and the rights and duties of the parties hereto and the interests of the Certificateholders hereunder. In the event the Trustee takes any action above, whether at the request of Certificateholders or otherwise, the legal fees and expenses of such action and any liability therefrom shall be borne by Certificateholders pursuant to indemnity furnished by them as a precondition to the Trustee's obligation to take any such action pursuant to any such request.

The right of the Trustee to perform any discretionary act enumerated in this Agreement shall not be construed as a duty.

Section 5.06. Trustee's Compensation. As compensation for all services rendered by it hereunder (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust) the Trustee shall be entitled to receive on each Distribution Date the compensation set forth in the letter dated as of May 4, 1999, between the Trustee and the Depositor.

No provision of this Agreement or of the Certificates shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

Section 5.07. Resignation and Removal of the Trustee. Subject to the last paragraph of this Section 5.07, the Trustee may at any time resign and be discharged from the trusts hereby created by giving written notice thereof to the Depositor. Upon receiving such notice of resignation, the Depositor shall promptly appoint a successor trustee by written instrument, in duplicate, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee.

If at any time the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then the Depositor may remove the Trustee and appoint a successor trustee by written instrument, in duplicate, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee.

The Holders of Certificates evidencing Percentage Interests aggregating not less than 66-2/3% of each Class of Certificates may, at any time, remove the Trustee with cause and appoint a successor trustee by written instrument or instruments, in triplicate, signed by such Holders or their attorneys-in-fact duly authorized, one complete set of which instruments shall be delivered to the Depositor, one complete set to the Trustee so removed and one complete set to the successor so appointed.

Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section shall become effective only upon acceptance of appointment by the successor trustee as provided in Section 5.08 hereof.

Section 5.08. Successor Trustee. Any successor trustee appointed as provided in Section 5.07 hereof shall be a bank, trust company or other fiduciary authorized to administer trusts, subject to regulation or supervision by federal or state authority and having a combined capital and surplus of at least $50,000,000. Any such successor trustee shall execute, acknowledge and deliver to the Depositor and to its predecessor Trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become fully vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as Trustee herein. The predecessor Trustee shall transfer to the successor trustee the Underlying Bonds and shall turn over all related documents and statements held hereunder. In addition, the predecessor Trustee and, upon request of the successor trustee, the Depositor shall execute and deliver such instruments and do such other things as may reasonably be required for more fully and certainly vesting and confirming in the successor trustee all such rights, powers, duties and obligations, subject, however, to the payment of all amounts due the predecessor Trustee under this Agreement.

Upon acceptance of appointment by a successor trustee as provided in this Section, the Depositor shall mail notice of the succession of such Trustee hereunder to each Rating Agency and to all Holders of Certificates at their addresses as shown in the Certificate Register. The predecessor Trustee shall cooperate with the Depositor to prepare and mail such notice. If the Depositor fails to mail such notice within 10 days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Depositor.

No Trustee hereunder shall be personally liable hereunder by reason of any act or failure to act of any predecessor or successor trustee hereunder.

Upon any termination or resignation of the Trustee, the Trustee shall be entitled to and shall receive any and all accrued and unpaid fees and expenses due to the Trustee hereunder.

ARTICLE VI

TERMINATION

Section 6.01. Termination Upon Distribution to Certificateholders. This Agreement and the respective obligations and responsibilities of the Depositor and the Trustee created hereby

shall terminate upon the earlier of (i) the distribution to Certificateholders and the Trustee of all amounts required to be distributed pursuant to Article III; (ii) the receipt by the Trustee of a written instruction executed by or on behalf of 100% of Certificateholders ordering such termination; and (iii) the expiration of 21 years from the death of the survivor of the descendants of Joseph P. Kennedy, the late ambassador of the United States to the Court of St. James, living on the date hereof.

Holders of 100% of the Percentage Interests of each Class of Certificates may, at any time, deliver a written instruction to the Trustee, signed by or on behalf of each Holder, directing the Trustee to distribute all assets of the Trust Fund to such Holders in the manner specified in such instruction. The Trustee shall promptly comply with such instruction upon receipt thereof, and upon such compliance this Agreement and the Trust created hereby shall be terminated. Any expenses incurred by the Trustee in complying with such instruction shall be reimbursed by the Depositor.

The Trustee shall notify the Certificateholders of the Distribution Date upon which the Certificateholders may surrender their Certificates to the Trustee for payment of the final distribution and cancellation. Such notice shall be given promptly by the Trustee by letter to Certificateholders and each Rating Agency mailed not later than three Business Days following the earlier of (a) the receipt of notice by the Trustee of the final Distribution Date for the Underlying Bonds and (b) receipt by the Trustee of the final distribution on the Underlying Bonds, specifying (i) the Distribution Date as of which the final distribution on the Certificates will be made upon presentation and surrender of Certificates at the office of the Trustee therein designated, (ii) the amount of any such final distribution, and (iii) that the Record Date otherwise applicable to such Distribution Date is not applicable, distributions being made only upon presentation and surrender of the Certificates at the office of the Trustee therein specified. Upon presentation and surrender of a Certificate, the Trustee shall cause to be distributed to the Holder thereof an amount equal to all interest and principal distributable on such Certificate on the Final Distribution Date.

Section 6.02. Failure of Certificateholders to Surrender Certificates. In the event that any of the Certificateholders shall not surrender their Certificates for cancellation within six months after the Final Distribution Date, the Trustee shall give a written notice to the remaining

Certificateholders to surrender their Certificates for cancellation and receive the final distribution with respect thereto. If within one year after such notice all the Certificates shall not have been surrendered for cancellation, the Trustee may take appropriate steps, or may appoint an agent to take appropriate steps, to contact the remaining Certificateholders concerning surrender of their Certificates, and the cost thereof shall be paid out of the funds and other assets that remain subject to the Trust Fund.

