**UNITED STATES OF AMERICA**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**FORM 10-Q**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended: June 30, 2022**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Transition Period from _______________ to _______________.**
**Commission File Number 1-13759**

# REDWOOD TRUST, INC.

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| **Maryland** | **68-0329422** |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **One Belvedere Place, Suite 300** **Mill Valley, California** | **94941** |
| (Address of Principal Executive Offices) | (Zip Code) |

**(415) 389-7373**
(Registrant's Telephone Number, Including Area Code)
**Not Applicable**
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all 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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| | | Emerging growth company | ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes☐ No ☒

Securities registered pursuant to Section 12(b) of the Act:

| **Title of each class** | **Trading symbol(s)** | **Name of each exchange on which registered** |
|---|---|---|
| Common stock, par value $0.01 per share | RWT | New York Stock Exchange |

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

| | |
|---|---|
| Common Stock, $0.01 par value per share | 116,765,789 shares outstanding as of August 2, 2022 |

**REDWOOD TRUST, INC.**
**2022 FORM 10-Q REPORT**
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## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

## REDWOOD TRUST, INC. AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS

| (In Thousands, except Share Data) (Unaudited) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **ASSETS** [(1)] | | |
| Residential loans, held-for-sale, at fair value | $ 1,213,067 | $ 1,845,282 |
| Residential loans, held-for-investment, at fair value | 5,365,532 | 5,747,150 |
| Business purpose loans, held-for-sale, at fair value | 505,171 | 358,309 |
| Business purpose loans, held-for-investment, at fair value | 4,697,766 | 4,432,680 |
| Consolidated Agency multifamily loans, at fair value | 443,114 | 473,514 |
| Real estate securities, at fair value | 284,278 | 377,411 |
| Other investments | 679,667 | 641,969 |
| Cash and cash equivalents | 371,296 | 450,485 |
| Restricted cash | 72,558 | 80,999 |
| Intangible assets | 34,720 | 41,561 |
| Derivative assets | 36,587 | 26,467 |
| Other assets | 171,780 | 231,117 |
| **Total Assets** | $ 13,875,536 | $ 14,706,944 |
| **LIABILITIES AND EQUITY** [(1)] | | |
| **Liabilities** | | |
| Short-term debt, net | $ 1,869,822 | $ 2,177,362 |
| Derivative liabilities | 6,591 | 3,317 |
| Accrued expenses and other liabilities | 190,825 | 245,788 |
| Asset-backed securities issued (includes $7,993,953 and $8,843,147 at fair value), net | 8,584,146 | 9,253,557 |
| Long-term debt, net | 1,966,061 | 1,640,833 |
| **Total liabilities** | 12,617,445 | 13,320,857 |
| Commitments and Contingencies (see *Note 16)* | | |
| **Equity** | | |
| Common stock, par value $0.01 per share, 395,000,000 shares authorized; 116,753,174 and 114,892,309 issued and outstanding | 1,168 | 1,149 |
| Additional paid-in capital | 2,363,709 | 2,316,799 |
| Accumulated other comprehensive loss | (57,788) | (8,927) |
| Cumulative earnings | 1,247,839 | 1,316,890 |
| Cumulative distributions to stockholders | (2,296,837) | (2,239,824) |
| **Total equity** | 1,258,091 | 1,386,087 |
| **Total Liabilities and Equity** | $ 13,875,536 | $ 14,706,944 |

(1) Our consolidated balance sheets include assets of consolidated variable interest entities ("VIEs") that can only be used to settle obligations of these VIEs and liabilities of consolidated VIEs for which creditors do not have recourse to Redwood Trust, Inc. or its affiliates. At June 30, 2022 and December 31, 2021, assets of consolidated VIEs totaled $9,951,520 and $10,661,081, respectively. At June 30, 2022 and December 31, 2021, liabilities of consolidated VIEs totaled $8,899,020 and $9,619,347, respectively. See *Note 4* for further discussion.

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

**REDWOOD TRUST, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME (LOSS)**

| (In Thousands, except Share Data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (Unaudited) | 2022 | 2021 | 2022 | 2021 |
| **Interest Income** | | | | |
| Residential loans | $ 65,047 | $ 48,433 | $ 130,250 | $ 92,088 |
| Business purpose loans | 80,934 | 70,323 | 175,233 | 134,511 |
| Multifamily loans | 4,732 | 4,860 | 9,485 | 9,646 |
| Real estate securities | 7,828 | 9,279 | 23,783 | 18,942 |
| Other interest income | 8,914 | 5,800 | 18,104 | 11,813 |
| Total interest income | 167,455 | 138,695 | 356,855 | 267,000 |
| **Interest Expense** | | | | |
| Short-term debt | (13,661) | (11,195) | (25,149) | (18,968) |
| Asset-backed securities issued | (88,859) | (76,419) | (194,554) | (148,980) |
| Long-term debt | (24,447) | (20,451) | (43,562) | (42,669) |
| Total interest expense | (126,967) | (108,065) | (263,265) | (210,617) |
| **Net Interest Income** | 40,488 | 30,630 | 93,590 | 56,383 |
| **Non-interest (Loss) Income** | | | | |
| Mortgage banking activities, net | (30,017) | 54,419 | (13,702) | 137,026 |
| Investment fair value changes, net | (87,972) | 49,480 | (94,092) | 94,567 |
| Other income, net | 7,006 | 2,126 | 12,989 | 5,969 |
| Realized gains, net | — | 8,384 | 2,581 | 11,100 |
| Total non-interest (loss) income, net | (110,983) | 114,409 | (92,224) | 248,662 |
| General and administrative expenses | (31,966) | (40,594) | (66,820) | (84,145) |
| Loan acquisition costs | (3,480) | (3,748) | (7,945) | (7,307) |
| Other expenses | (3,468) | (3,985) | (7,553) | (8,081) |
| **Net (Loss) Income before Benefit from (Provision for) Income Taxes** | (109,409) | 96,712 | (80,952) | 205,512 |
| Benefit from (provision for) income taxes | 9,443 | (6,687) | 11,901 | (18,230) |
| **Net (Loss) Income** | $ (99,966) | $ 90,025 | $ (69,051) | $ 187,282 |
| | | | | |
| Basic (loss) earnings per common share | $ (0.85) | $ 0.77 | $ (0.60) | $ 1.61 |
| Diluted (loss) earnings per common share | $ (0.85) | $ 0.66 | $ (0.60) | $ 1.38 |
| Basic weighted average shares outstanding | 119,660,173 | 112,921,070 | 119,771,554 | 112,337,984 |
| Diluted weighted average shares outstanding | 119,660,173 | 141,761,084 | 119,771,554 | 141,139,212 |

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

**REDWOOD TRUST, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

| (In Thousands) | Three Months Ended June 30, | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| (Unaudited) | 2022 | 2021 | | 2022 | 2021 |
| **Net (Loss) Income** | $ (99,966) | $ 90,025 | | $ (69,051) | $ 187,282 |
| Other comprehensive (loss) income: | | | | | |
| Net unrealized (loss) gain on available-for-sale securities | (33,409) | 11,224 | | (51,282) | 22,210 |
| Reclassification of unrealized loss (gain) on available-for-sale securities to net (loss) income | 1,066 | (7,500) | | 374 | (10,295) |
| Reclassification of unrealized loss on interest rate agreements to net (loss) income | 1,029 | 1,028 | | 2,047 | 2,046 |
| Total other comprehensive (loss) income | (31,314) | 4,752 | 4752000 | (48,861) | 13,961 |
| **Total Comprehensive (Loss) Income** | $ (131,280) | $ 94,777 | | $ (117,912) | $ 201,243 |

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

**REDWOOD TRUST, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**For the Three Months Ended June 30, 2022**

| (In Thousands, except Share Data) (Unaudited) | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Other Comprehensive (Loss) | Cumulative Earnings | Cumulative Distributions to Stockholders | Total |
|---|---|---|---|---|---|---|---|
| **March 31, 2022** | 120,289,243 | $ 1,203 | $ 2,391,344 | $ (26,474) | $ 1,347,805 | $ (2,268,612) | $ 1,445,266 |
| Net (loss) | — | — | — | — | (99,966) | — | (99,966) |
| Other comprehensive (loss) | — | — | — | (31,314) | — | — | (31,314) |
| Employee stock purchase and incentive plans | 143,964 | 1 | (135) | — | — | — | (134) |
| Non-cash equity award compensation | — | — | 5,266 | — | — | — | 5,266 |
| Share repurchases | (3,680,033) | (36) | (32,766) | — | — | — | (32,802) |
| Common dividends declared ($0.23 per share) | — | — | — | — | — | (28,225) | (28,225) |
| **June 30, 2022** | 116,753,174 | $ 1,168 | $ 2,363,709 | $ (57,788) | $ 1,247,839 | $ (2,296,837) | $ 1,258,091 |

**For the Six Months Ended June 30, 2022**

| (In Thousands, except Share Data) (Unaudited) | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Other Comprehensive (Loss) | Cumulative Earnings | Cumulative Distributions to Stockholders | Total |
|---|---|---|---|---|---|---|---|
| **December 31, 2021** | 114,892,309 | $ 1,149 | $ 2,316,799 | $ (8,927) | $ 1,316,890 | $ (2,239,824) | $ 1,386,087 |
| Net (loss) | — | — | — | — | (69,051) | — | (69,051) |
| Other comprehensive (loss) | — | — | — | (48,861) | — | — | (48,861) |
| Issuance of common stock | 5,232,869 | 52 | 67,423 | — | — | — | 67,475 |
| Employee stock purchase and incentive plans | 308,029 | 3 | (1,183) | — | — | — | (1,180) |
| Non-cash equity award compensation | — | — | 13,436 | — | — | — | 13,436 |
| Share repurchases | (3,680,033) | (36) | (32,766) | — | — | — | (32,802) |
| Common dividends declared ($0.46 per share) | — | — | — | — | — | (57,013) | (57,013) |
| **June 30, 2022** | 116,753,174 | $ 1,168 | $ 2,363,709 | $ (57,788) | $ 1,247,839 | $ (2,296,837) | $ 1,258,091 |

**For the Three Months Ended June 30, 2021**

| (In Thousands, except Share Data) (Unaudited) | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Other Comprehensive Income | Cumulative Earnings | Cumulative Distributions to Stockholders | Total |
|---|---|---|---|---|---|---|---|
| **March 31, 2021** | 112,998,732 | $ 1,130 | $ 2,281,647 | $ 4,988 | $ 1,094,534 | $ (2,166,724) | $ 1,215,575 |
| Net income | — | — | — | — | 90,025 | — | 90,025 |
| Other comprehensive income | — | — | — | 4,752 | — | — | 4,752 |
| Employee stock purchase and incentive plans | 54,048 | 1 | 122 | — | — | — | 123 |
| Non-cash equity award compensation | — | — | 5,643 | — | — | — | 5,643 |
| Common dividends declared ($0.18 per share) | — | — | — | — | — | (20,976) | (20,976) |
| **June 30, 2021** | 113,052,780 | $ 1,131 | $ 2,287,412 | $ 9,740 | $ 1,184,559 | $ (2,187,700) | $ 1,295,142 |

**For the Six Months Ended June 30, 2021**

| (In Thousands, except Share Data) (Unaudited) | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Cumulative Earnings | Cumulative Distributions to Stockholders | Total |
|---|---|---|---|---|---|---|---|
| **December 31, 2020** | 112,090,006 | $ 1,121 | $ 2,264,874 | $ (4,221) | $ 997,277 | $ (2,148,152) | $ 1,110,899 |
| Net income | — | — | — | — | 187,282 | — | 187,282 |
| Other comprehensive income | — | — | — | 13,961 | — | — | 13,961 |
| Issuance of common stock | 806,068 | 8 | 13,366 | — | — | — | 13,374 |
| Employee stock purchase and incentive plans | 156,706 | 2 | (689) | — | — | — | (687) |
| Non-cash equity award compensation | — | — | 9,861 | — | — | — | 9,861 |
| Common dividends declared ($0.34 per share) | — | — | — | — | — | (39,548) | (39,548) |
| **June 30, 2021** | 113,052,780 | $ 1,131 | $ 2,287,412 | $ 9,740 | $ 1,184,559 | $ (2,187,700) | $ 1,295,142 |

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

## REDWOOD TRUST, INC. AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| (In Thousands) (Unaudited) | Six Months Ended June 30, 2022 | 2021 |
|---|---|---|
| **Cash Flows From Operating Activities:** | | |
| Net (loss) income | $ (69,051) | $ 187,282 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Amortization of premiums, discounts, and securities issuance costs, net | (2,538) | 3,998 |
| Depreciation and amortization of non-financial assets | 7,710 | 8,405 |
| Originations of held-for-sale loans | (766,852) | (567,546) |
| Purchases of held-for-sale loans | (3,395,459) | (6,682,864) |
| Proceeds from sales of held-for-sale loans | 3,376,600 | 4,526,370 |
| Principal payments on held-for-sale loans | 114,731 | 19,856 |
| Net settlements of derivatives | 112,649 | 39,697 |
| Non-cash equity award compensation expense | 13,436 | 9,861 |
| Market valuation adjustments | 132,594 | (213,641) |
| Realized gains, net | (2,581) | (11,100) |
| Net change in: | | |
| Accrued interest receivable and other assets | 63,829 | 10,260 |
| Accrued interest payable and accrued expenses and other liabilities | (75,856) | 17,327 |
| Net cash used in operating activities | (490,788) | (2,652,095) |
| **Cash Flows From Investing Activities:** | | |
| Originations of loan investments | (954,179) | (348,389) |
| Purchases of loan investments | (22,006) | — |
| Proceeds from sales of loan investments | — | 9,231 |
| Principal payments on loan investments | 1,160,403 | 1,312,064 |
| Purchases of real estate securities | (15,006) | (18,593) |
| Sales of securities held in consolidated securitization trusts | — | 8,197 |
| Proceeds from sales of real estate securities | 23,329 | 36,735 |
| Principal payments on real estate securities | 26,033 | 29,786 |
| Principal repayments from servicer advance investments | 71,401 | 45,838 |
| Purchases of HEIs | (97,389) | — |
| Principal payments on HEIs | 25,826 | — |
| Other investing activities, net | (14,573) | (5,025) |
| Net cash provided by investing activities | 203,839 | 1,069,844 |
| **Cash Flows From Financing Activities:** | | |
| Proceeds from borrowings on short-term debt | 3,450,606 | 6,604,603 |
| Repayments on short-term debt | (4,125,634) | (5,421,494) |
| Proceeds from issuance of asset-backed securities | 1,167,711 | 1,629,218 |
| Repayments on asset-backed securities issued | (954,136) | (1,088,809) |
| Proceeds from borrowings on long-term debt | 1,424,088 | 487,975 |
| Deferred long-term debt issuance costs paid | (17,363) | — |
| Repayments on long-term debt | (726,076) | (654,893) |
| Net payments on repurchase of common stock | (26,857) | — |
| Taxes paid on equity award distributions | (1,477) | (943) |
| Net proceeds from issuance of common stock | 67,770 | 255 |
| Dividends paid | (57,013) | (39,548) |
| Other financing activities, net | (2,300) | (2,292) |
| Net cash provided by financing activities | 199,319 | 1,514,072 |
| Net decrease in cash, cash equivalents and restricted cash | (87,630) | (68,179) |
| Cash, cash equivalents and restricted cash at beginning of period[1] | 531,484 | 544,450 |
| Cash, cash equivalents and restricted cash at end of period[1] | $ 443,854 | $ 476,271 |

REDWOOD TRUST, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

| (In Thousands)<br>(Unaudited) | Six Months Ended June 30, 2022 | 2021 |
|---|---|---|
| **Supplemental Cash Flow Information:** | | |
| Cash paid during the period for: | | |
| Interest | $ 247,968 | $ 198,364 |
| Taxes paid | 3,894 | 19,183 |
| **Supplemental Noncash Information:** | | |
| Real estate securities retained from loan securitizations | $ — | $ 9,374 |
| Retention of mortgage servicing rights from loan securitizations and sales | 4,543 | — |
| Transfers from loans held-for-sale to loans held-for-investment | 1,953,421 | 1,998,535 |
| Transfers from loans held-for-investment to loans held-for-sale | — | 44,922 |
| Transfers from residential loans to real estate owned | 3,132 | 15,827 |
| Transfers from long-term debt to short-term debt | 367,431 | 47,994 |
| Right-of-use asset obtained in exchange for operating lease liability | — | 1,135 |
| Issuance of common stock for 5 Arches acquisition | — | 13,375 |

(1) Cash, cash equivalents, and restricted cash includes cash and cash equivalents of $ 371 million and restricted cash of $ 73 million at June 30, 2022, and includes cash and cash equivalents of $ 450 million and restricted cash of $81 million at December 31, 2021.

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

**Note 1. Organization**

Redwood Trust, Inc., together with its subsidiaries, is a specialty finance company focused on several distinct areas of housing credit, with a mission to help make quality housing, whether rented or owned, accessible to all American households. Our operating platforms occupy a unique position in the housing finance value chain, providing liquidity to growing segments of the U.S. housing market not well served by government programs. We deliver customized housing credit investments to a diverse mix of investors through our best-in-class securitization platforms, whole-loan distribution activities and our publicly-traded securities. Our aggregation, origination and investment activities have evolved to incorporate a diverse mix of residential, business purpose and multifamily assets. Our goal is to provide attractive returns to shareholders through a stable and growing stream of earnings and dividends, capital appreciation, and a commitment to technological innovation that facilitates risk-minded scale. We operate our business in three segments: Residential Mortgage Banking, Business Purpose Mortgage Banking, and Investment Portfolio.

Our primary sources of income are net interest income from our investments and non-interest income from our mortgage banking activities. Net interest income primarily consists of the interest income we earn on investments less the interest expense we incur on borrowed funds and other liabilities. Income from mortgage banking activities is generated through the origination and acquisition of loans, and their subsequent sale, securitization, or transfer to our investment portfolios.

Redwood Trust, Inc. has elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), beginning with its taxable year ended December 31, 1994. We generally refer, collectively, to Redwood Trust, Inc. and those of its subsidiaries that are generally not subject to subsidiary-level corporate income tax as “the REIT” or “our REIT.” We generally refer to subsidiaries of Redwood Trust, Inc. that are subject to subsidiary-level corporate income tax as “our taxable REIT subsidiaries” or “TRS.”

Redwood Trust, Inc. was incorporated in the State of Maryland on April 11, 1994, and commenced operations on August 19, 1994. References herein to “Redwood,” the “company,” “we,” “us,” and “our” include Redwood Trust, Inc. and its consolidated subsidiaries, unless the context otherwise requires.

**Note 2. Basis of Presentation**

The consolidated financial statements presented herein are at June 30, 2022 and December 31, 2021, and for the three and six months ended June 30, 2022 and 2021. These interim unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in our annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") — as prescribed by the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) — have been condensed or omitted in these interim financial statements according to these SEC rules and regulations. Management believes that the disclosures included in these interim financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the company's Annual Report on Form 10-K for the year ended December 31, 2021. In the opinion of management, all normal and recurring adjustments have been made to present fairly the financial condition of the Company at June 30, 2022 and results of operations for all periods presented. The results of operations for the three and six months ended June 30, 2022 should not be construed as indicative of the results to be expected for the full year.

**Note 2. Basis of Presentation - (continued)**

***Principles of Consolidation***

In accordance with GAAP, we determine whether we must consolidate transferred financial assets and variable interest entities (“VIEs”) for financial reporting purposes. We currently consolidate the assets and liabilities of certain Sequoia securitization entities issued prior to 2012 ("Legacy Sequoia"), certain entities formed during and after 2012 in connection with the securitization of Redwood Select prime loans and Redwood Choice expanded-prime loans ("Sequoia"), entities formed in connection with the securitization of CoreVest single-family rental and bridge loans ("CAFL") and an entity formed in connection with the securitization of home equity investment contracts ("HEIs"). We also consolidate the assets and liabilities of certain Freddie Mac K-Series and Freddie Mac Seasoned Loans Structured Transaction ("SLST") securitizations in which we have invested. Each securitization entity is independent of Redwood and of each other and the assets and liabilities are not owned by and are not legal obligations of Redwood Trust, Inc. Our exposure to these entities is primarily through the financial interests we have purchased or retained, although for certain entities we are exposed to financial risks associated with our role as a sponsor or co-sponsor, servicing administrator, collateral administrator or depositor of these entities or as a result of our having sold assets directly or indirectly to these entities.

For financial reporting purposes, the underlying loans owned at the consolidated Legacy Sequoia, Sequoia and Freddie Mac SLST entities are shown under Residential loans held-for-investment, at fair value, the underlying loans at the consolidated Freddie Mac K-Series entity are shown under Consolidated Agency multifamily loans, at fair value, the underlying single-family rental and bridge loans at the consolidated CAFL entities are shown under Business purpose loans held-for-investment, at fair value, and the underlying HEIs at the consolidated HEI securitization entity are shown under Other investments, at fair value on our consolidated balance sheets. The asset-backed securities (“ABS”) issued to third parties by these entities are shown under ABS issued. In our consolidated statements of income, we record interest income on the loans owned at these entities and interest expense on the ABS issued by these entities as well as fair value changes, other income and expenses associated with these entities' activities. See *Note 14* for further discussion on ABS issued.

We also consolidate two partnerships ("Servicing Investment" entities) through which we have invested in servicing-related assets. We maintain an80% ownership interest in each entity and have determined that we are the primary beneficiary of these partnerships.

See *Note 4* for further discussion on principles of consolidation.

***Use of Estimates***

The preparation of financial statements requires us to make a number of significant estimates. These include estimates of fair value of certain assets and liabilities, amounts and timing of credit losses, prepayment rates, and other estimates that affect the reported amounts of certain assets and liabilities as of the date of the consolidated financial statements and the reported amounts of certain revenues and expenses during the reported periods. It is likely that changes in these estimates (e.g., valuation changes due to supply and demand, credit performance, prepayments, interest rates, or other reasons) will occur in the near term. Our estimates are inherently subjective in nature and actual results could differ from our estimates and the differences could be material.

***Acquisitions***

Refer to *Note 2* to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2021, for additional information regarding the acquisitions of 5 Arches, LLC ("5 Arches") and CoreVest American Finance Lender, LLC and certain affiliated entities ("CoreVest"), including purchase price allocations.

**Note 2. Basis of Presentation - (continued)**

In connection with the acquisitions of 5 Arches and CoreVest in 2019, we identified and recorded finite-lived intangible assets totaling $25 million and $57 million, respectively. The table below presents the amortization period and carrying value of our intangible assets, net of accumulated amortization at June 30, 2022.

***Table 2.1 – Intangible Assets – Activity***

| (Dollars in Thousands) | Intangible Assets at Acquisition | Accumulated Amortization at June 30, 2022 | Carrying Value at June 30, 2022 | Weighted Average Amortization Period (in years) |
|---|---|---|---|---|
| Borrower network | $ 45,300 | $ (17,527) | $ 27,773 | 7 |
| Broker network | 18,100 | (12,067) | 6,033 | 5 |
| Non-compete agreements | 9,500 | (8,858) | 642 | 3 |
| Tradenames | 4,000 | (3,728) | 272 | 3 |
| Developed technology | 1,800 | (1,800) | — | 2 |
| Loan administration fees on existing loan assets | 2,600 | (2,600) | — | 1 |
| **Total** | $ 81,300 | $ (46,580) | $ 34,720 | 6 |

All of our intangible assets are amortized on a straight-line basis. For each of the six months ended June 30, 2022 and 2021, we recorded intangible asset amortization expense of $7 million. Estimated future amortization expense is summarized in the table below.

***Table 2.2 – Intangible Asset Amortization Expense by Year***

| (In Thousands) | June 30, 2022 |
|---|---|
| 2022 (6 months) | $ 5,959 |
| 2023 | 10,091 |
| 2024 | 7,075 |
| 2025 | 6,471 |
| 2026 | 5,124 |
| **Total Future Intangible Asset Amortization** | $ 34,720 |

On a quarterly basis, we evaluate our finite-lived intangible assets for impairment indicators and additionally evaluate the useful lives of our intangible assets to determine if revisions to the remaining periods of amortization are warranted. We reviewed our finite-lived intangible assets and determined that the estimated lives were appropriate and that there were no indicators of impairment at June 30, 2022.

**Note 3. Summary of Significant Accounting Policies**

***Significant Accounting Policies***

Included in *Note 3* to the Consolidated Financial Statements of our Annual Report on Form 10-K for the year ended December 31, 2021 is a summary of our significant accounting policies.

***Recent Accounting Pronouncements***

*Newly Adopted Accounting Standards Updates ("ASUs")*

In August 2020, the FASB issued ASU 2020-06, "Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)." This new guidance simplifies the accounting for convertible debt by reducing the number of accounting models to separately present certain conversion features in equity. This new guidance was effective for fiscal years beginning after December 31, 2021. We adopted this guidance in the first quarter of 2022, which did not have a material impact on our consolidated financial statements.

**Note 3. Summary of Significant Accounting Policies - (continued)**

*Other Recent Accounting Pronouncements*

In June 2022, the FASB issued ASU 2022-03, “Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions.” ASU 2022-03 was issued to (1) to clarify the guidance in Topic 820, Fair Value Measurement, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, (2) to amend a related illustrative example, and (3) to introduce new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. The amendments in this update are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. We are evaluating the accounting and disclosure requirements of ASU 2022-03 and we plan to adopt this new guidance by the required date. We do not anticipate that this update will have a material impact on our financial statements.

In March 2022, the FASB issued ASU 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the current expected credit loss ("CECL") model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross writeoffs for financing receivables and net investment in leases by year of origination in the vintage disclosures. This guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. We plan to adopt this new guidance by the required date and do not anticipate that this update will have a material impact on our consolidated financial statements.

In March 2022, the FASB issued ASU 2022-01, "Derivatives and Hedging (Topic 815), Fair Value Hedging - Portfolio Layer Method," which will expand companies' abilities to hedge the benchmark interest rate risk of portfolios of financial assets (or beneficial interests) in a fair value hedge. The ASU expands the use of the portfolio layer method (previously referred to as the last-of-layer method) to allow multiple hedges of a single closed portfolio of assets using spot starting, forward starting, and amortizing-notional swaps. The ASU also permits both prepayable and non-prepayable financial assets to be included in the closed portfolio of assets hedged in a portfolio layer hedge. The ASU further requires that basis adjustments not be allocated to individual assets for active portfolio layer method hedges, but rather be maintained on the closed portfolio of assets as a whole. This guidance is effective for public business entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted. We plan to adopt this new guidance by the required date and do not anticipate that this update will have a material impact on our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." This new guidance provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. In January 2021, the FASB issued ASU 2021-01, "Reference Rate Reform (Topic 848): Scope." This new guidance clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. This new guidance is effective for all entities as of March 12, 2020 through December 31, 2022. We are currently evaluating the impact the adoption of this standard would have on our consolidated financial statements. Through June 30, 2022, we have not elected to apply the optional expedients and exceptions to any of our existing contracts, hedging relationships, or other transactions.

We have an established cross-functional group that has evaluated our exposure to LIBOR, reviewed relevant contracts and has monitored regulatory updates to assess the potential impact to our business, processes and technology from the ultimate full cessation of LIBOR in 2023, and has established a LIBOR transition plan to facilitate an orderly transition to alternative reference rates. We continue to remain on track with our LIBOR transition plan, which requires different solutions depending on the underlying asset or liability with LIBOR exposure. At June 30, 2022, our primary LIBOR exposure included the following: $868 million of repo or warehouse debt, $468 million of interest rate swaps, $740 million of bridge loans, and $140 million of trust preferred securities and subordinated notes debt. Since December 31, 2021, certain of our contracts, such as interest rate swaps, have experienced an orderly market transition and we have transitioned a substantial portion of our derivative positions off of LIBOR-benchmarks. Other contracts, such as warehouse debt agreements, require bilateral amendments, many of which we have amended or are currently in the process of amending.

**Note 3. Summary of Significant Accounting Policies - (continued)**

We anticipate most of these facilities will be amended in 2022, with sufficient time remaining to resolve the remainder. In early 2022, we began benchmarking all newly originated bridge loans to the Secured Overnight Financing Rate ("SOFR"), and our existing portfolio of bridge loans are short-dated and we expect the vast majority to mature before the LIBOR cessation date in 2023. Additionally, as the result of legislation that was passed in the state of New York, our trust preferred securities and subordinated notes are expected to convert to SOFR upon the cessation of LIBOR.

***Balance Sheet Netting***

Certain of our derivatives and short-term debt are subject to master netting arrangements or similar agreements. Under GAAP, in certain circumstances we may elect to present certain financial assets, liabilities and related collateral subject to master netting arrangements in a net position on our consolidated balance sheets. However, we do not report any of these financial assets or liabilities on a net basis, and instead present them on a gross basis on our consolidated balance sheets.

The table below presents financial assets and liabilities that are subject to master netting arrangements or similar agreements categorized by financial instrument, together with corresponding financial instruments and corresponding collateral received or pledged at June 30, 2022 and December 31, 2021.

***Table 3.1 – Offsetting of Financial Assets, Liabilities, and Collateral***

| | | | | Gross Amounts Not Offset in Consolidated Balance Sheet [1] | | |
|---|---|---|---|---|---|---|
| **June 30, 2022 (In Thousands)** | **Gross Amounts of Recognized Assets (Liabilities)** | **Gross Amounts Offset in Consolidated Balance Sheet** | **Net Amounts of Assets (Liabilities) Presented in Consolidated Balance Sheet** | **Financial Instruments** | **Cash Collateral (Received) Pledged** | **Net Amount** |
| **Assets [2]** | | | | | | |
| Interest rate agreements | $ 29,601 | $ — | $ 29,601 | $ (2,445) | $ (6,451) | $ 20,705 |
| TBAs | 3,104 | — | 3,104 | (530) | (2,574) | — |
| Futures | 1,875 | — | 1,875 | (1,615) | (2) | 258 |
| **Total Assets** | $ 34,580 | $ — | $ 34,580 | $ (4,590) | $ (9,027) | $ 20,963 |
| | | | | | | |
| **Liabilities [2]** | | | | | | |
| Interest rate agreements | $ (2,445) | $ — | $ (2,445) | $ 2,445 | $ — | $ — |
| TBAs | (2,004) | — | (2,004) | 530 | 1,474 | — |
| Futures | (1,615) | — | (1,615) | 1,615 | — | — |
| Loan warehouse debt | (423,619) | — | (423,619) | 423,619 | — | — |
| **Total Liabilities** | $ (429,683) | $ — | $ (429,683) | $ 428,209 | $ 1,474 | $ — |

**Note 3. Summary of Significant Accounting Policies - (continued)**

| December 31, 2021 (In Thousands) | Gross Amounts of Recognized Assets (Liabilities) | Gross Amounts Offset in Consolidated Balance Sheet | Net Amounts of Assets (Liabilities) Presented in Consolidated Balance Sheet | Gross Amounts Not Offset in Consolidated Balance Sheet (1) | | Net Amount |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Cash Collateral (Received) Pledged | |
| **Assets (2)** | | | | | | |
| Interest rate agreements | $ 18,929 | $ — | $ 18,929 | $ (1,251) | $ (16,046) | $ 1,632 |
| TBAs | 2,880 | — | 2,880 | (633) | (704) | 1,543 |
| Futures | 25 | — | 25 | (25) | — | — |
| **Total Assets** | $ 21,834 | $ — | $ 21,834 | $ (1,909) | $ (16,750) | $ 3,175 |
| **Liabilities (2)** | | | | | | |
| Interest rate agreements | $ (1,251) | $ — | $ (1,251) | $ 1,251 | $ — | $ — |
| TBAs | $ (658) | $ — | $ (658) | $ 633 | $ 15 | $ (10) |
| Futures | (905) | — | (905) | 25 | 880 | — |
| Loan warehouse debt | (572,720) | — | (572,720) | 572,720 | — | — |
| **Total Liabilities** | $ (575,534) | $ — | $ (575,534) | $ 574,629 | $ 895 | $ (10) |

(1) Amounts presented in these columns are limited in total to the net amount of assets or liabilities presented in the prior column by instrument. In certain cases, there is excess cash collateral or financial assets we have pledged to a counterparty (which may, in certain circumstances, be a clearinghouse) that exceed the financial liabilities subject to a master netting arrangement or similar agreement. Additionally, in certain cases, counterparties may have pledged excess cash collateral to us that exceeds our corresponding financial assets. In each case, any of these excess amounts are excluded from the table although they are separately reported in our consolidated balance sheets as assets or liabilities, respectively.

(2) Interest rate agreements and TBAs are components of derivatives instruments on our consolidated balance sheets. Loan warehouse debt, which is secured by certain residential and business purpose loans, and security repurchase agreements are components of Short-term debt and Long-term debt on our consolidated balance sheets.

For each category of financial instrument set forth in the table above, the assets and liabilities resulting from individual transactions within that category between us and a counterparty are subject to a master netting arrangement or similar agreement with that counterparty that provides for individual transactions to be aggregated and treated as a single transaction. For certain categories of these instruments, our transactions generally are cleared and settled through one or more clearinghouses that are substituted as our counterparty. References herein to master netting arrangements or similar agreements include the arrangements and agreements governing the clearing and settlement of these transactions through the clearinghouses. In the event of the termination and close-out of any of those transactions, the corresponding master netting agreement or similar agreement provides for settlement on a net basis. Any such settlement would include the proceeds of the liquidation of any corresponding collateral, subject to certain limitations on termination, settlement, and liquidation of collateral that may apply in the event of the bankruptcy or insolvency of a party. Such limitations should not inhibit the eventual practical realization of the principal benefits of those transactions or the corresponding master netting arrangement or similar agreement and any corresponding collateral.

**Note 4. Principles of Consolidation**

GAAP requires us to consider whether securitizations we sponsor and other transfers of financial assets should be treated as sales or financings, as well as whether any VIEs that we hold variable interests in – for example, certain legal entities often used in securitization and other structured finance transactions – should be included in our consolidated financial statements. The GAAP principles we apply require us to reassess our requirement to consolidate VIEs each quarter and therefore our determination may change based upon new facts and circumstances pertaining to each VIE. This could result in a material impact to our consolidated financial statements during subsequent reporting periods.

***Analysis of Consolidated VIEs***

At June 30, 2022, we consolidated Legacy Sequoia, Sequoia, CAFL, Freddie Mac SLST, Freddie Mac K-Series, and HEI securitization entities that we determined were VIEs and for which we determined we were the primary beneficiary. Each of these entities is independent of Redwood and of each other and the assets and liabilities of these entities are not owned by and are not legal obligations of ours. Our exposure to these entities is primarily through the financial interests we have retained, although for certain securitizations, we are exposed to financial risks associated with our role as a sponsor, servicing administrator, collateral administrator, or depositor of these entities or as a result of our having sold assets directly or indirectly to these entities.

We also consolidate two Servicing Investment entities formed to invest in servicing-related assets that we determined were VIEs and for which we determined we were the primary beneficiary. At June 30, 2022, we held an 80% ownership interest in, and were responsible for the management of, each entity. See *Note 10* for a further description of these entities and the investments they hold and *Note 12* for additional information on the minority partner's non-controlling interest. Additionally, we consolidated an entity that was formed to finance servicer advances that we determined was a VIE and for which we, through our control of one of the aforementioned partnerships, were the primary beneficiary. The servicer advance financing consists of non-recourse short-term securitization debt, secured by servicer advances. We consolidate the securitization entity, but the securitization entity is independent of Redwood and the assets and liabilities are not owned by and are not legal obligations of Redwood. See Note 13 for additional information on the servicer advance financing.

During 2021, we consolidated a HEI securitization entity formed to invest in HEIs that we determined was a VIE and for which we determined we were the primary beneficiary. At June 30, 2022 and December 31, 2021, we owned a portion of the subordinate certificates issued by the entity and had certain decision making rights for the entity. See *Note 10* for a further description of this entity and the investments it holds and *Note 12* for additional information on non-controlling interests in the entity. We consolidate the HEI securitization entity, but the securitization entity is independent of Redwood and the assets and liabilities are not owned by and are not legal obligations of Redwood.

For certain of our consolidated VIEs, we have elected to account for the assets and liabilities of these entities as collateralized financing entities ("CFE"). A CFE is a variable interest entity that holds financial assets and issues beneficial interests in those assets, and these beneficial interests have contractual recourse only to the related assets of the CFE. Accounting guidance for CFEs allows companies to elect to measure both the financial assets and financial liabilities of a CFE using the more observable of the fair value of the financial assets or fair value of the financial liabilities. The net equity in an entity accounted for under the CFE election effectively represents the fair value of the beneficial interests we own in the entity.

In addition to our consolidated VIEs for which we made the CFE election, we consolidate certain VIEs for which we did not make the CFE election, and elected to account for the ABS issued by these entities at amortized cost. These include our CAFL Bridge securitizations, Freddie Mac SLST re-securitization, and Servicing Investment entities.

**Note 4. Principles of Consolidation - (continued)**

The following table presents a summary of the assets and liabilities of our consolidated VIEs.