ARTICLE VII

MISCELLANEOUS PROVISIONS

Section 7.01. Amendment. This Agreement may be amended from time to time by the Trustee and the Depositor, without the consent of any of the Certificateholders, (i) to cure any

ambiguity, (ii) to cause the provisions herein to conform to or be consistent with or in furtherance of the statements made with respect to the Certificates, the Trust Fund or this Agreement in the Private Placement Memorandum, to correct an error, or to correct or supplement any provisions herein which may be inconsistent with any other provision herein, (iii) to add such other provisions with respect to matters or questions arising under this Agreement that shall not be inconsistent with other provisions of this Agreement, or (iv) to add, delete, or amend any provisions to the extent necessary or desirable to comply with any requirements imposed by the Code; provided that such action pursuant to clause (iii) above shall not adversely affect in any material respect the interests of any Certificateholder and that no such amendment shall, as evidenced by an Opinion of Counsel (which Opinion of Counsel shall not be an expense of the Trustee or the Trust Fund), adversely affect the tax status of the Trust pursuant to this Agreement. This Agreement may also be amended from time to time by the Trustee and the Depositor with the consent of the Holders of Certificates evidencing Percentage Interests aggregating not less than 66-2/3% of each Class of Certificates for the purpose of adding any provisions to or modifying this Agreement or of modifying in any manner the rights of the Holders of Certificates; provided, however, that no such amendment shall (i) reduce in any manner the amount of, or delay the timing of, amounts required to be distributed on any Certificate without the consent of the Holder of such Certificate, (ii) reduce the aforesaid percentage of the Certificates the Holders of which are required to consent to any such amendment without the consent of the Holders of all Certificates then Outstanding, or (iii) permit the removal of the Trustee without cause. In addition, this Agreement and the Certificates may be amended at any time with the consent of the Holders of Certificates evidencing 100% of the Percentage Interests of each Class for the purpose of increasing or decreasing the Interest Rate applicable to any Class of Certificates.

Prior to the execution of any amendment to this Agreement, the Trustee shall be entitled to receive and rely upon an Opinion of Counsel stating that the execution of such amendment is authorized or permitted by this Agreement. The Trustee may, but shall not be obligated to, enter into any such amendment which affects the Trustee's own rights, duties or immunities under this Agreement.

Promptly after the execution of any amendment to this Agreement requiring the consent of Certificateholders, the Trustee shall furnish written notification of the substance of such amendment to each Certificateholder and to each Rating Agency.

It shall not be necessary for the consent of Certificateholders under this Section to approve the particular form of any proposed amendment, but it shall be sufficient if such consent shall approve the substance thereof. The manner of obtaining such consents and of evidencing the authorization of the execution thereof by Certificateholders shall be subject to such reasonable regulations as the Trustee may prescribe.

Section 7.02. Limitation on Rights of Certificateholders. The dissolution, bankruptcy, termination, death or incapacity of any Certificateholder shall not operate to terminate this Agreement or the Trust Fund, nor entitle such Certificateholder's legal representatives or heirs to claim an accounting or to take any action or proceeding in any court for a partition or winding up of the Trust Fund, nor otherwise affect the rights, obligations and liabilities of any of the parties hereto.

Except as expressly provided in this Agreement, no Certificateholder shall have any right to vote or in any manner otherwise control the operation and management of the Trust Fund, or the obligations of the parties hereto, nor shall anything herein set forth, or contained in the terms of the Certificates, be construed so as to constitute the Certificateholders from time to time as partners or members of an association; nor shall any Certificateholder be under any liability to any third person by reason of any action taken by the parties to this Agreement pursuant to any provision hereof.

Except in the case of an action, suit or proceeding against the Trustee in respect to a breach or alleged breach of its duties and responsibilities hereunder, no Certificateholder shall have any right by virtue of any provisions of this Agreement to institute any action, suit or proceeding in equity or at law upon or under or with respect to this Agreement unless such Holder previously shall have given to the Trustee a written notice of the basis of such action, suit or proceeding, and unless also the Holders of Certificates evidencing Percentage Interests aggregating not less than 51% of each Class of Certificates shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have offered to the Trustee such reasonable indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee, for 60 days after its receipt of such notice, request and offer of indemnity, shall have neglected or refused to institute any such action, suit or proceeding; it being understood and intended, and being expressly covenanted by each Certificateholder with every other Holder of a Certificate and the Trustee, that no one or more Holders of Certificates shall have any right in any manner whatever by virtue of any provision of this Agreement to affect, disturb or prejudice the rights of the Holders of any other of such Certificates, or to obtain or seek to obtain priority over or preference to any other such Holder of Certificates, or to enforce any right under this Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all Holders of Certificates. For the protection and enforcement of the provisions of this Section, each and every Certificateholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

Section 7.03. Limitation on Liability of the Depositor and Others. Neither the Depositor nor any of the directors, officers, employees or agents of the Depositor shall be under any liability to the Trust Fund or Certificateholders for any action taken, or for refraining from the taking of any action in good faith pursuant to this Agreement, or for errors in judgment; provided, however, that this provision shall not protect the Depositor or any such Person against any liability which would otherwise be imposed by reason of willful misfeasance, bad faith or negligence in the performance of duties or by reason of reckless disregard of obligations and duties hereunder.

Section 7.04. Governing Law. This Agreement shall be construed in accordance with the laws of the State of New York applicable to agreements made and to be performed in the State of New York, and the obligations, rights and remedies of the parties hereto and the Certificateholders shall be determined in accordance with such laws without regard to conflict of laws principles applied in New York.

Section 7.05. Notices. All demands, notices and communications hereunder shall be in writing and shall be deemed to have been duly given if personally delivered at or mailed by

registered mail, postage prepaid, to (a) in the case of the Depositor, Sequoia Mortgage Trust 1, c/o Redwood Trust, Inc., 591 Redwood Highway, Suite 3100, Mill Valley, California 94941, Attention: Vickie Rath or to such other address as may hereafter be furnished to the Trustee in writing by the Depositor; (b) in the case of the Trustee, First Union National Bank, 230 South Tryon Street, Charlotte, North Carolina 28288-1179, Attention: Corporate Trust Department, or to such other address as may hereafter be furnished to the Depositor in writing by the Trustee; (c) in the case of the Administrator, Norwest Bank Minnesota, National Association, 11000 Broken Land Parkway, Columbia, Maryland 21044-3562, Attention: Sequoia Mortgage Trust 1A, 99-A; (d) in the case of Moody's, Moody's Investors Service, 99 Church Street, New York, New York 10007, Attention: Rod Dubitsky; and (e) in the case of S&P, Standard & Poor's Investors Services, 26 Broadway, 10th Floor, New York, New York 10004, Attention: Residential Mortgage Surveillance Group. Any notice required or permitted to be mailed to a Certificateholder shall be given by first class mail, postage prepaid, to the address of such Holder as shown in the Certificate Register. Any notice so mailed within the time prescribed in this Agreement shall be conclusively presumed to have been duly given when mailed whether or not the Certificateholder receives such notice.