***Table 4.1 – Assets and Liabilities of Consolidated VIEs***

| **June 30, 2022** (Dollars in Thousands) | Legacy Sequoia | Sequoia | CAFL(1) | Freddie Mac SLST(1) | Freddie Mac K-Series | Servicing Investment | HEI | Total Consolidated VIEs |
|---|---|---|---|---|---|---|---|---|
| Residential loans, held-for-investment | $ 208,788 | $ 3,525,459 | $ — | $ 1,631,285 | $ — | $ — | $ — | $ 5,365,532 |
| Business purpose loans, held-for-investment | — | — | 3,588,428 | — | — | — | — | 3,588,428 |
| Consolidated Agency multifamily loans | — | — | — | — | 443,114 | — | — | 443,114 |
| Other investments | — | — | — | — | — | 305,379 | 146,215 | 451,594 |
| Cash and cash equivalents | — | — | — | — | — | 14,399 | — | 14,399 |
| Restricted cash | 143 | 10 | 8,688 | — | — | 26,236 | 4,120 | 39,197 |
| Accrued interest receivable | 215 | 11,317 | 14,955 | 5,378 | 1,304 | 403 | — | 33,572 |
| Other assets | 410 | — | 5,320 | 2,299 | — | 7,605 | 50 | 15,684 |
| **Total Assets** | $ 209,556 | $ 3,536,786 | $ 3,617,391 | $ 1,638,962 | $ 444,418 | $ 354,022 | $ 150,385 | $ 9,951,520 |
| Short-term debt | $ — | $ — | $ — | $ — | $ — | $ 231,846 | $ — | $ 231,846 |
| Accrued interest payable | 171 | 9,232 | 10,610 | 3,720 | 1,178 | 223 | — | 25,134 |
| Accrued expenses and other liabilities | — | 10 | 6,996 | — | — | 25,466 | 25,422 | 57,894 |
| Asset-backed securities issued | 207,647 | 3,288,682 | 3,207,867 | 1,358,459 | 411,380 | — | 110,111 | 8,584,146 |
| **Total Liabilities** | $ 207,818 | $ 3,297,924 | $ 3,225,473 | $ 1,362,179 | $ 412,558 | $ 257,535 | $ 135,533 | $ 8,899,020 |
| | | | | | | | | |
| **Value of our investments in VIEs(1)** | $ 1,552 | $ 236,777 | $ 388,849 | $ 275,127 | $ 31,732 | $ 96,487 | $ 14,852 | $ 1,045,376 |
| **Number of VIEs** | 20 | 17 | 18 | 3 | 1 | 3 | 1 | 63 |

**Note 4. Principles of Consolidation - (continued)**

| December 31, 2021 (Dollars in Thousands) | Legacy Sequoia | Sequoia | CAFL(1) | Freddie Mac SLST(1) | Freddie Mac K-Series | Servicing Investment | HEI | Total Consolidated VIEs |
|---|---|---|---|---|---|---|---|---|
| Residential loans, held-for-investment | $ 230,455 | $ 3,628,465 | $ — | $ 1,888,230 | $ — | $ — | $ — | $ 5,747,150 |
| Business purpose loans, held-for-investment | — | — | 3,766,316 | — | — | — | — | 3,766,316 |
| Consolidated Agency multifamily loans | — | — | — | — | 473,514 | — | — | 473,514 |
| Other investments | — | — | — | — | — | 384,754 | 159,553 | 544,307 |
| Cash and cash equivalents | — | — | — | — | — | 6,481 | — | 6,481 |
| Restricted cash | 148 | 5 | 15,221 | — | — | 25,420 | 5,292 | 46,086 |
| Accrued interest receivable | 210 | 10,885 | 15,737 | 5,792 | 1,315 | 1,462 | — | 35,401 |
| Other assets | 61 | — | 32,510 | 2,028 | — | 7,177 | 50 | 41,826 |
| **Total Assets** | $ 230,874 | $ 3,639,355 | $ 3,829,784 | $ 1,896,050 | $ 474,829 | $ 425,294 | $ 164,895 | $ 10,661,081 |
| Short-term debt | $ — | $ — | $ — | $ — | $ — | $ 294,447 | $ — | $ 294,447 |
| Accrued interest payable | 99 | 8,452 | 11,030 | 4,055 | 1,190 | 192 | — | 25,018 |
| Accrued expenses and other liabilities | — | 5 | 1,171 | — | — | 28,115 | 17,034 | 46,325 |
| Asset-backed securities issued | 227,881 | 3,383,048 | 3,474,898 | 1,588,463 | 441,857 | — | 137,410 | 9,253,557 |
| **Total Liabilities** | $ 227,980 | $ 3,391,505 | $ 3,487,099 | $ 1,592,518 | $ 443,047 | $ 322,754 | $ 154,444 | $ 9,619,347 |
| | | | | | | | | |
| **Value of our investments in VIEs(1)** | $ 2,634 | $ 245,417 | $ 339,419 | $ 301,795 | $ 31,657 | $ 102,540 | $ 10,451 | $ 1,033,913 |
| **Number of VIEs** | 20 | 16 | 16 | 3 | 1 | 3 | 1 | 60 |

(1) Value of our investments in VIEs, as presented in this table, represent the fair value of our economic interests in the VIEs only for consolidated VIEs we account for under the CFE election. CAFL includes SFR loan securitizations we account for under the CFE election and two bridge loan securitizations for which we did not make the CFE election. As of June 30, 2022 and December 31, 2021, the fair value of our interests in the CAFL SFR securitizations were $307 million and $302 million, respectively, and the remaining values were associated with our interests in the CAFL Bridge securitizations, for which the ABS issued is carried at amortized historical cost. Freddie Mac SLST includes securitizations we account for under the CFE election and also includes ABS issued in relation to a resecuritization of the securities we own in the consolidated Freddie Mac SLST VIEs, that we account for at amortized historical cost. As of June 30, 2022 and December 31, 2021, the fair value of our interests in the Freddie Mac SLST securitizations accounted for under the CFE election were $390 million and $445 million, respectively, with the difference from the tables above representing ABS issued and carried at amortized historical cost.

**Note 4. Principles of Consolidation - (continued)**

The following table presents income (loss) from these VIEs for the three and six months ended June 30, 2022 and 2021.

***Table 4.2 – Income (Loss) from Consolidated VIEs***

| | Three Months Ended June 30, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **(Dollars in Thousands)** | **Legacy Sequoia** | **Sequoia** | **CAFL** | **Freddie Mac SLST** | **Freddie Mac K-Series** | **Servicing Investment** | **HEI** | **Total Consolidated VIEs** |
| Interest income | $ 1,108 | $ 31,923 | $ 56,608 | $ 16,553 | $ 4,732 | $ 7,568 | $ — | $ 118,492 |
| Interest expense | (967) | (28,329) | (41,923) | (13,372) | (4,351) | (1,842) | — | (90,784) |
| **Net interest income** | 141 | 3,594 | 14,685 | 3,181 | 381 | 5,726 | — | 27,708 |
| **Non-interest income** | | | | | | | | |
| Investment fair value changes, net | (336) | (5,886) | (22,109) | (35,940) | (190) | (4,505) | 1,201 | (67,765) |
| Other income | — | — | 255 | — | — | — | — | 255 |
| **Total non-interest income, net** | (336) | (5,886) | (21,854) | (35,940) | (190) | (4,505) | 1,201 | (67,510) |
| General and administrative expenses | — | — | — | — | — | (44) | — | (44) |
| Other expenses | — | — | — | — | — | (235) | — | (235) |
| **Income (loss) from Consolidated VIEs** | $ (195) | $ (2,292) | $ (7,169) | $ (32,759) | $ 191 | $ 942 | $ 1,201 | $ (40,081) |

| | Six Months Ended June 30, 2022 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **(Dollars in Thousands)** | **Legacy Sequoia** | **Sequoia** | **CAFL** | **Freddie Mac SLST** | **Freddie Mac K-Series** | **Servicing Investment** | **HEI** | **Total Consolidated VIEs** |
| Interest income | $ 2,120 | $ 64,021 | $ 133,942 | $ 33,753 | $ 9,485 | $ 15,487 | $ — | $ 258,808 |
| Interest expense | (1,668) | (56,500) | (100,403) | (27,457) | (8,722) | (3,504) | — | (198,254) |
| **Net interest income** | 452 | 7,521 | 33,539 | 6,296 | 763 | 11,983 | — | 60,554 |
| **Non-interest income** | | | | | | | | |
| Investment fair value changes, net | (1,050) | (9,708) | (19,445) | (32,904) | 74 | (7,973) | 4,612 | (66,394) |
| Other income | — | — | 345 | — | — | — | — | 345 |
| **Total non-interest income, net** | (1,050) | (9,708) | (19,100) | (32,904) | 74 | (7,973) | 4,612 | (66,049) |
| General and administrative expenses | — | — | — | — | — | (75) | — | (75) |
| Other expenses | — | — | — | — | — | (786) | — | (786) |
| **Income (loss) from Consolidated VIEs** | $ (598) | $ (2,187) | $ 14,439 | $ (26,608) | $ 837 | $ 3,149 | $ 4,612 | $ (6,356) |

**Note 4. Principles of Consolidation - (continued)**

| | Three Months Ended June 30, 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | Legacy Sequoia | Sequoia | CAFL | Freddie Mac SLST | Freddie Mac K-Series | Servicing Investment | HEI | Total Consolidated VIEs |
| Interest income | $ 1,169 | $ 14,492 | $ 54,849 | $ 19,506 | $ 4,860 | $ 4,041 | $ — | $ 98,917 |
| Interest expense | (755) | (11,374) | (43,201) | (16,611) | (4,478) | (1,110) | — | (77,529) |
| **Net interest income** | 414 | 3,118 | 11,648 | 2,895 | 382 | 2,931 | — | 21,388 |
| **Non-interest income** | | | | | | | | |
| Investment fair value changes, net | (216) | 4,906 | 3,697 | 36,316 | 1,855 | (2,320) | — | 44,238 |
| **Total non-interest income, net** | (216) | 4,906 | 3,697 | 36,316 | 1,855 | (2,320) | — | 44,238 |
| General and administrative expenses | — | — | — | — | — | (52) | — | (52) |
| Other expenses | — | — | — | — | — | (112) | — | (112) |
| **Income (loss) from Consolidated VIEs** | $ 198 | $ 8,024 | $ 15,345 | $ 39,211 | $ 2,237 | $ 447 | $ — | $ 65,462 |

| | Six Months Ended June 30, 2021 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (Dollars in Thousands) | Legacy Sequoia | Sequoia | CAFL | Freddie Mac SLST | Freddie Mac K-Series | Servicing Investment | HEI | Total Consolidated VIEs |
| Interest income | $ 2,517 | $ 29,975 | $ 103,722 | $ 39,665 | $ 9,646 | $ 8,263 | $ — | $ 193,788 |
| Interest expense | (1,630) | (23,480) | (81,054) | (33,982) | (8,834) | (2,396) | — | (151,376) |
| **Net interest income** | 887 | 6,495 | 22,668 | 5,683 | 812 | 5,867 | — | 42,412 |
| **Non-interest income** | | | | | | | | |
| Investment fair value changes, net | (915) | 9,804 | 3,411 | 40,433 | 10,776 | (3,566) | — | 59,943 |
| **Total non-interest income, net** | (915) | 9,804 | 3,411 | 40,433 | 10,776 | (3,566) | — | 59,943 |
| General and administrative expenses | — | — | — | — | — | (90) | — | (90) |
| Other expenses | — | — | — | — | — | (442) | — | (442) |
| **Income (loss) from Consolidated VIEs** | $ (28) | $ 16,299 | $ 26,079 | $ 46,116 | $ 11,588 | $ 1,769 | $ — | $ 101,823 |

**Note 4. Principles of Consolidation - (continued)**

We consolidate the assets and liabilities of certain Sequoia, CAFL and HEI securitization entities, as we did not meet the GAAP sale criteria at the time we transferred financial assets to these entities. Our involvement in consolidated Sequoia, CAFL and HEI securitization entities continues in the following ways: (i) we continue to hold subordinate investments in each entity, and for certain entities, more senior investments; (ii) we maintain certain discretionary rights associated with our sponsorship of, or our subordinate investments in, each entity, including rights to direct loss mitigation activities; and (iii) we continue to hold a right to call the assets of certain entities (once they have been paid down below a specified threshold) at a price equal to, or in excess of, the current outstanding principal amount of the entity's asset-backed securities issued. These factors have resulted in our continuing to consolidate the assets and liabilities of these Sequoia, CAFL and HEI securitization entities in accordance with GAAP.

We consolidate the assets and liabilities of certain Freddie Mac K-Series and SLST securitization trusts resulting from our investment in subordinate securities issued by these trusts, and in the case of certain CAFL securitizations, resulting from securities acquired through our acquisition of CoreVest. Additionally, we consolidate the assets and liabilities of Servicing Investment entities from our investment in servicer advance investments and excess MSRs. In each case, we maintain certain discretionary rights associated with the ownership of these investments that we determined reflected a controlling financial interest, as we have both the power to direct the activities that most significantly impact the economic performance of the VIEs and the right to receive benefits of and the obligation to absorb losses from the VIEs that could potentially be significant to the VIEs.

***Analysis of Unconsolidated VIEs with Continuing Involvement***

Since 2012, we have transferred residential loans to46 Sequoia securitization entities sponsored by us that are still outstanding as of June 30, 2022, and accounted for these transfers as sales for financial reporting purposes, in accordance with ASC 860. We also determined we were not the primary beneficiary of these VIEs as we lacked the power to direct the activities that will have the most significant economic impact on the entities. For certain of these transfers to securitization entities, for the transferred loans where we held the servicing rights prior to the transfer and continued to hold the servicing rights following the transfer, we recorded mortgage servicing rights ("MSRs") on our consolidated balance sheets, and classified those MSRs as Level 3 assets. We also retained senior and subordinate securities in these securitizations that we classified as Level 3 assets. Our continuing involvement in these securitizations is limited to customary servicing obligations associated with retaining servicing rights (which we retain a third-party sub-servicer to perform) and the receipt of interest income associated with the securities we retained.

During the three months ended June 30, 2022, we did not call any of our unconsolidated Sequoia entities. During the six months ended June 30, 2022, we calledthree of our unconsolidated Sequoia entities, and purchased $102 million (unpaid principal balance) of loans from the securitization trusts. In association with these calls, we realized a $0.3 million gain on the securities we owned from these called securitizations, which was recognized through Realized gains, net on our consolidated statements of income (loss). At June 30, 2022, we held $222 million of loans for sale at fair value that were acquired following the calls.

**Note 4. Principles of Consolidation - (continued)**

The following table presents information related to securitization transactions that occurred during the three and six months ended June 30, 2022 and 2021.

***Table 4.3 – Securitization Activity Related to Unconsolidated VIEs Sponsored by Redwood***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(In Thousands)** | **2022** | **2021** | **2022** | **2021** |
| Principal balance of loans transferred | $ — | $ 355,924 | $ — | $ 1,231,803 |
| Trading securities retained, at fair value | — | 1,225 | — | 7,774 |
| AFS securities retained, at fair value | — | 522 | — | 1,600 |

The following table summarizes the cash flows during the three and six months ended June 30, 2022 and 2021 between us and the unconsolidated VIEs sponsored by us and accounted for as sales since 2012.

***Table 4.4 – Cash Flows Related to Unconsolidated VIEs Sponsored by Redwood***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(In Thousands)** | **2022** | **2021** | **2022** | **2021** |
| Proceeds from new transfers | $ — | $ 361,673 | $ — | $ 1,266,063 |
| MSR fees received | 764 | 1,336 | 1,628 | 2,943 |
| Funding of compensating interest, net | (14) | (70) | (30) | (170) |
| Cash flows received on retained securities | 3,158 | 16,764 | 17,284 | 25,393 |

The following table presents the key weighted-average assumptions used to value securities retained at the date of securitization for securitizations completed during the three and six months ended June 30, 2022 and 2021.

***Table 4.5 – Assumptions Related to Assets Retained from Unconsolidated VIEs Sponsored by Redwood***

| | Three Months Ended June 30, 2022 | | Three Months Ended June 30, 2021 | |
|---|---|---|---|---|
| **At Date of Securitization** | **Senior IO Securities** | **Subordinate Securities** | **Senior IO Securities** | **Subordinate Securities** |
| Prepayment rates | N/A | N/A | 8 % | 8 % |
| Discount rates | N/A | N/A | 15 % | 7 % |
| Credit loss assumptions | N/A | N/A | 0.25 % | 0.25 % |

| | Six Months Ended June 30, 2022 | | Six Months Ended June 30, 2021 | |
|---|---|---|---|---|
| **At Date of Securitization** | **Senior IO Securities** | **Subordinate Securities** | **Senior IO Securities** | **Subordinate Securities** |
| Prepayment rates | N/A | N/A | 11 % | 11 % |
| Discount rates | N/A | N/A | 15 % | 6 % |
| Credit loss assumptions | N/A | N/A | 0.23 % | 0.23 % |

**Note 4. Principles of Consolidation - (continued)**

The following table presents additional information at June 30, 2022 and December 31, 2021, related to unconsolidated VIEs sponsored by Redwood and accounted for as sales since 2012.

***Table 4.6 – Unconsolidated VIEs Sponsored by Redwood***

| (In Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| On-balance sheet assets, at fair value: | | |
| Interest-only, senior and subordinate securities, classified as trading | $ 27,293 | $ 18,214 |
| Subordinate securities, classified as AFS | 85,269 | 127,542 |
| Mortgage servicing rights | 11,092 | 6,450 |
| Maximum loss exposure (1) | $ 123,654 | $ 152,206 |
| Assets transferred: | | |
| Principal balance of loans outstanding | $ 4,281,806 | $ 4,959,234 |
| Principal balance of loans 30+ days delinquent | 27,683 | 30,594 |

(1) Maximum loss exposure from our involvement with unconsolidated VIEs pertains to the carrying value of our securities and MSRs retained from these VIEs and represents estimated losses that would be incurred under severe, hypothetical circumstances, such as if the value of our interests and any associated collateral declines to zero. This does not include, for example, any potential exposure to representation and warranty claims associated with our initial transfer of loans into a securitization.

The following table presents key economic assumptions for assets retained from unconsolidated VIEs and the sensitivity of their fair values to immediate adverse changes in those assumptions at June 30, 2022 and December 31, 2021.

***Table 4.7 – Key Assumptions and Sensitivity Analysis for Assets Retained from Unconsolidated VIEs Sponsored by Redwood***

| June 30, 2022<br>(Dollars in Thousands) | MSRs | Senior Securities (1) | Subordinate Securities |
|---|---|---|---|
| Fair value at June 30, 2022 | $ 11,092 | $ 27,293 | $ 85,269 |
| Expected life (in years)(2) | 6 | 6 | 15 |
| Prepayment speed assumption (annual CPR) (2) | 10 % | 11 % | 10 % |
| Decrease in fair value from: | | | |
| 10% adverse change | $ 1,402 | $ 1,002 | $ 568 |
| 25% adverse change | 3,405 | 2,406 | 1,323 |
| Discount rate assumption (2) | 11 % | 12 % | 8 % |
| Decrease in fair value from: | | | |
| 100 basis point increase | $ 1,649 | $ 910 | $ 8,522 |
| 200 basis point increase | 3,180 | 1,759 | 15,860 |
| Credit loss assumption (2) | N/A | 0.03 % | 0.03 % |
| Decrease in fair value from: | | | |
| 10% higher losses | N/A | N/A | $ 42 |
| 25% higher losses | N/A | N/A | 103 |

**Note 4. Principles of Consolidation - (continued)**

| **December 31, 2021**<br>**(Dollars in Thousands)** | **MSRs** | **Senior Securities (1)** | **Subordinate Securities** |
|---|---|---|---|
| Fair value at December 31, 2021 | $ 6,450 | $ 18,214 | $ 127,542 |
| Expected life (in years)(2) | 3 | 4 | 5 |
| Prepayment speed assumption (annual CPR)(2) | 29 % | 23 % | 32 % |
| Decrease in fair value from: | | | |
| 10% adverse change | $ 447 | $ 1,130 | $ 531 |
| 25% adverse change | 1,020 | 2,596 | 1,440 |
| Discount rate assumption(2) | 12 % | 16 % | 5 % |
| Decrease in fair value from: | | | |
| 100 basis point increase | $ 152 | $ 426 | $ 4,801 |
| 200 basis point increase | 297 | 829 | 9,139 |
| Credit loss assumption(2) | N/A | 0.35 % | 0.35 % |
| Decrease in fair value from: | | | |
| 10% higher losses | N/A | $ — | $ 1,528 |
| 25% higher losses | N/A | — | 3,819 |

(1) Senior securities included $27 million and $18 million of interest-only securities at June 30, 2022 and December 31, 2021, respectively.

(2) Expected life, prepayment speed assumption, discount rate assumption, and credit loss assumption presented in the tables above represent weighted averages.

***Analysis of Unconsolidated Third-Party VIEs***

Third-party VIEs are securitization entities in which we maintain an economic interest, but do not sponsor. Our economic interest may include several securities and other investments from the same third-party VIE, and in those cases, the analysis is performed in consideration of all of our interests. The following table presents a summary of our interests in third-party VIEs at June 30, 2022 and December 31, 2021, grouped by asset type.