Section 7.06. Severability of Provisions. If any one or more of the covenants, agreements, provisions or terms of this Agreement shall be for any reason whatsoever held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Agreement and shall in no way affect the validity or enforceability of the other provisions of this Agreement or of the Certificates or the rights of the Holders thereof.

Section 7.07. Certificates Nonassessable and Fully Paid. It is the intention of this Agreement that Certificateholders shall not be personally liable for obligations of the Trust Fund, that the beneficial ownership interests represented by the Certificates shall be nonassessable for any losses or expenses of the Trust Fund or for any reason whatsoever, and that Certificates upon execution, authentication and delivery thereof by the Trustee pursuant to Section 2.02 are and shall be deemed fully paid.

Section 7.08. Limitations of Liability. Notwithstanding any other provision herein or elsewhere (i) this Agreement has been executed and delivered by Wilmington Trust Company, not in its individual capacity, but solely in its capacity as Owner Trustee (the "Owner Trustee") of the Depositor under the Amended and Restated Deposit Trust Agreement of the Depositor, dated as of July 17, 1997 (the "Deposit Trust Agreement"), and solely pursuant to the instruction of Sequoia Mortgage Funding Corporation as the sole Certificateholder (as defined in the Deposit Trust Agreement) of the Depositor under the Deposit Trust Agreement, (ii) in no event shall Wilmington Trust Company or the Owner Trustee have any liability in respect of the representations, warranties, or obligations of the Depositor hereunder or under any other document, as to all of which recourse shall be had solely to the assets of the Depositor, and (iii) for all purposes of this Agreement and every other document, the Owner Trustee and Wilmington Trust Company shall be entitled to the benefits of the Deposit Trust Agreement.

ARTICLE VIII

SECURITIES ACCOUNT

Section 8.01. The Securities Account. The Depositor shall establish a "Securities Account" in the name of the Securities Intermediary which shall be pledged to the Trustee, as collateral agent, for the benefit of the Certificateholders. The Securities Account shall be a segregated, non-interest-bearing trust account maintained with the Trustee and established for the purpose of holding the Underlying Bonds. The Depositor and the Trustee hereby appoint First Union National Bank as Securities Intermediary with respect to the Securities Account, and the Depositor hereby grants to the Trustee, as collateral agent for the benefit of the Certificateholders, a security interest to secure all amounts due Certificateholders hereunder in and to the Securities Account and the Security Entitlements to all Financial Assets credited to the Securities Account, including without limitation all amounts, securities, investments, Financial Assets, investment property and other property from time to time deposited in or credited to the Securities Account and all proceeds thereof. Amounts held from time to time in the Securities Account will continue to be held by the Securities Intermediary for the benefit of the Trustee, as collateral agent, for the benefit of the Certificateholders. Upon the termination of the Trust, the Trustee shall inform the Securities Intermediary of such termination. By acceptance of their Certificates or interests therein, the Certificateholders shall be deemed to have appointed First Union National Bank as Securities Intermediary. First Union National Bank hereby accepts such appointment as Securities Intermediary.

(i) With respect to the Account Property credited to the Securities Account, the Securities Intermediary agrees that:

(A) any Account Property that is held in deposit accounts shall be held solely in a bank rated no less than "Aaa" by Moody's and "AAA" by S&P, or a bank otherwise approved in writing by each Rating Agency; and each such deposit account shall be subject to the exclusive custody and control of the Securities Intermediary, and the Securities Intermediary shall have sole signature authority with respect thereto;

(B) the sole assets permitted in the Securities Account shall be those as the Securities Intermediary agrees to treat as Financial Assets; and

(C) any such Account Property that is, or is treated as, a Financial Asset shall be physically delivered (accompanied by any required endorsements) to, or credited to an account in the name of, the Securities Intermediary or other eligible institution maintaining the Securities Account in accordance with the Securities Intermediary's customary procedures such that the Securities Intermediary or such other institution establishes a Security Entitlement in favor of the Trustee with respect thereto over which the Securities Intermediary or such other institution has Control.

(ii) The Securities Intermediary hereby confirms that (A) the Securities Account is an account to which Financial Assets are or may be credited, and the

Securities Intermediary shall, subject to the terms of this Agreement, treat the Trustee, as collateral agent, as entitled to exercise the rights that comprise any Financial Asset credited to the Securities Account, (B) all Account Property in respect of the Securities Account will be promptly credited by the Securities Intermediary to the Securities Account, and (C) all securities or other property underlying any Financial Assets credited to the Securities Account shall be registered in the name of the Securities Intermediary, endorsed to the Securities Intermediary or in blank or credited to another securities account maintained in the name of the Securities Intermediary and in no case will any Financial Asset credited to the Securities Account be registered in the name of the Depositor, payable to the order of the Depositor or specially endorsed to the Depositor except to the extent the foregoing have been specially endorsed to the Securities Intermediary or in blank.

(iii) The Securities Intermediary hereby agrees that each item of property (whether investment property, Financial Asset, security, instrument or cash) credited to the Securities Account shall be treated as a Financial Asset.

(iv) If at any time the Securities Intermediary shall receive any order from the Trustee directing transfer or redemption of any Financial Asset relating to the Securities Account, the Securities Intermediary shall comply with such entitlement order without further consent by the Depositor or any other Person. If at any time the Trustee notifies the Securities Intermediary in writing that the Trust has been terminated in accordance herewith and the security interest granted above has been released, then thereafter if the Securities Intermediary shall receive any order from the Depositor directing transfer or redemption of any Financial Asset relating to the Securities Account, the Securities Intermediary shall comply with such entitlement order without further consent by the Trustee or any other Person.

(v) In the event that the Securities Intermediary has or subsequently obtains by agreement, operation of law or otherwise a security interest in the Securities Account or any Financial Asset credited thereto, the Securities Intermediary hereby agrees that such security interest shall be subordinate to the security interest of the Trustee. The Financial Assets credited to the Securities Account will not be subject to deduction, set-off, banker's lien, or any other right in favor of any Person other than the Trustee (except that the Securities Intermediary may set off the face amount of any checks which have been credited to the Securities Account but are subsequently returned unpaid because of uncollected or insufficient funds).

(vi) There are no other agreements entered into between the Securities Intermediary in such capacity and the Depositor with respect to the Securities Account. In the event of any conflict between this Agreement (or any provision of this Agreement) and any other agreement now existing or hereafter entered into, the terms of this Agreement shall prevail.