***Table 4.8 – Third-Party Sponsored VIE Summary***

| **(In Thousands)** | **June 30, 2022** | **December 31, 2021** |
|---|---|---|
| Mortgage-Backed Securities | | |
| Senior | $ 4,205 | $ 3,572 |
| Subordinate | 167,512 | 228,083 |
| **Total Mortgage-Backed Securities** | 171,717 | 231,655 |
| Excess MSR | 8,633 | 10,400 |
| **Total Investments in Third-Party Sponsored VIEs** | $ 180,350 | $ 242,055 |

We determined that we are not the primary beneficiary of these third-party VIEs, as we do not have the required power to direct the activities that most significantly impact the economic performance of these entities. Specifically, we do not service or manage these entities or otherwise solely hold decision making powers that are significant. As a result of this assessment, we do not consolidate any of the underlying assets and liabilities of these third-party VIEs – we only account for our specific interests in them.

Our assessments of whether we are required to consolidate a VIE may change in subsequent reporting periods based upon changing facts and circumstances pertaining to each VIE. Any related accounting changes could result in a material impact to our financial statements.

**Note 5. Fair Value of Financial Instruments**

For financial reporting purposes, we follow a fair value hierarchy established under GAAP that is used to determine the fair value of financial instruments. This hierarchy prioritizes relevant market inputs in order to determine an “exit price” at the measurement date, or the price at which an asset could be sold or a liability could be transferred in an orderly process that is not a forced liquidation or distressed sale. Level 1 inputs are observable inputs that reflect quoted prices for identical assets or liabilities in active markets. Level 2 inputs are observable inputs other than quoted prices for an asset or liability that are obtained through corroboration with observable market data. Level 3 inputs are unobservable inputs (e.g., our own data or assumptions) that are used when there is little, if any, relevant market activity for the asset or liability required to be measured at fair value.

In certain cases, inputs used to measure fair value fall into different levels of the fair value hierarchy. In such cases, the level at which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. Our assessment of the significance of a particular input requires judgment and considers factors specific to the asset or liability being measured.

**Note 5. Fair Value of Financial Instruments - (continued)**

The following table presents the carrying values and estimated fair values of assets and liabilities that are required to be recorded or disclosed at fair value at June 30, 2022 and December 31, 2021.

***Table 5.1 – Carrying Values and Fair Values of Assets and Liabilities***

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| **(In Thousands)** | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| **Assets** | | | | |
| Residential loans, held-for-sale, at fair value | $ 1,213,067 | $ 1,213,067 | $ 1,845,248 | $ 1,845,248 |
| Residential loans, held-for-investment, at fair value | 5,365,531 | 5,365,531 | 5,747,150 | 5,747,150 |
| Business purpose loans, held-for-sale, at fair value | 505,171 | 505,171 | 358,309 | 358,309 |
| Business purpose loans, held-for-investment, at fair value | 4,697,766 | 4,697,766 | 4,432,680 | 4,432,680 |
| Consolidated Agency multifamily loans, at fair value | 443,114 | 443,114 | 473,514 | 473,514 |
| Real estate securities, at fair value | 284,278 | 284,278 | 377,411 | 377,411 |
| Servicer advance investments (1) | 273,210 | 273,210 | 350,923 | 350,923 |
| MSRs (1) | 23,560 | 23,560 | 12,438 | 12,438 |
| Excess MSRs (1) | 40,803 | 40,803 | 44,231 | 44,231 |
| HEIs (1) | 276,366 | 276,366 | 192,740 | 192,740 |
| Other investments (1) | 10,869 | 10,869 | 12,663 | 12,663 |
| Cash and cash equivalents | 371,296 | 371,296 | 450,485 | 450,485 |
| Restricted cash | 72,558 | 72,558 | 80,999 | 80,999 |
| Derivative assets | 36,587 | 36,587 | 26,467 | 26,467 |
| REO (2) | 7,813 | 9,170 | 36,126 | 39,272 |
| Margin receivable (2) | 11,420 | 11,420 | 7,269 | 7,269 |
| **Liabilities** | | | | |
| Short-term debt | $ 1,869,822 | $ 1,869,822 | $ 2,177,362 | $ 2,177,362 |
| Margin payable (3) | 15,023 | 15,023 | 24,368 | 24,368 |
| Guarantee obligations (3) | 6,768 | 6,241 | 7,459 | 7,133 |
| HEI securitization non-controlling interest | 25,422 | 25,422 | 17,035 | 17,035 |
| Derivative liabilities | 6,591 | 6,591 | 3,317 | 3,317 |
| ABS issued, net | | | | |
| At fair value | 7,993,953 | 7,993,953 | 8,843,147 | 8,843,147 |
| At amortized cost | 590,193 | 569,731 | 410,410 | 410,471 |
| Other long-term debt, net (4) | 1,104,050 | 1,101,622 | 988,483 | 989,570 |
| Convertible notes, net (4) | 723,267 | 684,922 | 513,629 | 537,300 |
| Trust preferred securities and subordinated notes, net (4) | 138,744 | 83,700 | 138,721 | 97,650 |

(1) These investments are included in Other investments on our consolidated balance sheets.

(2) These assets are included in Other assets on our consolidated balance sheets.

(3) These liabilities are included in Accrued expenses and other liabilities on our consolidated balance sheets.

(4) These liabilities are included in Long-Term debt, net of our consolidated balance sheets.

During the three and six months ended June 30, 2022, we elected the fair value option forzero and $5 million of securities, respectively, $1.15 billion and $3.26 billion of residential loans (principal balance), respectively, and $923 million and $1.84 billion of business purpose loans (principal balance), respectively. Additionally, during the three and six months ended June 30, 2022, we elected the fair value option for $57 million and $97 million of HEIs, respectively, and $3 million and $8 million of Other Investments, respectively. We anticipate electing the fair value option for all future purchases of residential and business purpose loans that we intend to sell to third parties or transfer to securitizations, as well as for certain securities we purchase, including IO securities, fixed-rate securities rated investment grade or higher and HEIs.

**Note 5. Fair Value of Financial Instruments - (continued)**

The following table presents the assets and liabilities that are reported at fair value on our consolidated balance sheets on a recurring basis at June 30, 2022 and December 31, 2021, as well as the fair value hierarchy of the valuation inputs used to measure fair value.

***Table 5.2 – Assets and Liabilities Measured at Fair Value on a Recurring Basis***

| June 30, 2022 | Carrying | Fair Value Measurements Using | | |
|---|---|---|---|---|
| (In Thousands) | Value | Level 1 | Level 2 | Level 3 |
| **Assets** | | | | |
| Residential loans | $ 6,578,566 | $ — | $ — | $ 6,578,566 |
| Business purpose loans | 5,202,938 | — | — | 5,202,938 |
| Consolidated Agency multifamily loans | 443,114 | — | — | 443,114 |
| Real estate securities | 284,278 | — | — | 284,278 |
| Servicer advance investments | 273,210 | — | — | 273,210 |
| MSRs | 23,560 | — | — | 23,560 |
| Excess MSRs | 40,803 | — | — | 40,803 |
| HEIs | 276,366 | — | — | 276,366 |
| Other investments | 10,869 | — | — | 10,869 |
| Derivative assets | 36,587 | 4,979 | 29,601 | 2,007 |
| | | | | |
| **Liabilities** | | | | |
| HEI securitization non-controlling interest | $ 25,422 | $ — | $ — | $ 25,422 |
| Derivative liabilities | 6,591 | 3,619 | 2,445 | 527 |
| ABS issued | 7,993,953 | — | — | 7,993,953 |

| December 31, 2021 | Carrying | Fair Value Measurements Using | | |
|---|---|---|---|---|
| (In Thousands) | Value | Level 1 | Level 2 | Level 3 |
| **Assets** | | | | |
| Residential loans | $ 7,592,398 | $ — | $ — | $ 7,592,398 |
| Business purpose loans | 4,790,989 | — | — | 4,790,989 |
| Consolidated Agency multifamily loans | 473,514 | — | — | 473,514 |
| Real estate securities | 377,411 | — | — | 377,411 |
| Servicer advance investments | 350,923 | — | — | 350,923 |
| MSRs | 12,438 | — | — | 12,438 |
| Excess MSRs | 44,231 | — | — | 44,231 |
| HEIs | 192,740 | — | — | 192,740 |
| Other investments | 17,574 | — | — | 17,574 |
| Derivative assets | 26,467 | 2,906 | 18,928 | 4,633 |
| | | | | |
| **Liabilities** | | | | |
| HEI securitization non-controlling interest | $ 17,035 | $ — | $ — | $ 17,035 |
| Derivative liabilities | 3,317 | 1,563 | 1,251 | 503 |
| ABS issued | 8,843,147 | — | — | 8,843,147 |

**Note 5. Fair Value of Financial Instruments - (continued)**

The following table presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2022.

***Table 5.3 – Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis***

| | Assets | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **(In Thousands)** | **Residential Loans** | **Business Purpose Loans** | **Multifamily Loans** | **Trading Securities** | **AFS Securities** | **Servicer Advance Investments** | **Excess MSRs** | **HEIs** | **MSRs and Other Investments** |
| Beginning balance - December 31, 2021 | $ 7,592,398 | $ 4,790,989 | $ 473,514 | $ 170,619 | $ 206,792 | $ 350,923 | $ 44,231 | $ 192,740 | $ 25,101 |
| Acquisitions | 3,247,960 | 122,065 | — | 5,006 | 10,000 | — | — | 97,389 | 8,293 |
| Originations | — | 1,721,032 | — | — | — | — | — | — | — |
| Sales | (3,050,759) | (331,750) | — | (23,329) | — | — | — | — | (2,231) |
| Principal paydowns | (551,470) | (719,690) | (3,971) | (1,018) | (25,015) | (71,401) | — | (25,826) | (30) |
| Gains (losses) in net income (loss), net | (657,601) | (378,745) | (26,429) | (17,498) | 11,730 | (6,312) | (3,428) | 12,063 | 6,875 |
| Unrealized losses in OCI, net | — | — | — | — | (53,009) | — | — | — | — |
| Other settlements, net [(1)] | (1,962) | (963) | — | — | — | — | — | — | (3,579) |
| **Ending balance - June 30, 2022** | $ 6,578,566 | $ 5,202,938 | $ 443,114 | $ 133,780 | $ 150,498 | $ 273,210 | $ 40,803 | $ 276,366 | $ 34,429 |

| | | Liabilities | |
|---|---|---|---|
| **(In Thousands)** | **Derivatives [(2)]** | **HEI Securitization Non-Controlling Interest** | **ABS Issued** |
| Beginning balance - December 31, 2021 | $ 4,130 | $ 17,035 | $ 8,843,147 |
| Acquisitions | — | — | 952,711 |
| Principal paydowns | — | — | (925,650) |
| Gains (losses) in net income (loss), net | (51,265) | 6,218 | (876,255) |
| Other settlements, net [(1)] | 48,615 | — | — |
| **Ending balance - June 30, 2022** | $ 1,480 | $ 23,253 | $ 7,993,953 |

(1) Other settlements, net for residential and business purpose loans represents the transfer of loans to REO, and for derivatives, the transfer of the fair value of loan purchase and interest rate lock commitments at the time loans are acquired to the basis of residential and single-family rental business purpose loans, and for MSRs and other investments, primarily represents an investment that was exchanged into a new instrument that is no longer measured at fair value on a recurring basis.

(2) For the purpose of this presentation, derivative assets and liabilities, which consist of loan purchase commitments, and interest rate lock commitments, are presented on a net basis.

**Note 5. Fair Value of Financial Instruments - (continued)**

The following table presents the portion of fair value gains or losses included in our consolidated statements of income that were attributable to Level 3 assets and liabilities recorded at fair value on a recurring basis and held at June 30, 2022 and 2021. Gains or losses incurred on assets or liabilities sold, matured, called, or fully written down during the three and six months ended June 30, 2022 and 2021 are not included in this presentation.

***Table 5.4 – Portion of Net Fair Value Gains (Losses) Attributable to Level 3 Assets and Liabilities Still Held at June 30, 2022 and 2021 Included in Net Income (Loss)***

| | Included in Net Income (Loss) | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| (In Thousands) | 2022 | 2021 | 2022 | 2021 |
| **Assets** | | | | |
| Residential loans at Redwood | $ (15,995) | $ 14,130 | $ (31,858) | $ 10,481 |
| Business purpose loans | (28,385) | 28,404 | (36,566) | 40,003 |
| Net investments in consolidated Sequoia entities [1] | (6,222) | 4,693 | (11,203) | 8,893 |
| Net investments in consolidated Freddie Mac SLST entities [1] | (36,014) | 36,137 | (33,074) | 40,225 |
| Net investments in consolidated Freddie Mac K-Series entities [1] | (190) | 1,855 | 74 | 10,776 |
| Net investments in consolidated CAFL SFR entities [1] | (21,828) | 2,908 | (17,780) | 2,556 |
| Net investment in consolidated HEI securitization entity [1] | 3,371 | — | 13,000 | — |
| Trading securities | (17,501) | 1,772 | (19,884) | 2,262 |
| Servicer advance investments | (3,231) | (940) | (6,313) | (1,100) |
| MSRs | 4,248 | (330) | 7,644 | 273 |
| Excess MSRs | (2,220) | (2,477) | (3,428) | (4,430) |
| HEIs at Redwood | 1,549 | 2,080 | 2,701 | 7,395 |
| Loan purchase and interest rate lock commitments | 2,056 | 14,550 | 2,007 | 14,171 |
| **Liabilities** | | | | |
| HEI securitization non-controlling interest | $ (2,170) | $ — | $ (8,388) | $ — |
| Loan purchase commitments | (488) | (696) | (527) | (724) |

(1) Represents the portion of net fair value gains or losses included in our consolidated statements of income (loss) related to securitized loans, securitized HEIs, and the associated ABS issued at our consolidated securitization entities held at June 30, 2022 and 2021, which netted together represent the change in value of our investments at the consolidated VIEs accounted for under CFE election, excluding REO.

The following table presents information on assets recorded at fair value on a non-recurring basis at June 30, 2022. This table does not include the carrying value and gains or losses associated with the asset types below that were not recorded at fair value on our consolidated balance sheets at June 30, 2022.

***Table 5.5 – Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis at June 30, 2022***

| June 30, 2022 | Carrying | Fair Value Measurements Using | | | Gain (Loss) for | |
|---|---|---|---|---|---|---|
| (In Thousands) | Value | Level 1 | Level 2 | Level 3 | Three Months Ended June 30, 2022 | Six Months Ended June 30, 2022 |
| **Assets** | | | | | | |
| REO | $ 1,380 | $ — | $ — | $ 1,380 | $ — | $ — |
| Strategic investments | 17,240 | — | — | 17,240 | 9,990 | 9,990 |

**Note 5. Fair Value of Financial Instruments - (continued)**

The following table presents the net market valuation gains and losses recorded in each line item of our consolidated statements of income for the three and six months ended June 30, 2022 and 2021.

***Table 5.6 – Market Valuation Gains and Losses, Net***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(In Thousands)** | **2022** | **2021** | **2022** | **2021** |
| **Mortgage Banking Activities, Net** | | | | |
| Residential loans held-for-sale, at fair value | $ (24,517) | $ 24,988 | $ (51,716) | $ 48,100 |
| Residential loan purchase commitments | (8,897) | 51,919 | (50,520) | (466) |
| Single-family rental loans held-for-sale, at fair value | (40,034) | 25,222 | (64,502) | 35,470 |
| Single-family rental loan interest rate lock commitments | 40 | 744 | (685) | 744 |
| Bridge loans | 116 | 2,225 | 2,251 | 3,269 |
| Trading securities [1] | 1,315 | (1,095) | 4,101 | (374) |
| Risk management derivatives, net | 25,387 | (58,244) | 115,774 | 34,578 |
| **Total mortgage banking activities, net [2]** | $ (46,590) | $ 45,759 | $ (45,297) | $ 121,321 |
| **Investment Fair Value Changes, Net** | | | | |
| Residential loans held-for-sale, at fair value (called Sequoia loans) | $ (8,010) | $ 1,290 | $ (12,262) | $ 1,607 |
| Bridge loans held-for-investment | (9,559) | (62) | (11,702) | 3,242 |
| Trading securities | (17,358) | 2,893 | (21,600) | 23,521 |
| Servicer advance investments | (3,231) | (940) | (6,312) | (1,100) |
| Excess MSRs | (2,220) | (2,477) | (3,428) | (4,430) |
| Net investments in Legacy Sequoia entities [3] | (336) | (216) | (1,050) | (915) |
| Net investments in Sequoia entities [3] | (5,886) | 4,906 | (9,708) | 9,804 |
| Net investments in Freddie Mac SLST entities [3] | (35,940) | 36,316 | (32,904) | 40,433 |
| Net investment in Freddie Mac K-Series entity [3] | (190) | 1,855 | 74 | 10,776 |
| Net investments in CAFL SFR entities [3] | (21,828) | 3,697 | (17,780) | 3,411 |
| Net investment in HEI securitization entity [3] | 1,201 | — | 4,612 | — |
| HEIs at Redwood | 1,596 | 2,080 | 2,788 | 7,395 |
| Other investments | 10,460 | 125 | 10,583 | 435 |
| Risk management derivatives, net | 4,395 | — | 6,368 | — |
| Credit (losses) recoveries on AFS securities | (1,066) | 13 | (1,771) | 388 |
| **Total investment fair value changes, net** | $ (87,972) | $ 49,480 | $ (94,092) | $ 94,567 |
| **Other Income** | | | | |
| MSRs | $ 3,827 | $ (1,381) | $ 6,795 | $ (2,247) |
| **Total other income [4]** | $ 3,827 | $ (1,381) | $ 6,795 | $ (2,247) |
| **Total Market Valuation Gains (Losses), Net** | $ (130,735) | $ 93,858 | $ (132,594) | $ 213,641 |

(1) Represents fair value changes on trading securities that are being used along with risk management derivatives to manage the market risks associated with our residential mortgage banking operations.
(2) Mortgage banking activities, net presented above does not include fee income from loan originations or acquisitions, provisions for repurchases, and other expenses that are components of Mortgage banking activities, net presented on our consolidated statements of income, as these amounts do not represent market valuation changes.
(3) Includes changes in fair value of the residential loans held-for-investment, securitized HEIs, REO and the ABS issued at the entities, which netted together represent the change in value of our investments at the consolidated VIEs accounted for under the CFE election.
(4) Other income presented above does not include net MSR fee income or provisions for repurchases for MSRs, as these amounts do not represent market valuation adjustments.

**Note 5. Fair Value of Financial Instruments - (continued)**

At June 30, 2022, our valuation policy and processes had not changed from those described in our Annual Report on Form 10-K for the year ended December 31, 2021.

The following table provides quantitative information about the significant unobservable inputs used in the valuation of our Level 3 assets and liabilities measured at fair value.

***Table 5.7 – Fair Value Methodology for Level 3 Financial Instruments***

| June 30, 2022 (Dollars in Thousands, except Input Values) | Fair Value | Unobservable Input | Input Values Range | | Input Values Weighted Average[1] |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Residential loans, at fair value: | | | | | |
| Jumbo fixed-rate loans | $ 714,777 | Whole loan spread to swap rate | 217 - | 240 bps | 221 bps |
| | | Called loan dollar price | $ 96 - | $ 96 | $ 96 |
| Jumbo loans committed to sell | 498,258 | Whole loan committed sales price | $ 97 - | $ 99 | $ 98 |
| Loans held by Legacy Sequoia [2] | 208,788 | Liability price | | N/A | N/A |
| Loans held by Sequoia [2] | 3,525,459 | Liability price | | N/A | N/A |
| Loans held by Freddie Mac SLST [2] | 1,631,285 | Liability price | | N/A | N/A |
| Business purpose loans: | | | | | |
| Single-family rental loans | 505,171 | Senior credit spread | 215 - | 235 bps | 220 bps |
| | | Subordinate credit spread | 260 - | 1,099 bps | 504 bps |
| | | Senior credit support | 39 - | 40 % | 39 % |
| | | IO discount rate | 8 - | 13 % | 9 % |
| | | Prepayment rate (annual CPR) | 3 - | 25 % | 6 % |
| | | Non-securitizable loan dollar price | $ 80 - | $ 100 | $ 93 |
| Single-family rental loans held by CAFL [2] | 3,046,277 | Liability price | | N/A | N/A |
| Bridge loans | 1,651,489 | Whole loan discount rate | 5 - | 15 % | 8 % |
| | | Senior credit spread | 325 - | 325 bps | 325 bps |
| | | Subordinate credit discount rate | 15 - | 15 % | 15 % |
| | | Senior credit support | 15 - | 15 % | 15 % |
| Multifamily loans held by Freddie Mac K-Series [2] | 443,114 | Liability price | | N/A | N/A |
| Trading and AFS securities | 284,278 | Discount rate | 4 - | 18 % | 9 % |
| | | Prepayment rate (annual CPR) | 6 - | 65 % | 13 % |
| | | Default rate | — - | 11 % | 1 % |
| | | Loss severity | — - | 50 % | 25 % |
| | | CRT dollar price | $ 74 - | $ 88 | $ 83 |
| Servicer advance investments | 273,210 | Discount rate | 2 - | 4 % | 3 % |
| | | Prepayment rate (annual CPR) | 16 - | 30 % | 16 % |
| | | Expected remaining life [3] | 5 - | 5 yrs | 5 yrs |
| | | Mortgage servicing income | — - | 18 bps | 9 bps |
| MSRs | 23,560 | Discount rate | 11 - | 115 % | 11 % |
| | | Prepayment rate (annual CPR) | 5 - | 31 % | 9 % |
| | | Per loan annual cost to service | $ 93 - | $ 93 | $ 93 |

**Note 5. Fair Value of Financial Instruments - (continued)**

***Table 5.7 – Fair Value Methodology for Level 3 Financial Instruments (continued)***

**June 30, 2022**

| (Dollars in Thousands, except Input Values) | Fair Value | Unobservable Input | Input Values: Range | | Input Values: Weighted Average [1] |
|---|---|---|---|---|---|
| **Assets (continued)** | | | | | |
| Excess MSRs | 40,803 | Discount rate | 13 - | 19 % | 18 % |
| | | Prepayment rate (annual CPR) | 16 - | 35 % | 20 % |
| | | Excess mortgage servicing income | 8 - | 18 bps | 11 bps |
| HEI | 130,151 | Discount rate | 10 - | 10 % | 10 % |
| | | Prepayment rate (annual CPR) | 1 - | 24 % | 17 % |
| | | Home price appreciation | 3 - | 4 % | 3 % |
| HEIs held by HEI securitization entity | 146,215 | Liability price | N/A | N/A | N/A |
| REO | 1,380 | Loss severity | 12 - | 25 % | 20 % |
| **Liabilities** | | | | | |
| Residential loan purchase commitments, net | 1,500 | Whole loan spread to swap rate | 217 - | 240 bps | 224 bps |
| | | Pull-through rate | 18 - | 100 % | 68 % |
| | | Committed sales price | $ 97 - | $ 102 | $ 97 |
| ABS issued [2]: | | | | | |
| At consolidated Sequoia entities | 3,496,329 | Discount rate | 4 - | 18 % | 6 % |
| | | Prepayment rate (annual CPR) | 5 - | 27 % | 14 % |
| | | Default rate | — - | 22 % | 1 % |
| | | Loss severity | 25 - | 50 % | 32 % |
| At consolidated CAFL SFR entities [4] | 2,732,964 | Discount rate | 2 - | 15 % | 5 % |
| | | Prepayment rate (annual CPR) | — - | 3 % | 3 % |
| | | Default rate | 5 - | 28 % | 7 % |
| | | Loss severity | 30 - | 30 % | 30 % |
| At consolidated Freddie Mac SLST entities | 1,243,167 | Discount rate | 4 - | 7 % | 5 % |
| | | Prepayment rate (annual CPR) | 6 - | 8 % | 6 % |
| | | Default rate | 7 - | 9 % | 8 % |
| | | Loss severity | 35 - | 35 % | 35 % |
| At consolidated Freddie Mac K-Series entities [4] | 411,380 | Discount rate | 3 - | 9 % | 4 % |
| At consolidated HEI securitization entity [4] | 110,111 | Discount rate | 8 - | 13 % | 9 % |
| | | Prepayment rate (annual CPR) | 20 - | 20 % | 20 % |
| | | Default rate | 12 - | 12 % | 12 % |
| | | Loss severity | 30 - | 30 % | 30 % |
| | | Home price appreciation | 3 - | 4 % | 3 % |

**Note 5. Fair Value of Financial Instruments - (continued)**

Footnotes to Table 5.7

(1) The weighted average input values for all loan types are based on the unpaid principal balance. The weighted average input values for all other assets and liabilities are based on relative fair value.

(2) The fair value of the loans and HEIs held by consolidated entities was based on the fair value of the ABS issued by these entities and the securities and other investments we own in those entities, which we determined were more readily observable in accordance with accounting guidance for collateralized financing entities. At June 30, 2022, the fair value of securities we owned at the consolidated Sequoia, CAFL SFR, Freddie Mac SLST, Freddie Mac K-Series, and HEI securitization entities was $238 million, $307 million, $390 million, $32 million, and $15 million, respectively.

(3) Represents the estimated average duration of outstanding servicer advances at a given point in time (not taking into account new advances made with respect to the pool).

(4) As a market convention, certain securities are priced to a no-loss yield and therefore do not include default and loss severity assumptions.

***Determination of Fair Value***

We generally use both market comparable information and discounted cash flow modeling techniques to determine the fair value of our Level 3 assets and liabilities. Use of these techniques requires determination of relevant inputs and assumptions, some of which represent significant unobservable inputs as indicated in the preceding table. Accordingly, a significant increase or decrease in any of these inputs - such as anticipated credit losses, prepayment rates, interest rates, or other valuation assumptions - in isolation would likely result in a significantly lower or higher fair value measurement.

Included in *Note 5* to the Consolidated Financial Statements of our Annual Report on Form 10-K for the year endedDecember 31, 2021 is a more detailed description of our financial instruments measured at fair value and their significant inputs, as well as the general classification of such instruments pursuant to the Level 1, Level 2, and Level 3 valuation hierarchy.

Certain of our Other investments (inclusive of strategic investments in early-stage start-up companies) are Level 3 financial instruments that we account for under the fair value option. These investments generally take the form of equity or debt with conversion features and do not have readily determinable fair values. We initially record these investments at cost and adjust their fair value based on observable price changes, such as follow-on capital raises or secondary sales, and will also evaluate impacts to valuation from changing market conditions and underlying business performance. As of June 30, 2022, the carrying value of these investments was $9 million, which was based on the investments' original cost.

**Note 6. Residential Loans**

We acquire residential loans from third-party originators and may sell or securitize these loans or hold them for investment.The following table summarizes the classifications and carrying values of the residential loans owned at Redwood and at consolidated Sequoia and Freddie Mac SLST entities at June 30, 2022 and December 31, 2021.

***Table 6.1 – Classifications and Carrying Values of Residential Loans***

| **June 30, 2022 (In Thousands)** | **Redwood** | **Legacy Sequoia** | **Sequoia** | **Freddie Mac SLST** | **Total** |
|---|---|---|---|---|---|
| Held-for-sale at fair value | $ 1,213,067 | $ — | $ — | $ — | $ 1,213,067 |
| Held-for-investment at fair value | — | 208,788 | 3,525,459 | 1,631,285 | 5,365,532 |
| **Total Residential Loans** | $ 1,213,067 | $ 208,788 | $ 3,525,459 | $ 1,631,285 | $ 6,578,599 |

| **December 31, 2021 (In Thousands)** | **Redwood** | **Legacy Sequoia** | **Sequoia** | **Freddie Mac SLST** | **Total** |
|---|---|---|---|---|---|
| Held-for-sale at fair value | $ 1,845,282 | $ — | $ — | $ — | $ 1,845,282 |
| Held-for-investment at fair value | — | 230,455 | 3,628,465 | 1,888,230 | 5,747,150 |
| **Total Residential Loans** | $ 1,845,282 | $ 230,455 | $ 3,628,465 | $ 1,888,230 | $ 7,592,432 |

**Note 6. Residential Loans - (continued)**

At June 30, 2022, we owned mortgage servicing rights associated with $1.16 billion (principal balance) of residential loans owned at Redwood that were purchased from third-party originators. The value of these MSRs is included in the carrying value of the associated loans on our consolidated balance sheets. We contract with licensed sub-servicers that perform servicing functions for these loans.

***Residential Loans Held-for-Sale***

The following table summarizes the characteristics of residential loans held-for-sale at June 30, 2022 and December 31, 2021.

***Table 6.2 – Characteristics of Residential Loans Held-for-Sale***

| (Dollars in Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Number of loans | 1,469 | 2,196 |
| Unpaid principal balance | $ 1,238,469 | $ 1,813,865 |
| Fair value of loans | $ 1,213,067 | $ 1,845,282 |
| Market value of loans pledged as collateral under short-term borrowing agreements | $ 1,207,185 | $ 1,838,797 |
| Weighted average coupon | 4.47 % | 3.27 % |
| | | |
| Delinquency information | | |
| Number of loans with 90+ day delinquencies | 1 | 3 |
| Unpaid principal balance of loans with 90+ day delinquencies | $ 211 | $ 2,923 |
| Fair value of loans with 90+ day delinquencies | $ 170 | $ 2,304 |
| Number of loans in foreclosure | — | — |

The following table provides the activity of residential loans held-for-sale during the three and six months ended June 30, 2022 and 2021.

***Table 6.3 – Activity of Residential Loans Held-for-Sale***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In Thousands) | 2022 | 2021 | 2022 | 2021 |
| Principal balance of loans acquired (1) | $ 1,145,450 | $ 3,484,633 | $ 3,260,641 | $ 6,580,681 |
| Principal balance of loans sold | 1,238,327 | 3,324,919 | 3,065,691 | 5,600,751 |
| Principal balance of loans transferred to HFI | — | — | 687,192 | — |
| Net market valuation gains (losses) recorded (2) | (32,527) | 26,278 | (63,978) | 49,707 |

(1) For the three and six months ended June 30, 2022, includes zero and $102 million of loans acquired through calls of zero and three seasoned Sequoia securitizations, respectively.
(2) Net market valuation gains (losses) on residential loans held-for-sale are recorded primarily through Mortgage banking activities, net on our consolidated statements of income (loss).

**Note 6. Residential Loans - (continued)**

***Residential Loans Held-for-Investment at Fair Value***

We invest in residential subordinate securities issued by Legacy Sequoia, Sequoia and Freddie Mac SLST securitization trusts and consolidate the underlying residential loans owned by these entities for financial reporting purposes in accordance with GAAP. The following tables summarize the characteristics of the residential loans owned at consolidated Sequoia and Freddie Mac SLST entities at June 30, 2022 and December 31, 2021.

***Table 6.4 – Characteristics of Residential Loans Held-for-Investment***

| **June 30, 2022 (Dollars in Thousands)** | **Legacy Sequoia** | **Sequoia** | **Freddie Mac SLST** |
|---|---|---|---|
| Number of loans | 1,447 | 4,738 | 11,285 |
| Unpaid principal balance | $ 234,213 | $ 3,988,148 | $ 1,796,594 |
| Fair value of loans | $ 208,788 | $ 3,525,459 | $ 1,631,285 |
| Weighted average coupon | 2.27 % | 3.26 % | 4.50 % |
| | | | |
| Delinquency information | | | |
| Number of loans with 90+ day delinquencies (1) | 29 | 14 | 1,370 |
| Unpaid principal balance of loans with 90+ day delinquencies | $ 5,107 | $ 12,008 | $ 236,941 |
| Fair value of loans with 90+ day delinquencies (2) | N/A | N/A | N/A |
| Number of loans in foreclosure | 11 | 5 | 257 |
| Unpaid principal balance of loans in foreclosure | $ 1,483 | $ 5,004 | $ 45,536 |

| **December 31, 2021 (Dollars in Thousands)** | **Legacy Sequoia** | **Sequoia** | **Freddie Mac SLST** |
|---|---|---|---|
| Number of loans | 1,583 | 4,300 | 11,986 |
| Unpaid principal balance | $ 264,057 | $ 3,605,469 | $ 1,932,241 |
| Fair value of loans | $ 230,455 | $ 3,628,465 | $ 1,888,230 |
| Weighted average coupon | 1.87 % | 3.39 % | 4.51 % |
| | | | |
| Delinquency information | | | |
| Number of loans with 90+ day delinquencies (1) | 32 | 18 | 1,208 |
| Unpaid principal balance of loans with 90+ day delinquencies | $ 7,482 | $ 15,124 | $ 212,961 |
| Fair value of loans with 90+ day delinquencies (2) | N/A | N/A | N/A |
| Number of loans in foreclosure | 10 | 2 | 241 |
| Unpaid principal balance of loans in foreclosure | $ 2,188 | $ 1,624 | $ 43,637 |

(1) For loans held at consolidated entities, the number of loans greater than 90 days delinquent includes loans in foreclosure.

(2) The fair value of the loans held by consolidated entities was based on the fair value of the ABS issued by these entities, including securities we own, which we determined were more readily observable, in accordance with accounting guidance for collateralized financing entities.

**Note 6. Residential Loans - (continued)**

The following table provides the activity of residential loans held-for-investment at consolidated entities during the three and six months ended June 30, 2022 and 2021.

***Table 6.5 – Activity of Residential Loans Held-for-Investment at Consolidated Entities***

| | Three Months Ended June 30, 2022 | | | Three Months Ended June 30, 2021 | | |
|---|---|---|---|---|---|---|
| **(In Thousands)** | **Legacy Sequoia** | **Sequoia** | **Freddie Mac SLST** | **Legacy Sequoia** | **Sequoia** | **Freddie Mac SLST** |
| Fair value of loans transferred from HFS to HFI (1) | N/A | $ — | N/A | N/A | $ 1,205,494 | N/A |
| Net market valuation gains (losses) recorded (2) | 779 | (211,486) | (76,735) | 4,863 | (12,835) | 22,579 |

| | Six Months Ended June 30, 2022 | | | Six Months Ended June 30, 2021 | | |
|---|---|---|---|---|---|---|
| **(In Thousands)** | **Legacy Sequoia** | **Sequoia** | **Freddie Mac SLST** | **Legacy Sequoia** | **Sequoia** | **Freddie Mac SLST** |
| Fair value of loans transferred from HFS to HFI (1) | N/A | $ 684,491 | N/A | N/A | $ 1,205,494 | N/A |
| Net market valuation gains (losses) recorded (2) | 7,104 | (482,217) | (120,503) | 12,476 | (15,413) | 19,013 |

(1) Represents the transfer of loans from held-for-sale to held-for-investment associated with Sequoia securitizations.
(2) For loans held at our consolidated Legacy Sequoia, Sequoia, and Freddie Mac SLST entities, market value changes are based on the estimated fair value of the associated ABS issued, including securities we own, pursuant to collateralized financing entity guidelines, and are recorded in Investment fair value changes, net on our consolidated statements of income (loss). The net impact to our income statement associated with our economic investments in these securitization entities is presented in Table 4.2.

*REO*

See *Note 12* for detail on residential loans transferred to REO during 2022.

**Note 7. Business Purpose Loans**

We originate and invest in business purpose loans, including single-family rental ("SFR") loans and bridge loans.The following table summarizes the classifications and carrying values of the business purpose loans owned at Redwood and at consolidated CAFL entities at June 30, 2022 and December 31, 2021.

***Table 7.1 – Classifications and Carrying Values of Business Purpose Loans***

| **June 30, 2022** | Single-Family Rental | | Bridge | | |
|---|---|---|---|---|---|
| **(In Thousands)** | **Redwood** | **CAFL** | **Redwood** | **CAFL** | **Total** |
| Held-for-sale at fair value | $ 505,171 | — | $ — | $ — | $ 505,171 |
| Held-for-investment at fair value | — | 3,046,277 | 1,109,337 | 542,152 | 4,697,766 |
| **Total Business Purpose Loans** | $ 505,171 | $ 3,046,277 | $ 1,109,337 | $ 542,152 | $ 5,202,937 |

| **December 31, 2021** | Single-Family Rental | | Bridge | | |
|---|---|---|---|---|---|
| **(In Thousands)** | **Redwood** | **CAFL** | **Redwood** | **CAFL** | **Total** |
| Held-for-sale at fair value | $ 358,309 | $ — | $ — | $ — | $ 358,309 |
| Held-for-investment at fair value | — | 3,488,074 | 666,364 | 278,242 | 4,432,680 |
| **Total Business Purpose Loans** | $ 358,309 | $ 3,488,074 | $ 666,364 | $ 278,242 | $ 4,790,989 |

**Note 7. Business Purpose Loans - (continued)**

Nearly all of the outstanding single-family rental loans at June 30, 2022 were first-lien, fixed-rate loans with original maturities of five, seven, or ten years, with 3% having original maturities of 30 years. The outstanding bridge loans held-for-investment at June 30, 2022 were first-lien, interest-only loans with original maturities of six to 36 months and were comprised of 45% one-month LIBOR-indexed adjustable-rate loans, 39% one-month SOFR-indexed adjustable-rate loans, and 17% fixed-rate loans.

At June 30, 2022, we had a $835 million commitment to fund bridge loans. See *Note 16* for additional information on this commitment.

The following table provides the activity of business purpose loans at Redwood during the three and six months ended June 30, 2022 and 2021.

***Table 7.2 – Activity of Business Purpose Loans at Redwood***

| | Three Months Ended June 30, 2022 | | Three Months Ended June 30, 2021 | |
|---|---|---|---|---|
| **(In Thousands)** | **SFR at Redwood** | **Bridge at Redwood** | **SFR at Redwood** | **Bridge at Redwood** |
| Principal balance of loans originated | $ 323,245 | $ 542,241 | $ 312,217 | $ 215,160 |
| Principal balance of loans acquired | 38,457 | 19,023 | — | — |
| Principal balance of loans sold to third parties | — | — | — | 354 |
| Fair value of loans transferred (1) | 295,037 | 306,313 | 297,301 | — |
| Mortgage banking activities income (loss) recorded (2) | (40,034) | (1,136) | 25,222 | 978 |
| Investment fair value changes recorded (3) | — | (5,455) | — | (62) |

| | Six Months Ended June 30, 2022 | | Six Months Ended June 30, 2021 | |
|---|---|---|---|---|
| **(In Thousands)** | **SFR at Redwood** | **Bridge at Redwood** | **SFR at Redwood** | **Bridge at Redwood** |
| Principal balance of loans originated | $ 765,972 | $ 954,179 | $ 565,315 | $ 348,389 |
| Principal balance of loans acquired | 100,349 | 22,006 | — | — |
| Principal balance of loans sold to third parties | 331,502 | — | — | 9,231 |
| Fair value of loans transferred (1) | 295,037 | 388,604 | 466,705 | N/A |
| Mortgage banking activities income (loss) recorded (2) | (64,502) | 1,239 | 35,470 | 1,520 |
| Investment fair value changes recorded (3) | — | (6,214) | — | 3,242 |

(1) For SFR at Redwood, represents the transfer of loans from held-for-sale to held-for-investment associated with CAFL SFR securitizations. For Bridge at Redwood, represents the transfer of bridge loans from "Bridge at Redwood" to "Bridge at CAFL" resulting from their securitization.