(vii) The rights and powers granted herein to the Trustee have been granted in order to perfect its security interest in the Securities Account and the Security Entitlements to the Financial Assets credited thereto and are powers coupled with an

interest and will neither be affected by the bankruptcy of the Depositor nor by the lapse of time. The obligations of the Securities Intermediary hereunder shall continue in effect until the security interest of the Trustee in the Securities Account and such Security Entitlements has been terminated pursuant to the terms of this Agreement and the Trustee has notified the Securities Intermediary of such termination in writing.

(viii) Notwithstanding anything else contained herein, the Depositor agrees that the Securities Account will be established only with the Securities Intermediary or another institution meeting the requirements of this Section, which agrees substantially as follows: (1) it will comply with Entitlement Orders related to such account issued by the Trustee, as collateral agent, without further consent by the Depositor; (2) until termination of the Agreement, it will not enter into any other agreement related to such account pursuant to which it agrees to comply with Entitlement Orders of any Person other than the Trustee, as collateral agent; and (3) all assets delivered or credited to it in connection with such account and all investments thereof will be promptly credited to such account.

(ix) The Depositor agrees to take or cause to be taken such further actions, to execute, deliver and file or cause to be executed, delivered and filed such further documents and instruments (including, without limitation, any financing statements under the Relevant UCC or this Agreement) as may be determined to be necessary, in order to perfect the interests created by this Section and otherwise effectuate the purposes, terms and conditions.

Section 8.02. Definitions. Capitalized terms set forth below and used in Section 8.01 shall have the following meanings:

"Account Property" means all amounts and investments held from time to time in the Securities Account (whether in the form of deposit accounts, physical property, book-entry securities, uncertificated securities, securities entitlements, investment property or otherwise), and all proceeds of the foregoing.

"Control" shall have the meaning specified in Section 8-106 of the UCC.

"Entitlement Holder" shall have the meaning specified in Section 8-102(a)(7) of the UCC.

"Entitlement Order" shall have the meaning specified in Section 8-102(a)(8) of the UCC (i.e., generally, orders directing the transfer or redemption of any Financial Asset).

"Financial Asset" shall have the meaning specified in Section 8-102(a)(9) of the UCC.

"Relevant UCC" means the Uniform Commercial Code as in effect in the applicable jurisdiction.

"Securities Intermediary" means the Person acting as Securities Intermediary under this Agreement (which is First Union National Bank), its successor in interest, and any successor Securities Intermediary appointed pursuant to Section 8.01.

"Security Entitlement" shall have the meaning specified in Section 8-102(a)(17) of the UCC.

"UCC" shall mean the Uniform Commercial Code as adopted in the State of New York.

Section 8.03. Liability of the Securities Intermediary. The Securities Intermediary shall be liable in accordance herewith only to the same extent as the Trustee shall be liable hereunder as provided in Sections 5.03 and 5.05 hereof.

IN WITNESS WHEREOF, the Depositor and the Trustee have caused their names to be signed hereto by their respective officers thereunto duly authorized, all as of the day and year first above written.

SEQUOIA MORTGAGE TRUST 1

By: WILMINGTON TRUST COMPANY, not in its individual capacity, but solely as Owner Trustee of Sequoia Mortgage Trust 1 under the Amended and Restated Deposit Trust Agreement dated as of July 17, 1997

By:_________________________________
Name:

Title:

FIRST UNION NATIONAL BANK,
as Trustee

By: ____________________________________
Name:
Title:

EXHIBIT A

FORMS OF CERTIFICATES

[Form of Class A Certificates]

THIS CERTIFICATE DOES NOT REPRESENT AN INTEREST IN OR OBLIGATION OF SEQUOIA MORTGAGE TRUST 1, THE TRUSTEE (AS HEREINAFTER DEFINED) OR ANY OF THEIR RESPECTIVE AFFILIATES, AND IS NOT INSURED OR GUARANTEED BY ANY GOVERNMENTAL AGENCY OR INSTRUMENTALITY NOR ANY OTHER PERSON OR ENTITY.

THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR FOREIGN SECURITIES LAWS, AND MAY NOT, DIRECTLY OR INDIRECTLY, BE SOLD OR OTHERWISE TRANSFERRED, OR OFFERED FOR SALE, UNLESS THE PROPOSED TRANSFEREE IS (I) A "QUALIFIED INSTITUTIONAL BUYER" PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A "QUALIFIED INSTITUTIONAL BUYER" TO WHOM NOTICE HAS BEEN GIVEN THAT THE RESALE, PLEDGE OR TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT OR (II) A SOPHISTICATED INSTITUTIONAL INVESTOR THAT IS AN "ACCREDITED INVESTOR" OR ALL OF WHOSE EQUITY OWNERS ARE "ACCREDITED INVESTORS" AS SUCH TERM IS DEFINED IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT, OR, IF THIS CERTIFICATE IS TO BE PURCHASED FOR ONE OR MORE INSTITUTIONAL ACCOUNTS ("INVESTOR ACCOUNTS") FOR WHICH SUCH PROPOSED TRANSFEREE IS ACTING AS FIDUCIARY OR AGENT (EXCEPT IF SUCH PROPOSED TRANSFEREE IS A BANK DEFINED IN SECTION 3(a)(2) OF THE SECURITIES ACT, OR A SAVINGS AND LOAN ASSOCIATION OR OTHER INSTITUTION AS DESCRIBED IN SECTION 3(a)(5)(A) OF THE SECURITIES ACT, WHETHER ACTING IN ITS INDIVIDUAL OR IN A FIDUCIARY CAPACITY), EACH SUCH INVESTOR ACCOUNT IS AN INSTITUTIONAL INVESTOR AND AN "ACCREDITED INVESTOR" ON A LIKE BASIS, AND SUCH TRANSFER IS IN ACCORDANCE WITH THE PROVISIONS OF SECTION 4.02 OF THE TRUST AGREEMENT REFERRED TO HEREIN. ANY SUCH TRANSFER MUST ALSO COMPLY WITH THE OTHER PROVISIONS OF SECTION 4.02 OF THE TRUST AGREEMENT.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE TRUSTEE OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