(2) Represents net market valuation changes from the time a loan is originated to when it is sold or transferred to our investment portfolio. Additionally, for the three and six months ended June 30, 2022, we recorded loan origination fee income of $12 million and $27 million, respectively, through Mortgage banking activities, net on our consolidated statements of income (loss).

(3) Represents net market valuation changes for loans classified as held-for-investment and associated interest-only strip liabilities.

**Note 7. Business Purpose Loans - (continued)**

*Business Purpose Loans Held-for-Investment at CAFL*

We invest in securities issued by CAFL securitizations sponsored by CoreVest and consolidate the underlying single-family rental loans and bridge loans owned by these entities. The following table provides the activity of business purpose loans held-for-investment at CAFL during the three and six months ended June 30, 2022 and 2021.

***Table 7.3 – Activity of Business Purpose Loans Held-for-Investment at CAFL***

| | Three Months Ended June 30, 2022 | | Three Months Ended June 30, 2021 | |
|---|---|---|---|---|
| **(In Thousands)** | **SFR at CAFL** | **Bridge at CAFL** | **SFR at CAFL** | **Bridge at CAFL** |
| Net market valuation gains (losses) recorded [1] | $ (118,299) | $ (281) | $ (1,230) | $ — |

| | Six Months Ended June 30, 2022 | | Six Months Ended June 30, 2021 | |
|---|---|---|---|---|
| **(In Thousands)** | **SFR at CAFL** | **Bridge at CAFL** | **SFR at CAFL** | **Bridge at CAFL** |
| Net market valuation gains (losses) recorded [1] | $ (310,202) | $ (1,856) | $ (62,132) | $ — |

(1) For loans held at our consolidated CAFL entities, market value changes are based on the estimated fair value of the associated ABS issued, including securities we own, pursuant to collateralized financing entity guidelines, and are recorded through Investment fair value changes, net on our consolidated statements of income (loss). The net impact to our income statement associated with our economic investments in these securitization entities is presented in Table 4.2.

*REO*

See *Note 12* for detail on BPL loans transferred to REO during 2022.

**Note 7. Business Purpose Loans - (continued)**

***Business Purpose Loan Characteristics***

The following tables summarize the characteristics of the business purpose loans owned at Redwood and at consolidated CAFL entities at June 30, 2022 and December 31, 2021.

***Table 7.4 – Characteristics of Business Purpose Loans***

| June 30, 2022<br>(Dollars in Thousands) | SFR at Redwood | SFR at CAFL | Bridge at Redwood | Bridge at CAFL |
|---|---|---|---|---|
| Number of loans | 355 | 1,154 | 1,131 | 2,268 |
| Unpaid principal balance | $ 536,344 | $ 3,227,172 | $ 1,116,582 | $ 541,677 |
| Fair value of loans | $ 505,171 | $ 3,046,277 | $ 1,109,337 | $ 542,152 |
| Weighted average coupon | 5.31 % | 5.16 % | 6.73 % | 6.89 % |
| Weighted average remaining loan term (years) | 14 | 6 | 2 | 1 |
| Market value of loans pledged as collateral under short-term debt facilities | $ 312,732 | N/A | $ 265,242 | N/A |
| Market value of loans pledged as collateral under long-term debt facilities | $ 180,482 | N/A | $ 779,467 | N/A |
| Delinquency information | | | | |
| Number of loans with 90+ day delinquencies[1] | 4 | 20 | 51 | 48 |
| Unpaid principal balance of loans with 90+ day delinquencies | $ 5,212 | $ 50,469 | $ 32,941 | $ 7,847 |
| Fair value of loans with 90+ day delinquencies[2] | $ 4,086 | N/A | $ 30,209 | $ 7,847 |
| Number of loans in foreclosure[3] | 4 | 7 | 53 | 3 |
| Unpaid principal balance of loans in foreclosure | $ 5,212 | $ 10,356 | $ 35,070 | $ 4,472 |
| Fair value of loans in foreclosure[2] | $ 4,086 | N/A | $ 32,338 | $ 4,472 |

| December 31, 2021<br>(Dollars in Thousands) | SFR at Redwood | SFR at CAFL | Bridge at Redwood | Bridge at CAFL |
|---|---|---|---|---|
| Number of loans | 245 | 1,173 | 1,134 | 1,640 |
| Unpaid principal balance | $ 348,232 | $ 3,340,949 | $ 670,392 | $ 274,617 |
| Fair value of loans | $ 358,309 | $ 3,488,074 | $ 666,364 | $ 278,242 |
| Weighted average coupon | 4.73 % | 5.17 % | 6.91 % | 7.05 % |
| Weighted average remaining loan term (years) | 12 | 6 | 1 | 1 |
| Market value of loans pledged as collateral under short-term debt facilities | $ 75,873 | N/A | $ 91,814 | N/A |
| Market value of loans pledged as collateral under long-term debt facilities | $ 244,703 | N/A | $ 554,597 | N/A |
| Delinquency information | | | | |
| Number of loans with 90+ day delinquencies[1] | 6 | 18 | 31 | — |
| Unpaid principal balance of loans with 90+ day delinquencies | $ 5,384 | $ 41,998 | $ 18,032 | $ — |
| Fair value of loans with 90+ day delinquencies[2] | $ 4,238 | N/A | $ 14,218 | $ — |
| Number of loans in foreclosure[3] | 7 | 9 | 28 | — |
| Unpaid principal balance of loans in foreclosure | $ 5,473 | $ 12,648 | $ 18,043 | $ — |
| Fair value of loans in foreclosure[2] | $ 4,305 | N/A | $ 14,257 | $ — |

**Note 7. Business Purpose Loans - (continued)**

Footnotes to Table 7.4

(1) The number of loans greater than 90 days delinquent includes loans in foreclosure.

(2) The fair value of the loans held by consolidated CAFL entities was based on the fair value of the ABS issued by these entities, including securities we own, which we determined were more readily observable, in accordance with accounting guidance for collateralized financing entities.

(3) May include loans that are less than 90 days delinquent.

**Note 8. Consolidated Agency Multifamily Loans**

We invest in multifamily subordinate securities issued by a Freddie Mac K-Series securitization trust and consolidate the underlying multifamily loans owned by this entity for financial reporting purposes in accordance with GAAP. The following table summarizes the characteristics of our consolidated Agency multifamily loans at June 30, 2022 and December 31, 2021.

***Table 8.1 – Characteristics of Consolidated Agency Multifamily Loans***

| (Dollars in Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Number of loans | 28 | 28 |
| Unpaid principal balance | $ 451,197 | $ 455,168 |
| Fair value of loans | $ 443,114 | $ 473,514 |
| Weighted average coupon | 4.25 % | 4.25 % |
| Weighted average remaining loan term (years) | 3 | 4 |
| | | |
| Delinquency information | | |
| Number of loans with 90+ day delinquencies | — | — |
| Number of loans in foreclosure | — | — |

The outstanding consolidated Agency multifamily loans held-for-investment at the consolidated Freddie Mac K-Series entity at June 30, 2022 were first-lien, fixed-rate loans that were originated in 2015. The following table provides the activity of multifamily loans held-for-investment during the three and six months ended June 30, 2022 and 2021.

***Table 8.2 – Activity of Consolidated Agency Multifamily Loans Held-for-Investment***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In Thousands) | 2022 | 2021 | 2022 | 2021 |
| Net market valuation gains (losses) recorded (1) | $ (6,748) | $ (2,528) | $ (26,429) | $ (3,258) |

(1) Net market valuation gains (losses) on multifamily loans held-for-investment are recorded through Investment fair value changes, net on our consolidated statements of income (loss). For loans held at our consolidated Freddie Mac K-Series entity, market value changes are based on the estimated fair value of the associated ABS issued, including securities we own, pursuant to collateralized financing entity guidelines. The net impact to our income statement associated with our economic investment in these securitization entities is presented in Table 4.2.

**Note 9. Real Estate Securities**

We invest in real estate securities that we create and retain from our Sequoia securitizations or acquire from third parties.The following table presents the fair values of our real estate securities by type at June 30, 2022 and December 31, 2021.

***Table 9.1 – Fair Values of Real Estate Securities by Type***

| (In Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Trading | $ 133,780 | $ 170,619 |
| Available-for-sale | 150,498 | 206,792 |
| **Total Real Estate Securities** | $ 284,278 | $ 377,411 |

Our real estate securities include mortgage-backed securities, which are presented in accordance with their general position within a securitization structure based on their rights to cash flows. Senior securities are those interests in a securitization that generally have the first right to cash flows and are last in line to absorb losses. Mezzanine securities are interests that are generally subordinate to senior securities in their rights to receive cash flows, and have subordinate securities below them that are first to absorb losses. Subordinate securities are all interests below mezzanine. Exclusive of our re-performing loan securities, nearly all of our residential securities are supported by collateral that was designated as prime at the time of issuance.

***Trading Securities***

We elected the fair value option for certain securities and classify them as trading securities. Our trading securities include both residential and multifamily mortgage-backed securities, and our residential securities also include securities backed by re-performing loans ("RPL"). The following table presents the fair value of trading securities by position and collateral type at June 30, 2022 and December 31, 2021.

***Table 9.2 – Fair Value of Trading Securities by Position***

| (In Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Senior** | | |
| Interest-only securities (1) | $ 31,498 | $ 21,787 |
| **Total Senior** | 31,498 | 21,787 |
| **Subordinate** | | |
| RPL securities | 46,607 | 65,140 |
| Multifamily securities | 7,960 | 10,549 |
| Other third-party residential securities | 47,715 | 73,143 |
| **Total Subordinate** | 102,282 | 148,832 |
| **Total Trading Securities** | $ 133,780 | $ 170,619 |

(1) Includes $24 million and $15 million of Sequoia certificated mortgage servicing rights at June 30, 2022 and December 31, 2021, respectively.

The following table presents the unpaid principal balance of trading securities by position and collateral type at June 30, 2022 and December 31, 2021.

***Table 9.3 – Unpaid Principal Balance of Trading Securities by Position***

| (In Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Senior (1) | $ — | $ — |
| Subordinate | 221,473 | 235,306 |
| **Total Trading Securities** | $ 221,473 | $ 235,306 |

(1) Our senior trading securities include interest-only securities, for which there is no principal balance.

**Note 9. Real Estate Securities - (continued)**

The following table provides the activity of trading securities during the three and six months ended June 30, 2022 and 2021.

***Table 9.4 – Trading Securities Activity***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(In Thousands)** | **2022** | **2021** | **2022** | **2021** |
| Principal balance of securities acquired [1] | $ — | $ 1,750 | $ — | $ 17,630 |
| Principal balance of securities sold [1] | 12,716 | 18,068 | 12,716 | 52,811 |
| Net market valuation gains (losses) recorded [2] | (16,042) | 1,798 | (17,498) | 23,147 |

(1) For the three and six months ended June 30, 2022 and 2021, excludes zero and $2 million of securities bought and sold during the same quarter, respectively.
(2) Net market valuation gains (losses) on trading securities are recorded through Investment fair value changes, net and Mortgage banking activities, net on our consolidated statements of income.

***AFS Securities***

The following table presents the fair value of our available-for-sale securities by position and collateral type at June 30, 2022 and December 31, 2021.

***Table 9.5 – Fair Value of Available-for-Sale Securities by Position***

| **(In Thousands)** | **June 30, 2022** | **December 31, 2021** |
|---|---|---|
| **Subordinate** | | |
| Sequoia securities | $ 85,269 | $ 127,542 |
| Multifamily securities | 13,169 | 22,166 |
| Other third-party residential securities | 52,060 | 57,084 |
| **Total Subordinate** | 150,498 | 206,792 |
| **Total AFS Securities** | $ 150,498 | $ 206,792 |

The following table provides the activity of available-for-sale securities during the three and six months ended June 30, 2022 and 2021.

***Table 9.6 – Available-for-Sale Securities Activity***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(In Thousands)** | **2022** | **2021** | **2022** | **2021** |
| Fair value of securities acquired | $ — | $ 522 | $ 10,000 | $ 1,600 |
| Fair value of securities sold | — | 2,585 | — | 4,785 |
| Principal balance of securities called | — | 1,307 | 14,486 | 1,507 |
| Net unrealized (losses) gains on AFS securities [1] | (33,409) | 11,224 | (51,282) | 22,210 |

(1) Net unrealized (losses) gains on AFS securities are recorded on our consolidated balance sheets through Accumulated other comprehensive loss.

We often purchase AFS securities at a discount to their outstanding principal balances. To the extent we purchase an AFS security that has a likelihood of incurring a loss, we do not amortize into income the portion of the purchase discount that we do not expect to collect due to the inherent credit risk of the security. We may also expense a portion of our investment in the security to the extent we believe that principal losses will exceed the purchase discount. We designate any amount of unpaid principal balance that we do not expect to receive and thus do not expect to earn or recover as a credit reserve on the security. Any remaining net unamortized discounts or premiums on the security are amortized into income over time using the effective yield method.

**Note 9. Real Estate Securities - (continued)**

At June 30, 2022, we had $10 million of AFS securities with contractual maturities less than five years, $1 million with contractual maturities greater than five years but less than ten years, and the remainder of our AFS securities had contractual maturities greater than ten years.

The following table presents the components of carrying value (which equals fair value) of AFS securities at June 30, 2022 and December 31, 2021.

***Table 9.7 – Carrying Value of AFS Securities***

| June 30, 2022<br>(In Thousands) | Total |
|---|---|
| Principal balance | $ 227,911 |
| Credit reserve | (30,619) |
| Unamortized discount, net | (61,303) |
| Amortized cost | 135,989 |
| Gross unrealized gains | 25,930 |
| Gross unrealized losses | (9,650) |
| CECL allowance | (1,771) |
| **Carrying Value** | $ 150,498 |

| December 31, 2021<br>(In Thousands) | Total |
|---|---|
| Principal balance | $ 242,852 |
| Credit reserve | (27,555) |
| Unamortized discount, net | (76,023) |
| Amortized cost | 139,274 |
| Gross unrealized gains | 67,815 |
| Gross unrealized losses | (297) |
| CECL allowance | — |
| **Carrying Value** | $ 206,792 |

The following table presents the changes for the three and six months ended June 30, 2022, in unamortized discount and designated credit reserves on residential AFS securities.

***Table 9.8 – Changes in Unamortized Discount and Designated Credit Reserves on AFS Securities***

| | Three Months Ended June 30, 2022 | | Six Months Ended June 30, 2022 | |
|---|---|---|---|---|
| (In Thousands) | Credit Reserve | Unamortized Discount, Net | Credit Reserve | Unamortized Discount, Net |
| Beginning balance | $ 29,901 | $ 63,206 | $ 27,555 | $ 76,023 |
| Amortization of net discount | — | (1,347) | — | (9,817) |
| Realized credit recoveries (losses), net | 162 | — | 74 | — |
| Acquisitions | — | — | — | — |
| Sales, calls, other | — | — | (343) | (1,570) |
| Transfers to (release of) credit reserves, net | 556 | (556) | 3,333 | (3,333) |
| **Ending Balance** | $ 30,619 | $ 61,303 | $ 30,619 | $ 61,303 |

**Note 9. Real Estate Securities - (continued)**

***AFS Securities with Unrealized Losses***

The following table presents the total carrying value (fair value) and unrealized losses of residential AFS securities that were in a gross unrealized loss position at June 30, 2022 and December 31, 2021.

***Table 9.9 – AFS Securities in Gross Unrealized Loss Position by Holding Periods***

| | Less Than 12 Consecutive Months | | 12 Consecutive Months or Longer | |
|---|---|---|---|---|
| **(In Thousands)** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| June 30, 2022 | $ 46,369 | $ (9,456) | $ 1,406 | $ (194) |
| December 31, 2021 | 6,827 | (251) | 1,554 | (46) |

At June 30, 2022, after giving effect to purchases, sales, and extinguishment due to credit losses, our consolidated balance sheet included 82 AFS securities, of which 21 were in an unrealized loss position and one was in a continuous unrealized loss position for 12 consecutive months or longer. At December 31, 2021, our consolidated balance sheet included 85 AFS securities, of which four were in an unrealized loss position and one was in a continuous unrealized loss position for 12 consecutive months or longer.

***Evaluating AFS Securities for Credit Losses***

Gross unrealized losses on our AFS securities were $10 million at June 30, 2022. We evaluate all securities in an unrealized loss position to determine if the impairment is credit-related (resulting in an allowance for credit losses recorded in earnings) or non-credit-related (resulting in an unrealized loss through other comprehensive income). At June 30, 2022, we did not intend to sell any of our AFS securities that were in an unrealized loss position, and it is more likely than not that we will not be required to sell these securities before recovery of their amortized cost basis, which may be at their maturity. We review our AFS securities that are in an unrealized loss position to identify those securities with losses based on an assessment of changes in expected cash flows for such securities, which considers recent security performance and expected future performance of the underlying collateral.

At June 30, 2022, our current expected credit loss ("CECL") allowance related to our AFS securities was $1.8 million. AFS securities for which an allowance is recognized have experienced, or are expected to experience, adverse cash flow changes. In determining our estimate of cash flows for AFS securities we may consider factors such as structural credit enhancement, past and expected future performance of underlying mortgage loans, including timing of expected future cash flows, which are informed by prepayment rates, default rates, loss severities, delinquency rates, percentage of non-performing loans, FICO scores at loan origination, year of origination, loan-to-value ratios, and geographic concentrations, as well as general market assessments. Changes in our evaluation of these factors impacted the cash flows expected to be collected at the assessment date and were used to determine if there were credit-related adverse cash flows and if so, the amount of credit related losses. Significant judgment is used in both our analysis of the expected cash flows for our AFS securities and any determination of security credit losses.

The table below summarizes the weighted average of the significant credit quality indicators we used for the credit loss allowance on our AFS securities at June 30, 2022.

***Table 9.10 – Significant Credit Quality Indicators***

| **June 30, 2022** | **Subordinate Securities** |
|---|---|
| Default rate | 0.8% |
| Loss severity | 20% |

**Note 9. Real Estate Securities - (continued)**

The following table details the activity related to the allowance for credit losses for AFS securities for the three and six months ended June 30, 2022.

***Table 9.11 – Rollforward of Allowance for Credit Losses***

| (In Thousands) | Three Months Ended June 30, 2022 | Six Months Ended June 30, 2022 |
|---|---|---|
| Beginning balance allowance for credit losses | $ 705 | $ — |
| Additions to allowance for credit losses on securities for which credit losses were not previously recorded | 785 | 1,490 |
| Additional increases (decreases) to the allowance for credit losses on securities that had an allowance recorded in a previous period | 281 | 281 |
| Allowance on purchased financial assets with credit deterioration | — | — |
| Reduction to allowance for securities sold during the period | — | — |
| Reduction to allowance for securities we intend to sell or more likely than not will be required to sell | — | — |
| Write-offs charged against allowance | — | — |
| Recoveries of amounts previously written off | — | — |
| **Ending balance of allowance for credit losses** | $ 1,771 | $ 1,771 |

Gains and losses from the sale of AFS securities are recorded as Realized gains, net, in our consolidated statements of income.The following table presents the gross realized gains and losses on sales and calls of AFS securities for the three and six months ended June 30, 2022 and 2021.