SEQUOIA MORTGAGE TRUST 1A

MORTGAGE BOND-BACKED CERTIFICATES,
SERIES 1999-A

Class A

Certificate No. 1

Original Principal Amount of this Certificate: $157,266,300.00

Percentage Interest: 100%

Certificate Interest Rate: Variable

Closing Date: May 4, 1999

CUSIP No.: 817435 AC4

This certifies that CEDE & CO. is the registered owner of the undivided Percentage Interest evidenced by this Certificate in the aggregate amount distributable on the Class of Certificates specified above evidencing undivided ownership interests in a trust fund (the "Trust Fund") consisting primarily of two classes of collateralized mortgage bonds with an aggregate outstanding principal amount as of the Closing Date of $157,266,300.30 (the "Underlying Bonds"), collateralized by a pool of adjustable rate, one- to-four-family first lien mortgage loans and the Bond Insurance Policy. The Trust Fund was created pursuant to a trust agreement dated May 4, 1999 (the "Trust Agreement") between Sequoia Mortgage Trust 1 (the "Depositor") and First Union National Bank, as trustee (the "Trustee"), which terms include any successor entity under the Trust Agreement, a summary of certain of the pertinent provisions of which is set forth hereinafter. This Certificate is issued under and is subject to the terms, provisions and conditions of the Trust Agreement, to which Trust Agreement the Holder of this Certificate by virtue of the acceptance hereof assents and by which such Holder is bound.

This Certificate is one of a duly authorized issue of Sequoia Mortgage Trust 1A Mortgage Bond-Backed Certificates, Series 1999-A (herein called the "Certificates") issued under the Trust Agreement to which reference is hereby made for a statement of the respective rights thereunder of the Depositor, the Trustee and the Holders of the Certificates and the terms upon which the Certificates are executed and delivered. All terms used in this Certificate which are defined in the Trust Agreement shall have the meanings assigned to them in the Trust Agreement.

The Trust Agreement requires the distribution on each Distribution Date, commencing in June 1999, to the person in whose name this Certificate is registered at the close of business on the immediately preceding Record Date, of an amount equal to the product of the Percentage Interest evidenced by this Certificate and the amount distributable pursuant to the Trust Agreement on the Class of Certificates specified above for such Distribution Date. Pursuant to the Trust Agreement, this Class of Certificates is entitled on each Distribution Date to distributions of interest and of principal to the extent provided for in the Trust Agreement. Notwithstanding the foregoing, the obligation of the Trustee to make any such distribution on any Distribution Date is limited to the extent that distributions of interest and principal in respect of the Underlying Bonds shall have been received by it not later than such Distribution Date.

Distributions on this Certificate will be made by the Trustee by wire transfer to an account specified in writing by such Certificateholder at least five Business Days prior to the preceding Record Date or in such other manner as may be agreed to by the Trustee and such Certificateholder. Except as otherwise provided in the Trust Agreement, the final distribution on this Certificate will be made only upon presentation and surrender of this Certificate to the Trustee at the office thereof specified in the notice to Certificateholders of such final distribution.

The Certificates are limited in right of distribution to the Percentage Interests represented thereby in distributions in respect of the Underlying Bonds received by the Trustee, subject to the provisions of and all as more specifically set forth in the Trust Agreement. The Certificateholder, by its acceptance of this Certificate, agrees that it will look solely to the funds on deposit in the Certificate Account for distributions hereunder and that neither the Trustee in its individual capacity nor the Depositor is personally liable to the Certificateholders for any amount distributable under this Certificate or the Trust Agreement or, except as expressly provided in the Trust Agreement, subject to any liability under the Trust Agreement.

This Certificate does not purport to summarize the Trust Agreement and reference is made to the Trust Agreement for the interests, rights and limitations of rights, benefits, obligations and duties evidenced hereby, and the rights, duties and immunities of the Trustee.

This Class of Certificates is issuable in registered form in minimum denominations of $250,000 initial Principal Amount and integral multiples of $1 in excess thereof. Transfer of this Class of Certificates is subject to certain restrictions and limitations in the manner more fully set forth above and in, and as limited by, the Trust Agreement.

The Holder hereof or of any interest herein, by its acceptance of this Certificate or such interest, agrees with the Trustee, the Depositor and the other Holders that (i) it is a "qualified institutional buyer", as such term is defined in Rule 144A under the Securities Act or a sophisticated institutional investor that is, or in which each equity owner is, an "accredited investor" as such term is defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act, or, if this Certificate or such interest is to be purchased for one or more institutional accounts ("investor accounts") for which the Holder hereof or thereof is acting as fiduciary or agent (except if the Holder hereof or thereof is a bank as defined in Section 3(a)(2) of the Securities Act, or a savings and loan association or other institution as described in Section 3(a)(5)(A) of the Securities Act, whether acting in its individual or in a fiduciary capacity), each such investor account is an institutional investor and an "accredited investor" on a like basis, (ii) it will not

transfer this Certificate or such interest except in accordance with the Trust Agreement, (iii) it will indemnify the Trustee and the Depositor against any liability that may result if any transfer of this Certificate or such interest is not exempt from the registration requirements of federal, state and foreign securities laws, and (iv) it will treat this Certificate as debt for all tax purposes. The foregoing agreements are in addition to the other obligations of the Holders under the Trust Agreement.

The Trustee and the Registrar shall treat the person in whose name a Certificate is registered as provided in the Trust Agreement as the absolute owner thereof for all purposes, whether or not such Certificate shall be overdue and notwithstanding any notation of ownership or other writing thereon, and neither the Trustee nor the Registrar shall be affected by any notice to the contrary.

The Trust Agreement permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights of the Holders of the Certificates under the Trust Agreement at any time by the Depositor and Trustee with the consent of the Holders of Certificates evidencing Percentage Interests aggregating not less than 66-2/3% of each Class of Certificates. Any such consent by the Holder of this Certificate shall be conclusive and binding upon such Holder and upon all future Holders of this Certificate and of any Certificate issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof whether or not notation of such consent or waiver is made upon this Certificate. The Trust Agreement also permits the Trustee to amend or waive certain terms and conditions set forth in the Trust Agreement without the consent of Holders of the Certificates issued thereunder.

IN WITNESS WHEREOF, the Trustee has caused this certificate to be duly executed.

Dated:____________________

FIRST UNION NATIONAL BANK, not in its individual capacity but solely as Trustee of the within mentioned Trust Fund

By:____________________________________
Authorized Officer

Certificate of Authentication

This is one of the Certificates referred to in the within mentioned Trust Agreement.

Dated:___________________

FIRST UNION NATIONAL BANK,
as Registrar

By:____________________________________

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ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sell(s), assign(s) and transfer(s) unto ____

____

____
(Please print or typewrite name and address, including postal zip code, of assignee)

the within Certificate and hereby authorize(s) the transfer of registration of such Certificate on the books of the Registrar.