***Table 9.12 – Gross Realized Gains and Losses on AFS Securities***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In Thousands) | 2022 | 2021 | 2022 | 2021 |
| Gross realized gains - sales | $ — | $ 1,307 | $ — | $ 1,507 |
| Gross realized gains - calls | — | 6,687 | 1,914 | 9,095 |
| Gross realized losses - sales | — | — | — | — |
| **Total Realized Gains on Sales and Calls of AFS Securities, net** | $ — | $ 7,994 | $ 1,914 | $ 10,602 |

During the six months ended June 30, 2022, we called three of our unconsolidated Sequoia entities, and purchased $102 million (unpaid principal balance) of loans from the securitization trusts. In association with these calls, we realized a $0.3 million gain on the securities we owned from these securitizations. The remaining realized gains were from third-party securities we owned that were called during the six months ended June 30, 2022.

## Note 10. Other Investments

Other investments at June 30, 2022 and December 31, 2021 are summarized in the following table.

***Table 10.1 – Components of Other Investments***

| (In Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| HEIs | $ 276,366 | $ 192,740 |
| Servicer advance investments | 273,210 | 350,923 |
| Strategic investments | 63,860 | 35,702 |
| Excess MSRs | 40,803 | 44,231 |
| Mortgage servicing rights | 23,560 | 12,438 |
| Other | 1,868 | 5,935 |
| **Total Other Investments** | $ 679,667 | $ 641,969 |

*Servicer advance investments*

We and a third-party co-investor, through two partnerships (“SA Buyers”) consolidated by us, purchased the outstanding servicer advances and excess MSRs related to a portfolio of legacy residential mortgage-backed securitizations serviced by the co-investor (Refer to *Note 10* to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2021 for additional information regarding the transactions). At June 30, 2022, we had funded $148 million of total capital to the SA Buyers (see *Note 16* for additional detail).

At June 30, 2022, our servicer advance investments had a carrying value of $273 million and were associated with a portfolio of residential mortgage loans with an unpaid principal balance of $12.09 billion. The outstanding servicer advance receivables associated with this investment were $240 million at June 30, 2022, which were financed with short-term non-recourse securitization debt (see *Note 13* for additional detail on this debt). The servicer advance receivables were comprised of the following types of advances at June 30, 2022 and December 31, 2021.

***Table 10.2 – Components of Servicer Advance Receivables***

| (In Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Principal and interest advances | $ 76,506 | $ 94,148 |
| Escrow advances (taxes and insurance advances) | 133,403 | 172,847 |
| Corporate advances | 29,643 | 43,958 |
| **Total Servicer Advance Receivables** | $ 239,552 | $ 310,953 |

We account for our servicer advance investments at fair value and during the three and six months ended June 30, 2022, we recorded **$** million and $10 million of interest income, respectively, through Other interest income, and recorded a net market valuation loss of $3 million and loss of $6 million, respectively, through Investment fair value changes, net in our consolidated statements of income.

**Note 10. Other Investments - (continued)**

*HEIs*

We purchase home equity investment contracts from third party originators under flow purchase agreements.Each HEI provides the owner of such HEI the right to purchase a percentage ownership interest in an associated residential property, and the homeowner's obligations under the HEI are secured by a lien (primarily second liens) on the property created by a deed of trust or a mortgage. Our investments in HEIs allow us to share in both home price appreciation and depreciation of the associated property. At June 30, 2022, we had flow purchase agreements outstanding with $225 million of cumulative commitments remaining. See *Note 16* for additional information on these commitments.

As of June 30, 2022, we owned $130 million of HEIs at Redwood and consolidated $146 million of HEIs through the HEI securitization entity. We account for these investments under the fair value option and during the three and six months ended June 30, 2022, we recorded net market valuation gains of $2 million and $3 million, respectively, related to HEIs owned at Redwood through Investment fair value changes, net on our consolidated statements of income (loss).

We consolidate the HEI securitization in accordance with GAAP and have elected to account for it under the CFE election. During the three and six months ended June 30, 2022, we recorded net market valuation gains of $1 million and $5 million (including $1 million and $2 million of interest expense), respectively, related to our net investment in the HEI securitization entity through Investment fair value changes, net on our consolidated statements of income (loss).

*Strategic Investments*

Strategic investments represent investments we made in companies either through our RWT Horizons venture investment platform or separately at a corporate level. At June 30, 2022, we had made a total of 24 investments in companies through RWT Horizons with a total carrying value of $24 million, as well as six corporate-level investments. During the three and six months ended June 30, 2022, we recognized a mark-to-market valuation gain of $10 million on one of our strategic investments, which was recorded in Investment fair value changes, net on our consolidated statements of income (loss). During the three months ended June 30, 2022, we recorded losses of $0.3 million in Other income from our strategic investments.

*Excess MSRs*

In association with our servicer advance investments described above, we (through our consolidated SA Buyers) invested in excess MSRs associated with the same portfolio of legacy residential mortgage-backed securitizations. Additionally, we own excess MSRs associated with specified pools of multifamily loans. We account for our excess MSRs at fair value and during the three and six months ended June 30, 2022, we recognized $4 million and $8 million of interest income, respectively, through Other interest income, and recorded net market valuation losses of $2 million and $3 million, respectively, through Investment fair value changes, net on our consolidated statements of income (loss).

*Mortgage Servicing Rights*

We invest in mortgage servicing rights associated with residential mortgage loans and contract with licensed sub-servicers to perform all servicing functions for these loans. The majority of our investments in MSRs were made through the retention of servicing rights associated with the residential jumbo mortgage loans that we acquired and subsequently sold to third parties. During the three and six months ended June 30, 2022, we retained zero and $5 million, respectively, of MSRs from sales of residential loans to third parties. We hold our MSR investments at our taxable REIT subsidiaries.

At June 30, 2022 and December 31, 2021, our MSRs had a fair value of $24 million and $12 million, respectively, and were associated with loans with an aggregate principal balance of $2.28 billion and $2.12 billion, respectively. During the three and six months ended June 30, 2022, including net market valuation gains and losses on our MSRs, we recorded net income of $5 million and $10 million, respectively, through Other income on our consolidated statements of income (loss) related to our MSRs.

**Note 11. Derivative Financial Instruments**

The following table presents the fair value and notional amount of our derivative financial instruments at June 30, 2022 and December 31, 2021.

***Table 11.1 – Fair Value and Notional Amount of Derivative Financial Instruments***

| | June 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| (In Thousands) | Fair Value | Notional Amount | Fair Value | Notional Amount |
| **Assets - Risk Management Derivatives** | | | | |
| Interest rate swaps | $ 19,113 | $ 644,000 | $ 611 | $ 161,500 |
| TBAs | 3,104 | 455,000 | 2,880 | 2,440,000 |
| Interest rate futures | 1,875 | 273,600 | 25 | 9,000 |
| Swaptions | 10,488 | 620,000 | 18,318 | 1,660,000 |
| **Assets - Other Derivatives** | | | | |
| Loan purchase and interest rate lock commitments | 2,007 | 235,723 | 4,633 | 971,631 |
| **Total Assets** | $ 36,587 | $ 2,228,323 | $ 26,467 | $ 5,242,131 |
| | | | | |
| **Liabilities - Risk Management Derivatives** | | | | |
| Interest rate swaps | $ (2,445) | $ 226,000 | $ (1,251) | $ 283,100 |
| TBAs | (2,004) | 405,000 | (658) | 870,000 |
| Interest rate futures | (1,615) | 115,000 | (905) | 62,500 |
| **Liabilities - Other Derivatives** | | | | |
| Loan purchase and interest rate lock commitments | (527) | 50,947 | (503) | 404,190 |
| **Total Liabilities** | $ (6,591) | $ 796,947 | $ (3,317) | $ 1,619,790 |
| **Total Derivative Financial Instruments, Net** | $ 29,996 | $ 3,025,270 | $ 23,150 | $ 6,861,921 |

***Risk Management Derivatives***

To manage, to varying degrees, risks associated with certain assets and liabilities on our consolidated balance sheets, we may enter into derivative contracts. At June 30, 2022, we were party to swaps and swaptions with an aggregate notional amount of $1.49 billion, TBA agreements with an aggregate notional amount of $860 million, and interest rate futures contracts with an aggregate notional amount of $389 million. At December 31, 2021, we were party to swaps and swaptions with an aggregate notional amount of $2.10 billion, futures with an aggregate notional amount of $72 million and TBA agreements with an aggregate notional amount of $3.31 billion.

For the three and six months ended June 30, 2022, risk management derivatives had a net market valuation gain of $30 million, and a net market valuation gain of $122 million, respectively. For the three and six months ended June 30, 2021, risk management derivatives had a net market valuation loss of $58 million, and a net market valuation gain of $35 million, respectively. Market valuation gains and losses are recorded in Mortgage banking activities, net, Investment fair value changes, net and Other income on our consolidated statements of income.

**Note 11. Derivative Financial Instruments - (continued)**

***Loan Purchase and Interest Rate Lock Commitments***

Loan purchase commitments ("LPCs") and interest rate lock commitments ("IRLCs") that qualify as derivatives are recorded at their estimated fair values. For the three and six months ended June 30, 2022, LPCs and IRLCs had a net market valuation loss of $9 million and loss of $51 million, respectively, that were recorded in Mortgage banking activities, net on our consolidated statements of income.

***Derivatives Designated as Cash Flow Hedges***

For interest rate agreements previously designated as cash flow hedges, our total unrealized loss reported in Accumulated other comprehensive income was $74 million and $76 million at June 30, 2022 and December 31, 2021, respectively. We are amortizing this loss into interest expense over the remaining term of the debt they were originally hedging. As of June 30, 2022, we expect to amortize $4 million of realized losses related to terminated cash flow hedges into interest expense over the next twelve months.

The following table illustrates the impact on interest expense of our interest rate agreements accounted for as cash flow hedges for the three and six months ended June 30, 2022 and 2021.

***Table 11.2 – Impact on Interest Expense of Interest Rate Agreements Accounted for as Cash Flow Hedges***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(In Thousands)** | **2022** | **2021** | **2022** | **2021** |
| Net interest expense on cash flows hedges | $ — | $ — | $ — | $ — |
| Realized net losses reclassified from other comprehensive income | (1,029) | (1,028) | (2,047) | (2,046) |
| **Total Interest Expense** | $ (1,029) | $ (1,028) | $ (2,047) | $ (2,046) |

***Derivative Counterparty Credit Risk***

As discussed in our Annual Report on Form 10-K for the year ended December 31, 2021, we consider counterparty risk as part of our fair value assessments of all derivative financial instruments at each quarter-end. At June 30, 2022, we assessed this risk as remote and did not record an associated specific valuation adjustment. At June 30, 2022, we were in compliance with our derivative counterparty ISDA agreements.

**Note 12. Other Assets and Liabilities**

Other assets at June 30, 2022 and December 31, 2021 are summarized in the following table.

***Table 12.1 – Components of Other Assets***

| **(In Thousands)** | **June 30, 2022** | **December 31, 2021** |
|---|---|---|
| Accrued interest receivable | $ 51,006 | $ 47,515 |
| Investment receivable | 25,688 | 82,781 |
| Deferred tax asset | 20,867 | 20,867 |
| Operating lease right-of-use assets | 17,074 | 18,772 |
| Income tax receivables | 15,573 | 22 |
| Margin receivable | 11,420 | 7,269 |
| Fixed assets and leasehold improvements (1) | 11,189 | 9,019 |
| REO | 7,813 | 36,126 |
| Other | 11,150 | 8,746 |
| **Total Other Assets** | $ 171,780 | $ 231,117 |

(1) Fixed assets and leasehold improvements had a basis of $20 million and accumulated depreciation of $9 million at June 30, 2022.

**Note 12. Other Assets and Liabilities - (continued)**

Accrued expenses and other liabilities at June 30, 2022 and December 31, 2021 are summarized in the following table.

***Table 12.2 – Components of Accrued Expenses and Other Liabilities***

| (In Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Payable to non-controlling interests | $ 49,544 | $ 42,670 |
| Accrued interest payable | 42,548 | 39,297 |
| Operating lease liabilities | 19,448 | 20,960 |
| Accrued compensation | 17,765 | 74,636 |
| Margin payable | 15,023 | 24,368 |
| Accrued operating expenses | 8,743 | 4,377 |
| Guarantee obligations | 6,768 | 7,459 |
| Residential loan and MSR repurchase reserve | 5,678 | 9,306 |
| Current accounts payable | 5,518 | 8,273 |
| Bridge loan holdbacks | 3,983 | 3,109 |
| Other | 15,807 | 11,333 |
| **Total Accrued Expenses and Other Liabilities** | $ 190,825 | $ 245,788 |

Refer to *Note 12* to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2021 for additional descriptions of our other assets and liabilities.

*Margin Receivable and Payable*

Margin receivable and payable resulted from margin calls between us and our counterparties under derivatives, master repurchase agreements, and warehouse facilities, whereby we or the counterparty posted collateral. Through June 30, 2022, we had met all margin calls due.

*REO*

The following table summarizes the activity and carrying values of REO assets held at Redwood and at consolidated Legacy Sequoia, Freddie Mac SLST, and CAFL SFR entities during the six months ended June 30, 2022.

***Table 12.3 – REO Activity***

| | Six Months Ended June 30, 2022 | | | | |
|---|---|---|---|---|---|
| (In Thousands) | Bridge | Legacy Sequoia | Freddie Mac SLST | SFR at CAFL | Total |
| Balance at beginning of period | $ 13,068 | $ 61 | $ 2,028 | $ 20,969 | $ 36,126 |
| Transfers to REO | 963 | 407 | 1,763 | — | 3,133 |
| Liquidations [(1)] | (9,549) | (504) | (1,661) | (20,969) | (32,683) |
| Changes in fair value, net | 625 | 443 | 169 | — | 1,237 |
| **Balance at End of Period** | $ 5,107 | $ 407 | $ 2,299 | $ — | $ 7,813 |

(1) For the six months ended June 30, 2022, REO liquidations resulted in $1 million of realized gains, which were recorded in Investment fair value changes, net on our consolidated statements of income.

**Note 12. Other Assets and Liabilities - (continued)**

The following table provides the detail of REO assets at Redwood and at consolidated Legacy Sequoia, Freddie Mac SLST, and CAFL SFR entities at June 30, 2022 and December 31, 2021.

***Table 12.4 – REO Assets***

| Number of REO assets | Bridge | Legacy Sequoia | Freddie Mac SLST | SFR at CAFL | Total |
|---|---|---|---|---|---|
| At June 30, 2022 | 3 | 1 | 21 | — | 25 |
| At December 31, 2021 | 5 | 2 | 24 | 3 | 34 |

**Note 13. Short-Term Debt**

We enter into repurchase agreements ("repo"), loan warehouse agreements, and other forms of collateralized (and generally uncommitted) short-term borrowings with several banks and major investment banking firms. At June 30, 2022, we had outstanding agreements with several counterparties and we were in compliance with all of the related covenants.

The table below summarizes our short-term debt, including the facilities that are available to us, the outstanding balances, the weighted average interest rate, and the maturity information at June 30, 2022 and December 31, 2021.

***Table 13.1 – Short-Term Debt***

| | June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in Thousands) | Number of Facilities | Outstanding Balance | Limit | Weighted Average Interest Rate (1) | Maturity | Weighted Average Days Until Maturity |
| **Facilities** | | | | | | |
| Residential loan warehouse | 7 | $ 1,085,802 | $ 2,750,000 | 3.28 % | 8/2022-3/2023 | 213 |
| Business purpose loan warehouse | 3 | 456,887 | 1,200,000 | 4.21 % | 3/2023-6/2023 | 258 |
| Real estate securities repo | 4 | 95,287 | — | 1.91 % | 7/2022-9/2022 | 32 |
| **Total Short-Term Debt Facilities** | 14 | 1,637,976 | | | | |
| Servicer advance financing | 1 | 231,846 | 300,000 | 3.40 % | 11/2022 | 125 |
| **Total Short-Term Debt** | | $ 1,869,822 | | | | |

| | December 31, 2021 | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in Thousands) | Number of Facilities | Outstanding Balance | Limit | Weighted Average Interest Rate (1) | Maturity | Weighted Average Days Until Maturity |
| **Facilities** | | | | | | |
| Residential loan warehouse | 7 | $ 1,669,344 | $ 2,900,000 | 1.87 % | 1/2022-12/2022 | 153 |
| Business purpose loan warehouse | 2 | 138,746 | 350,000 | 3.34 % | 3/2022-7/2022 | 105 |
| Real estate securities repo | 4 | 74,825 | — | 1.13 % | 1/2022-3/2022 | 33 |
| **Total Short-Term Debt Facilities** | 13 | 1,882,915 | | | | |
| Servicer advance financing | 1 | 294,447 | 350,000 | 1.90 % | 11/2022 | 306 |
| **Total Short-Term Debt** | | $ 2,177,362 | | | | |

(1) Borrowings under our facilities generally are uncommitted and charged interest based on a specified margin over 1-month SOFR or 1- or 3-month LIBOR.

**Note 13. Short-Term Debt - (continued)**

The following table below presents the value of loans, securities, and other assets pledged as collateral under our short-term debt at June 30, 2022 and December 31, 2021.

***Table 13.2 – Collateral for Short-Term Debt***

| (In Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Collateral Type** | | |
| Held-for-sale residential loans | $ 1,207,185 | $ 1,838,797 |
| Business purpose loans | 577,974 | 167,687 |
| Real estate securities | | |
| On balance sheet | 10,014 | 5,823 |
| Sequoia securitizations (1) | 82,636 | 61,525 |
| Freddie Mac K-Series securitization (1) | 31,732 | 31,657 |
| Total real estate securities owned | 124,382 | 99,005 |
| Restricted cash and other assets | 2,512 | 1,962 |
| **Total Collateral for Short-Term Debt Facilities** | 1,912,053 | 2,107,451 |
| Cash | 14,381 | 6,480 |
| Restricted cash | 26,236 | 25,420 |
| Servicer advances | 273,210 | 310,953 |
| **Total Collateral for Servicer Advance Financing** | 313,827 | 342,853 |
| **Total Collateral for Short-Term Debt** | $ 2,225,880 | $ 2,450,304 |

(1) Represents securities we have retained from consolidated securitization entities. For GAAP purposes, we consolidate the loans and non-recourse ABS debt issued from these securitizations.

For the three and six months ended June 30, 2022, the average balance of our short-term debt facilities was $1.64 billion and $1.66 billion, respectively. At June 30, 2022 and December 31, 2021, accrued interest payable on our short-term debt facilities was $3 million and $2 million, respectively.

Servicer advance financing consists of non-recourse short-term securitization debt used to finance servicer advance investments. We consolidate the securitization entity that issued the debt, but the entity is independent of Redwood and the assets and liabilities are not owned by and are not legal obligations of Redwood. At June 30, 2022, the accrued interest payable balance on this financing was $0.2 million and the unamortized capitalized commitment costs were $0.3 million.

We also maintain a $10 million committed line of credit with a financial institution that is secured by certain mortgage-backed securities with a fair market value of $1 million at June 30, 2022. At both June 30, 2022 and December 31, 2021, we had no outstanding borrowings on this facility.

During the three months ended June 30, 2022, a business purpose loan warehouse facility with a borrowing limit of $450 million was reclassified to short-term debt from long-term debt as the maturity of this facility was less than one year at June 30, 2022.

**Note 13. Short-Term Debt - (continued)**

***Remaining Maturities of Short-Term Debt***

The following table presents the remaining maturities of our secured short-term debt by the type of collateral securing the debt at June 30, 2022.