I (we) further direct the Registrar to issue a new Certificate of authorized denomination or notional amount, as the case may be, evidencing the same aggregate Percentage Interest as the within Certificate, to the above named assignee and to deliver such Certificate to the following address: ____

____

____

____

Dated: _______________________

Tax Identification No. of Assignee:

____
Signature by or on behalf of assignor (signature must be signed as registered)

____

____
Signature Guaranteed

6

DISTRIBUTION INSTRUCTIONS

The assignee should include the following for the information of the Trustee:

Distribution shall be made by wire transfer in immediately available funds to

____

____

____

for the account of account number _____, or, if mailed by check, to ___________

Applicable statements should be mailed to _____________________________

____

____
Signature of assignee or agent
(for authorization of wire transfer only)

[Form of Class X Certificates]

THIS CERTIFICATE DOES NOT REPRESENT AN INTEREST IN OR OBLIGATION OF SEQUOIA MORTGAGE TRUST 1, THE TRUSTEE (AS HEREINAFTER DEFINED) OR ANY OF THEIR RESPECTIVE AFFILIATES, AND IS NOT INSURED OR GUARANTEED BY ANY GOVERNMENTAL AGENCY OR INSTRUMENTALITY NOR ANY OTHER PERSON OR ENTITY.

THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR FOREIGN SECURITIES LAWS, AND MAY NOT, DIRECTLY OR INDIRECTLY, BE SOLD OR OTHERWISE TRANSFERRED, OR OFFERED FOR SALE, UNLESS THE PROPOSED TRANSFEREE IS (I) A "QUALIFIED INSTITUTIONAL BUYER" PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A "QUALIFIED INSTITUTIONAL BUYER" TO WHOM NOTICE HAS BEEN GIVEN THAT THE RESALE, PLEDGE OR TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT OR (II) A SOPHISTICATED INSTITUTIONAL INVESTOR THAT IS AN "ACCREDITED INVESTOR" OR ALL OF WHOSE EQUITY OWNERS ARE "ACCREDITED INVESTORS" AS SUCH TERM IS DEFINED IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT, OR, IF THIS CERTIFICATE IS TO BE PURCHASED FOR ONE OR MORE INSTITUTIONAL ACCOUNTS ("INVESTOR ACCOUNTS") FOR WHICH SUCH PROPOSED TRANSFEREE IS ACTING AS FIDUCIARY OR AGENT (EXCEPT IF SUCH PROPOSED TRANSFEREE IS A BANK DEFINED IN SECTION 3(a)(2) OF THE SECURITIES ACT, OR A SAVINGS AND LOAN ASSOCIATION OR OTHER INSTITUTION AS DESCRIBED IN SECTION 3(a)(5)(A) OF THE SECURITIES ACT, WHETHER ACTING IN ITS INDIVIDUAL OR IN A FIDUCIARY CAPACITY), EACH SUCH INVESTOR ACCOUNT IS AN INSTITUTIONAL INVESTOR AND AN "ACCREDITED INVESTOR" ON A LIKE BASIS, AND SUCH TRANSFER IS IN ACCORDANCE WITH THE PROVISIONS OF SECTION 4.02 OF THE TRUST AGREEMENT REFERRED TO HEREIN. ANY SUCH TRANSFER MUST ALSO COMPLY WITH THE OTHER PROVISIONS OF SECTION 4.02 OF THE TRUST AGREEMENT.

EXCEPT AS PROVIDED IN SECTION 4.02 OF THE TRUST AGREEMENT REFERRED TO HEREIN, THIS CERTIFICATE MAY NOT BE PURCHASED BY OR TRANSFERRED TO ANY PERSON UNLESS THE TRUSTEE SHALL HAVE RECEIVED AN OPINION OF COUNSEL TO THE EFFECT THAT SUCH TRANSFER WILL NOT RESULT IN MATERIAL ADVERSE TAX CONSEQUENCES TO THE HOLDERS OF CLASS A CERTIFICATES, THE TRUST FUND OR THE DEPOSITOR.

PRINCIPAL WILL NOT BE DISTRIBUTABLE IN RESPECT OF THIS CERTIFICATE. INTEREST IS CALCULATED ON THIS CERTIFICATE BASED ON A NOTIONAL AMOUNT, WHICH, AS OF ANY DISTRIBUTION DATE, IS EQUAL TO THE AGGREGATE PRINCIPAL AMOUNT OF THE CLASS A CERTIFICATES ON SUCH DISTRIBUTION DATE. CONSEQUENTLY, THE NOTIONAL AMOUNT OF THIS CERTIFICATE AT ANY TIME MAY BE LESS THAN THE INITIAL NOTIONAL AMOUNT OF THIS CERTIFICATE AS SET FORTH HEREIN.

SEQUOIA MORTGAGE TRUST 1A

MORTGAGE BOND-BACKED CERTIFICATES,
SERIES 1999-A

Class X

Certificate No. 1

Original Notional Amount of this Certificate: $157,266,300.00

Percentage Interest: 100%

Certificate Interest Rate: Variable

Closing Date: May 4, 1999

CUSIP No.: 817435 AD2

This certifies that AUER & CO. is the registered owner of the undivided Percentage Interest evidenced by this Certificate in the aggregate amount distributable on the Class of Certificates specified above evidencing undivided ownership interests in a trust fund (the "Trust Fund") consisting primarily of two classes of collateralized mortgage bonds with an aggregate outstanding principal amount as of the Closing Date of $157,266,300.30 (the "Underlying Bonds") collateralized by a pool of adjustable rate, one- to-four-family first lien mortgage loans and the Bond Insurance Policy. The Trust Fund was created pursuant to a trust agreement dated May 4, 1999 (the "Trust Agreement") between Sequoia Mortgage Trust 1 (the "Depositor") and First Union National Bank, as trustee (the "Trustee"), which terms include any successor entity under the Trust Agreement, a summary of certain of the pertinent provisions of which is set forth hereinafter. This Certificate is issued under and is subject to the terms, provisions and conditions of the Trust Agreement, to which Trust Agreement the Holder of this Certificate by virtue of the acceptance hereof assents and by which such Holder is bound.

This Certificate is one of a duly authorized issue of Sequoia Mortgage Trust 1A Mortgage Bond-Backed Certificates, Series 1999-A (herein called the "Certificates") issued under the Trust Agreement to which reference is hereby made for a statement of the respective rights thereunder of the Depositor, the Trustee and the Holders of the Certificates and the terms upon which the Certificates are executed and delivered. All terms used in this Certificate which are defined in the Trust Agreement shall have the meanings assigned to them in the Trust Agreement.

The Trust Agreement requires the distribution on each Distribution Date, commencing June 1999, to the person in whose name this Certificate is registered at the close of business on the immediately preceding Record Date, of an amount equal to the product of the Percentage Interest evidenced by this Certificate and the amount distributable pursuant to the Trust Agreement on the Class of Certificates specified above for such Distribution Date. Pursuant to the Trust Agreement, this Class of Certificates is entitled on each Distribution Date to distributions of interest to the extent provided for in the Trust Agreement. Notwithstanding the foregoing, the obligation of the Trustee to make any such distribution on any Distribution Date is limited to the extent that distributions of interest in respect of the Underlying Bonds shall have been received by it not later than such Distribution Date.

Distributions on this Certificate will be made by the Trustee by wire transfer to an account specified in writing by such Certificateholder at least five Business Days prior to the preceding Record Date or in such other manner as may be agreed to by the Trustee and such Certificateholder. Except as otherwise provided in the Trust Agreement, the final distribution on this Certificate will be made only upon presentation and surrender of this Certificate to the Trustee at the office thereof specified in the notice to Certificateholders of such final distribution.

The Certificates are limited in right of distribution to the Percentage Interests represented thereby in distributions in respect of the Underlying Bonds received by the Trustee, subject to the provisions of and all as more specifically set forth in the Trust Agreement. The Certificateholder, by its acceptance of this Certificate, agrees that it will look solely to the funds on deposit in the Certificate Account for distributions hereunder and that neither the Trustee in its individual capacity nor the Depositor is personally liable to the Certificateholders for any amount distributable under this Certificate or the Trust Agreement or, except as expressly provided in the Trust Agreement, subject to any liability under the Trust Agreement.

This Certificate does not purport to summarize the Trust Agreement and reference is made to the Trust Agreement for the interests, rights and limitations of rights, benefits, obligations and duties evidenced hereby, and the rights, duties and immunities of the Trustee.

This Class of Certificates is issuable in registered form in minimum denominations of $20,000,000 initial Notional Amount and integral multiples of $1 in excess thereof. Transfer of this Class of Certificates is subject to certain restrictions and limitations in the manner more fully set forth above and in, and as limited by, the Trust Agreement.

The Holder hereof or of any interest herein, by its acceptance of this Certificate or such interest, agrees with the Trustee, the Depositor and the other Holders that (i) it is a "qualified institutional buyer", as such term is defined in Rule 144A under the Securities Act or a sophisticated institutional investor that is, or in which each equity owner is, an "accredited investor" as such term is defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act, or, if this Certificate or such interest is to be purchased for one or more institutional accounts ("investor accounts") for which the Holder hereof or thereof is acting as fiduciary or agent (except if the Holder hereof or thereof is a bank as defined in Section 3(a)(2) of the Securities Act, or a savings and loan association or other institution as described in Section 3(a)(5)(A) of the Securities Act, whether acting in its individual or in a fiduciary capacity), each such investor account is an institutional investor and an "accredited investor" on a like basis, (ii) it will not

transfer this Certificate or such interest except in accordance with the Trust Agreement, (iii) it will indemnify the Trustee and the Depositor against any liability that may result if any transfer of this Certificate or such interest is not exempt from the registration requirements of federal, state and foreign securities laws, and (iv) it will treat this Certificate as debt for all tax purposes. The foregoing agreements are in addition to the other obligations of the Holders under the Trust Agreement.

The Trustee and the Registrar shall treat the person in whose name a Certificate is registered as provided in the Trust Agreement as the absolute owner thereof for all purposes, whether or not such Certificate shall be overdue and notwithstanding any notation of ownership or other writing thereon, and neither the Trustee nor the Registrar shall be affected by any notice to the contrary.

The Trust Agreement permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights of the Holders of the Certificates under the Trust Agreement at any time by the Depositor and Trustee with the consent of the Holders of Certificates evidencing Percentage Interests aggregating not less than 66-2/3% of each Class of Certificates. Any such consent by the Holder of this Certificate shall be conclusive and binding upon such Holder and upon all future Holders of this Certificate and of any Certificate issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof whether or not notation of such consent or waiver is made upon this Certificate. The Trust Agreement also permits the Trustee to amend or waive certain terms and conditions set forth in the Trust Agreement without the consent of Holders of the Certificates issued thereunder.

IN WITNESS WHEREOF, the Trustee has caused this certificate to be duly executed.

Dated:____________________

FIRST UNION NATIONAL BANK,
not in its individual capacity but
solely as Trustee of the within
mentioned Trust Fund

By:___________________________________
Authorized Officer

Certificate of Authentication

This is one of the Certificates referred to in the within mentioned Trust Agreement.

Dated:___________________

FIRST UNION NATIONAL BANK,
as Registrar

By:___________________________________

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sell(s), assign(s) and transfer(s) unto

____

____

____
(Please print or typewrite name and address, including postal zip code, of assignee)

the within Certificate and hereby authorize(s) the transfer of registration of such Certificate on the books of the Registrar.

I (we) further direct the Registrar to issue a new Certificate of authorized denomination or notional amount, as the case may be, evidencing the same aggregate Percentage Interest as the within Certificate, to the above named assignee and to deliver such Certificate to the following address: ____

____

____

____

Dated:____________________________

Tax Identification
No. of Assignee:

____
Signature by or on behalf of assignor
(signature must be signed as registered)

____

____
Signature Guaranteed

DISTRIBUTION INSTRUCTIONS

The assignee should include the following for the information of the Trustee:

Distribution shall be made by wire transfer in immediately available funds to

____

____

for the account of account number _____, or, if mailed by check, to ___________

Applicable statements should be mailed to _____________________________

____

____
Signature of assignee or agent
(for authorization of wire transfer only)

EXHIBIT B

SCHEDULE OF UNDERLYING BONDS

Certificate Designation	Original Principal Amount	Outstanding Principal Amount
Sequoia Mortgage Trust 1 Collateralized Mortgage Bonds		
Class A-1	$334,347,000.00	$98,403,314.15
Class A-2	200,000,000.00	58,862,986.15

EXHIBIT C

FORM OF RULE 144A INVESTMENT LETTER
[FORM OF "QUALIFIED INSTITUTIONAL BUYER" TRANSFEREE'S CERTIFICATE]

____
Date

Sequoia Mortgage Trust 1
c/o Redwood Trust, Inc.
591 Redwood Highway
Suite 3100
Mill Valley, California 94941
Attention: Vickie Rath

First Union National Bank
230 South Tryon Street
Charlotte, North Carolina 28288
Attention: Structured Finance Trust Services - NC1179

Re: Sequoia Mortgage Trust 1A Mortgage
Bond-Backed Certificates, Series 1999-A

Ladies and Gentlemen:

In connection with our acquisition of the above-referenced Mortgage Bond-Backed Certificates (the "Certificates") we certify that (a) we understand that the Certificates have not been registered under the Securities Act of 1933, as amended (the "Act"), or any state securities laws and are being transferred to us in a transaction that is exempt from the registration requirements of the Act and any such laws, (b) we have such knowledge and experience in financial and business matters that we are capable of evaluating the merits and risks of investments in the Certificates, (c) we have had the opportunity to ask questions of and receive answers from the transferor concerning the purchase of the Certificates and all matters relating thereto or any additional information deemed necessary to our decision to purchase the Certificates, (d) we have not, nor has anyone acting on our behalf, offered, transferred, pledged, sold or otherwise disposed of the Certificates or any interest in the Certificates, or solicited any offer to buy, transfer, pledge or otherwise dispose of the Certificates or any interest in the Certificates from any person in any manner, or made any general solicitation by means of general advertising or in any other manner, or taken any other action that would constitute a distribution of the Certificates under the Act or that would render the disposition of the Certificates a violation of Section 5 of the Act or any state securities laws or require registration pursuant thereto, and we will not act, or authorize any person to act, in such manner with respect to the Certificates, and (e) we are a "qualified institutional buyer" as that term is defined in Rule 144A under the Act. We are aware that the sale to us is being made in reliance on Rule 144A under the Act. We are acquiring the Certificates for our own account or for resale pursuant to Rule 144A under the Act and understand that such Certificates may be resold, pledged or transferred only (i) to a person reasonably believed to be a qualified institutional buyer that purchases for its own account or for the account of a qualified institutional buyer to whom notice is given that the resale, pledge or transfer is being made in reliance on Rule 144A under the Act or (ii) pursuant to another exemption from registration under the Act.

Very truly yours,

____
Print Name of Purchaser

By: ____________________________________
Name:
Title:

EXHIBIT D

FORM OF NON-RULE 144A INVESTMENT LETTER

____
Date

Sequoia Mortgage Trust 1
c/o Redwood Trust, Inc.
591 Redwood Highway
Suite 3100
Mill Valley, California 94941
Attention: Vickie Rath

First Union National Bank
230 South Tryon Street
Charlotte, North Carolina 28288
Attention: Structured Finance Trust Services - NC1179

Re: Sequoia Mortgage Trust 1A Mortgage Bond-Backed Certificates, Series 1999-A

Ladies and Gentlemen:

In connection with our acquisition of the above-referenced Mortgage Bond-Backed Certificates (the "Certificates") we certify that (a) we understand that the Certificates have not been registered under the Securities Act of 1933, as amended (the "Act"), or any state securities laws and are being transferred to us in a transaction that is exempt from the registration requirements of the Act and any such laws, (b) we are an "accredited investor," as defined in Rule 501(a)(1), (2), (3) or (7) under the Act, and have such knowledge and experience in financial and business matters that we are capable of evaluating the merits and risks of investments in the Certificates, (c) we have had the opportunity to ask questions of and receive answers from the transferor concerning the purchase of the Certificates and all matters relating thereto or any additional information deemed necessary to our decision to purchase the Certificates, (d) we are acquiring the Certificates for investment for our own account and not with a view to any distribution of such Certificates (but without prejudice to our right at all times to sell or otherwise dispose of the Certificates in accordance with clause (f) below), (e) we have not offered or sold any Certificates to, or solicited offers to buy any Certificates from, any person, or otherwise approached or negotiated with any person with respect thereto, or taken any other action that would result in a violation of Section 5 of the Act or any state securities laws, and (f) we will not sell, transfer or otherwise dispose of any Certificates unless (1) such sale, transfer or other disposition is made pursuant to an effective registration statement under the Act and in compliance with any relevant state securities laws or is exempt from such registration requirements and, if requested, we will at our expense provide an opinion of counsel satisfactory to the addressees of this certificate that such sale, transfer or other disposition may be made pursuant to an exemption from the Act, (2) the purchaser or transferee of such Certificate has executed and delivered to you a certificate to substantially the same effect as this certificate, and (3) the purchaser or transferee has otherwise complied with any conditions for transfer set forth in the Trust Agreement dated May 4, 1999, between Sequoia Mortgage Trust 1, as depositor, and First Union National Bank, as trustee.

Very truly yours,

____
Print Name of Purchaser

By:____________________________________
Name:
Title:

EXHIBIT 11.1

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

<TABLE>
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<S>	Three Months Ended June 30, 1999 <C>	Six Months Ended June 30, 1999 <C>
Basic:		
Average common shares outstanding	10,051,565	10,412,855
Total	10,051,565	10,412,855
Net Income	$ 2,508,411	$ 8,363,228
Per Share Amount	$ 0.25	$ 0.80
DILUTED:		
Average common shares outstanding	10,051,565	10,412,855
Net effect of dilutive stock options outstanding during the period -- based on the treasury stock method	121,395	110,474
Total	10,172,960	10,523,329
Net Income	$ 2,508,411	$ 8,363,228
Per Share Amount	$ 0.25	$ 0.79

</TABLE>

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

<TABLE>
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<S>	Three Months Ended June 30, 1998 <C>	Six Months Ended June 30, 1998 <C>
Basic:		
Average common shares outstanding	14,106,828	14,115,342
Total	14,106,828	14,115,342
Net Income	($ 491,212)	$ 1,959,171
Per Share Amount	($ 0.03)	$ 0.14
DILUTED:		
Average common shares outstanding	14,106,828	14,115,342
Net effect of dilutive stock options outstanding		

during the period -- based on the treasury stock method	149,030	253,274
Total	14,255,858	14,368,616
Net Income	($ 491,212)	$ 1,959,171
Per Share Amount	($ 0.03)	$ 0.14

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM JUNE 30,
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