***Table 13.3 – Short-Term Debt by Collateral Type and Remaining Maturities***

| | June 30, 2022 | | | |
|---|---|---|---|---|
| **(In Thousands)** | **Within 30 days** | **31 to 90 days** | **Over 90 days** | **Total** |
| **Collateral Type** | | | | |
| Held-for-sale residential loans | $ — | $ 128,440 | $ 957,362 | $ 1,085,802 |
| Business purpose loans | — | — | 456,887 | 456,887 |
| Real estate securities | 57,323 | 37,964 | — | 95,287 |
| **Total Secured Short-Term Debt** | 57,323 | 166,404 | 1,414,249 | 1,637,976 |
| Servicer advance financing | — | — | 231,846 | 231,846 |
| **Total Short-Term Debt** | $ 57,323 | $ 166,404 | $ 1,646,095 | $ 1,869,822 |

**Note 14. Asset-Backed Securities Issued**

ABS issued represents securities issued by non-recourse securitization entities we consolidate under GAAP. The majority of our ABS issued is carried at fair value under the CFE election (see *Note 4* for additional detail) with the remainder carried at amortized cost.The carrying values of ABS issued by our consolidated securitization entities at June 30, 2022 and December 31, 2021, along with other selected information, are summarized in the following table.

***Table 14.1 – Asset-Backed Securities Issued***

| **June 30, 2022 (Dollars in Thousands)** | **Legacy Sequoia** | **Sequoia** | **CAFL** (1) | **Freddie Mac SLST** (2) | **Freddie Mac K-Series** | **HEI** | **Total** |
|---|---|---|---|---|---|---|---|
| Certificates with principal balance | $ 229,651 | $ 3,733,955 | $ 3,303,312 | $ 1,392,244 | $ 414,729 | $ 117,581 | $ 9,191,472 |
| Interest-only certificates | 258 | 60,183 | 149,184 | 14,938 | 8,809 | — | 233,372 |
| Market valuation adjustments | (22,262) | (505,456) | (244,629) | (48,723) | (12,158) | (7,470) | (840,698) |
| **ABS Issued, Net** | $ 207,647 | $ 3,288,682 | $ 3,207,867 | $ 1,358,459 | $ 411,380 | $ 110,111 | $ 8,584,146 |
| Range of weighted average interest rates, by series(3) | 1.59% to 2.88% | 2.52% to 5.00% | 2.34% to 5.34% | 3.50% to 4.75% | 3.41 % | 3.74 % | |
| Stated maturities(3) | 2024 - 2036 | 2047-2052 | 2027-2032 | 2028-2059 | 2025 | 2052 | |
| Number of series | 20 | 17 | 18 | 3 | 1 | 1 | |

**Note 14. Asset-Backed Securities Issued - (continued)**

| **December 31, 2021 (Dollars in Thousands)** | **Legacy Sequoia** | **Sequoia** | **CAFL[(1)]** | **Freddie Mac SLST [(2)]** | **Freddie Mac K-Series** | **HEI** | **Total** |
|---|---|---|---|---|---|---|---|
| Certificates with principal balance | $ 259,505 | $ 3,353,073 | $ 3,264,766 | $ 1,535,638 | $ 418,700 | $ 138,792 | $ 8,970,474 |
| Interest-only certificates | 619 | 32,749 | 193,725 | 11,714 | 10,184 | — | 248,991 |
| Market valuation adjustments | (32,243) | (2,774) | 16,407 | 41,111 | 12,973 | (1,382) | 34,092 |
| **ABS Issued, Net** | $ 227,881 | $ 3,383,048 | $ 3,474,898 | $ 1,588,463 | $ 441,857 | $ 137,410 | $ 9,253,557 |
| Range of weighted average interest rates, by series[(3)] | 0.23% to 1.44% | 2.40% to 5.03% | 2.64% to 5.24% | 3.50% to 4.75% | 3.41 % | 3.31 % | |
| Stated maturities[(3)] | 2024 - 2036 | 2047-2052 | 2027-2031 | 2028-2059 | 2025 | 2052 | |
| Number of series | 20 | 16 | 16 | 3 | 1 | 1 | |

(1) Includes $485 million and $270 million (principal balance) of ABS issued by two CAFL bridge securitization trusts sponsored by Redwood and accounted for at amortized cost at June 30, 2022 and December 31, 2021, respectively.

(2) Includes $117 million and $145 million (principal balance) of ABS issued by a re-securitization trust sponsored by Redwood and accounted for at amortized cost at June 30, 2022 and December 31, 2021, respectively.

(3) Certain ABS issued by CAFL, Freddie Mac SLST, and HEI securitization entities are subject to early redemption and interest rate step-ups as described below.

During the second quarter of 2022, we consolidated the assets and liabilities of a securitization entity formed in connection with the securitization of CoreVest bridge loans (presented within CAFL in table 14.1 above), which we determined was a VIE and for which we determined we are the primary beneficiary. At issuance, we sold $215 million (principal balance) of ABS issued to third parties and retained the remaining beneficial ownership interest in the trust. The ABS were issued at a discount and we have elected to account for the ABS issued at amortized cost. At June 30, 2022, the principal balance of the ABS issued was $ 215 million, and the unamortized debt discount and deferred issuance costs were $8 million in total, for a net carrying value of $207 million. The weighted average stated coupon of the ABS issued was 4.32% at issuance. The ABS issued by the CAFL bridge entity are subject to an optional redemption in May 2024, and beginning in June 2025, the interest rate on the ABS issued increases by 2% through final maturity in May 2029. The ABS issued by this securitization were backed by assets including $249 million of bridge loans and $1 million of restricted cash at June 30, 2022. The securitization is structured with $250 million of total funding capacity and a feature to allow reinvestment of loan payoffs for the first 24 months of the transaction (through May 2024), unless an amortization event occurs prior to the expiration of the 24-month reinvestment period. Amortization trigger events include, among other events, delinquency rates or default rates exceeding specified thresholds for three consecutive periods, or the effective advance rate exceeding a specified threshold.

During the third quarter of 2021, we consolidated the assets and liabilities of a securitization entity formed in connection with the securitization of CoreVest bridge loans (presented within CAFL in table 14.1 above), which we determined was a VIE and for which we determined we are the primary beneficiary. At issuance, we sold $270 million (principal balance) of ABS issued to third parties and retained the remaining beneficial ownership interest in the trust. The ABS were issued at a discount and we have elected to account for the ABS issued at amortized cost. At June 30, 2022, the principal balance of the ABS issued was $ 270 million, and the unamortized debt discount and deferred issuance costs were $2 million, for a net carrying value of $268 million. The weighted average stated coupon of the ABS issued was 2.34% at issuance. The ABS issued by the CAFL bridge entity are subject to an optional redemption in March 2024, and beginning in March 2025 the interest rate on the ABS issued increases by 2% through final maturity in March 2029. The ABS issued by this securitization were backed by assets including $293 million of bridge loans, $8 million of restricted cash and $7 million of other assets at June 30, 2022. The securitization is structured with $300 million of total funding capacity and a feature to allow reinvestment of loan payoffs for the first 30 months of the transaction (through March 2024), unless an amortization event occurs prior to the expiration of the 30-month reinvestment period. Amortization trigger events include, among other events, delinquency rates or default rates exceeding specified thresholds for three consecutive periods, or the effective advance rate exceeding a specified threshold.

**Note 14. Asset-Backed Securities Issued - (continued)**

During the third quarter of 2021, we consolidated the assets and liabilities of the HEI securitization entity formed in connection with the securitization of HEIs, which we determined was a VIE and for which we determined we are the primary beneficiary. At issuance, we sold $146 million (principal balance) of ABS issued to third parties and retained a portion of the remaining beneficial ownership interest in the trust. We elected to account for the entity under the CFE election and account for the ABS issued at fair value, with the entire change in fair value of the ABS issued (including accrued interest) recorded through Investment fair value changes, net on our consolidated statements of income. The ABS issued by the HEI securitization entity are subject to an optional redemption in September 2023, and beginning in September 2024 the interest rate on the ABS issued increases by 2% through final maturity in 2052.

During the third quarter of 2020, we transferred all of the subordinate securities we owned from two consolidated re-performing loan securitization VIEs sponsored by Freddie Mac SLST to a re-securitization trust, which we determined was a VIE and for which we determined we are the primary beneficiary. At issuance, we sold $210 million (principal balance) of ABS issued to third parties and retained 100% of the remaining beneficial ownership interest in the trust through ownership of a subordinate security issued by the trust. The ABS was issued at a discount and we have elected to account for the ABS issued at amortized cost. At June 30, 2022, the principal balance of the ABS issued was $117 million, and the debt discount and deferred issuance costs totaled $1 million, for a net carrying value of $115 million. The stated coupon of the ABS issued was 4.75% at issuance and the final stated maturity occurs in July 2059. The ABS issued are subject to an optional redemption in July 2022 and in July 2023 the ABS interest rate steps up to 7.75%.

The actual maturity of each class of ABS issued is primarily determined by the rate of principal prepayments on the assets of the issuing entity. Each series is also subject to redemption prior to the stated maturity according to the terms of the respective governing documents of each ABS issuing entity. As a result, the actual maturity of ABS issued may occur earlier than the stated maturity. At June 30, 2022, the majority of the ABS issued and outstanding had contractual maturities beyond five years. See *Note 4* for detail on the carrying value components of the collateral for ABS issued and outstanding. The following table summarizes the accrued interest payable on ABS issued at June 30, 2022 and December 31, 2021. Interest due on consolidated ABS issued is payable monthly.

***Table 14.2 – Accrued Interest Payable on Asset-Backed Securities Issued***

| (In Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Legacy Sequoia | $ 171 | $ 99 |
| Sequoia | 9,232 | 8,452 |
| CAFL | 10,611 | 11,030 |
| Freddie Mac SLST [(1)] | 4,182 | 4,630 |
| Freddie Mac K-Series | 1,178 | 1,190 |
| **Total Accrued Interest Payable on ABS Issued** | $ 25,374 | $ 25,401 |

(1) Includes accrued interest payable on ABS issued by a re-securitization trust sponsored by Redwood.

**Note 15. Long-Term Debt**

The tables below summarize our long-term debt, including the facilities that are available to us, the outstanding balances, the weighted average interest rate, and the maturity information at June 30, 2022 and December 31, 2021.

***Table 15.1 – Long-Term Debt***

| | June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| **(Dollars in Thousands)** | **Borrowings** | **Unamortized Deferred Issuance Costs / Discount** | **Net Carrying Value** | **Limit** | **Weighted Average Interest Rate** (1) | **Final Maturity** |
| **Facilities** | | | | | | |
| Recourse Subordinate Securities Financing | | | | | | |
| Facility A | $ 132,212 | $ (104) | $ 132,108 | N/A | 4.21 % | 9/2024 |
| CAFL | | | | | | |
| Facility B | 102,018 | (202) | 101,816 | N/A | 4.21 % | 2/2025 |
| Facility C | 76,195 | (251) | 75,944 | N/A | 4.75 % | 6/2026 |
| Non-Recourse BPL Financing | | | | | | |
| Facility D | 500,608 | (1,026) | 499,582 | $ 600,000 | L + 2.50% | N/A |
| Recourse BPL Financing | | | | | | |
| Facility E | 294,702 | (103) | 294,599 | 450,000 | SOFR + 2.25% | 9/2023 |
| **Total Long-Term Debt Facilities** | 1,105,735 | (1,686) | 1,104,049 | | | |
| Convertible notes | | | | | | |
| 4.75% convertible senior notes | 198,629 | (1,302) | 197,327 | N/A | 4.75 % | 8/2023 |
| 5.625% convertible senior notes | 150,200 | (1,683) | 148,517 | N/A | 5.625 % | 7/2024 |
| 5.75% exchangeable senior notes | 172,092 | (2,977) | 169,115 | N/A | 5.75 % | 10/2025 |
| 7.75% convertible senior notes | 215,000 | (6,691) | 208,309 | N/A | 7.75 % | 6/2027 |
| Trust preferred securities and subordinated notes | 139,500 | (756) | 138,744 | N/A | L + 2.25% | 7/2037 |
| **Total Long-Term Debt** | $ 1,981,156 | $ (15,095) | $ 1,966,061 | | | |

**Note 15. Long-Term Debt - (continued)**

| (Dollars in Thousands) | December 31, 2021 Borrowings | Unamortized Deferred Issuance Costs / Discount | Net Carrying Value | Limit | Weighted Average Interest Rate (1) | Final Maturity |
|---|---|---|---|---|---|---|
| **Facilities** | | | | | | |
| Recourse Subordinate Securities Financing | | | | | | |
| Facility A | $ 144,385 | $ (313) | $ 144,072 | N/A | 4.21 % | 9/2024 |
| CAFL | | | | | | |
| Facility B | 102,351 | (353) | 101,998 | N/A | 4.21 % | 2/2025 |
| Facility C | 91,707 | (376) | 91,331 | N/A | 4.75 % | 6/2026 |
| Non-Recourse BPL Financing | | | | | | |
| Facility D | 307,215 | (507) | 306,708 | $ 400,000 | L + 2.75% | N/A |
| Recourse BPL Financing | | | | | | |
| Facility E | 234,349 | (123) | 234,226 | 450,000 | L + 2.21% | 9/2023 |
| Facility F | 110,148 | — | 110,148 | 450,000 | L + 3.35% | 6/2023 |
| **Total Long-Term Debt Facilities** | 990,155 | (1,672) | 988,483 | | | |
| Convertible notes | | | | | | |
| 4.75% convertible senior notes | 198,629 | (1,836) | 196,793 | N/A | 4.75 % | 8/2023 |
| 5.625% convertible senior notes | 150,200 | (2,072) | 148,128 | N/A | 5.625 % | 7/2024 |
| 5.75% exchangeable senior notes | 172,092 | (3,384) | 168,708 | N/A | 5.75 % | 10/2025 |
| Trust preferred securities and subordinated notes | 139,500 | (779) | 138,721 | N/A | L + 2.25% | 7/2037 |
| **Total Long-Term Debt** | $ 1,650,576 | $ (9,743) | $ 1,640,833 | | | |

(1) Variable rate borrowings are based on 1- or 3-month LIBOR ("L" in the table above) or 1-month SOFR plus an applicable spread.

Refer to *Note 15* to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2021, for a full description of our long-term debt.

***Non-Recourse BPL Financing Facility***

During the three months ended March 31, 2022, we amended facility D (see Table 15.1 above) to increase the borrowing limit from $400 million to $600 million.

***Recourse BPL Financing Facilities***

During the three months ended March 31, 2022, we amended the interest rate for Facilities E and F (see Table 15.1 above) to be indexed to a spread over one-month SOFR compared to a LIBOR-indexed spread at March 31, 2022.

During the three months ended June 30, 2022, Facility F was reclassified to short-term debt as the maturity of this facility was less than one year at June 30, 2022.

**Note 15. Long-Term Debt - (continued)**

***Convertible Notes***

In June 2022, we issued $215 million principal amount of 7.75% convertible senior notes due 2027. These notes require semi-annual interest payments at a fixed annual coupon rate of 7.75% until maturity or conversion, which will be no later than June 15, 2027. After deducting the underwriting discount and offering costs, we received $208 million of net proceeds. Including amortization of deferred debt issuance costs, the effective interest expense yield on these notes was approximately 8.50% per annum. We may elect to settle conversions either entirely in cash or in a combination of cash and shares of common stock. Upon conversion, the conversion value will be paid in cash up to at least the principal amount of the notes being converted. The initial conversion rate of the notes is 95.6823 common shares per $1,000 principal amount of notes (equivalent to a conversion price of $10.45 per common share).

The following table below presents the value of loans, securities, and other assets pledged as collateral under our long-term debt at June 30, 2022 and December 31, 2021.

***Table 15.2 – Collateral for Long-Term Debt***

| (In Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| **Collateral Type** | | |
| Bridge loans | $ 779,467 | $ 554,597 |
| Single-family rental loans | 180,482 | 244,703 |
| Real estate securities | | |
| Sequoia securitizations (1) | 198,640 | 247,227 |
| CAFL securitizations (1) | 247,106 | 260,405 |
| **Total Collateral for Long-Term Debt** | $ 1,405,695 | $ 1,306,932 |

(1) Represents securities we have retained from consolidated securitization entities. For GAAP purposes, we consolidate the loans and non-recourse ABS debt issued from these securitizations.

The following table summarizes the accrued interest payable on long-term debt at June 30, 2022 and December 31, 2021.

***Table 15.3 – Accrued Interest Payable on Long-Term Debt***

| (In Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Long-term debt facilities | $ 2,775 | $ 815 |
| Convertible notes | | |
| 4.75% convertible senior notes | 3,564 | 3,564 |
| 5.625% convertible senior notes | 3,896 | 3,896 |
| 5.75% exchangeable senior notes | 2,474 | 2,474 |
| 7.75% convertible senior notes | 1,018 | — |
| Trust preferred securities and subordinated notes | 850 | 581 |
| **Total Accrued Interest Payable on Long-Term Debt** | $ 14,577 | $ 11,330 |

**Note 16. Commitments and Contingencies**

***Lease Commitments***

At June 30, 2022, we were obligated underseven non-cancelable operating leases with expiration dates through 2031 for $22 million of cumulative lease payments. Our operating lease expense was $2 million each for the six-month periods ended June 30, 2022 and 2021.

The following table presents our future lease commitments at June 30, 2022.

***Table 16.1 – Future Lease Commitments by Year***

| (In Thousands) | June 30, 2022 |
|---|---|
| 2022 (6 months) | $ 2,203 |
| 2023 | 4,428 |
| 2024 | 4,338 |
| 2025 | 3,475 |
| 2026 | 3,420 |
| 2027 and thereafter | 4,553 |
| **Total Lease Commitments** | 22,417 |
| Less: Imputed interest | (2,969) |
| **Operating Lease Liabilities** | $ 19,448 |

During the six months ended June 30, 2022, we did not enter into any new office leases. At June 30, 2022, our operating lease liabilities were $19 million, which were a component of Accrued expenses and other liabilities, and our operating lease right-of-use assets were $17 million, which were a component of Other assets.

We determined that none of our leases contained an implicit interest rate and used a discount rate equal to our incremental borrowing rate on a collateralized basis to determine the present value of our total lease payments. As such, we determined the applicable discount rate for each of our leases using a swap rate plus an applicable spread for borrowing arrangements secured by our real estate loans and securities for a length of time equal to the remaining lease term on the date of adoption. At June 30, 2022, the weighted-average remaining lease term and weighted-average discount rate for our leases was 6 years and 5.1%, respectively.

***Commitment to Fund Bridge Loans***

As of June 30, 2022, we had commitments to fund up to $835 million of additional advances on existing bridge loans. These commitments are generally subject to loan agreements with covenants regarding the financial performance of the borrower and other terms regarding advances that must be met before we fund the commitment. At June 30, 2022, we carried a $4 million contingent liability related to these commitments to fund construction advances. During both the three and six months ended June 30, 2022, we recorded a net market valuation loss of $3 million related to this liability through Mortgage banking activities, net and Investment fair value changes, net on our consolidated statements of income (loss). During the three and six months ended June 30, 2021, we recorded a net market valuation gain of $1 million and $2 million, respectively, related to this liability through Mortgage banking activities, net on our consolidated statements of income (loss).

***Commitment to Fund Partnerships***

In 2018, we invested intwo partnerships created to acquire and manage certain mortgage servicing related assets (see *Note 10* for additional detail). In connection with this investment, we are required to fund future net servicer advances related to the underlying mortgage loans. The actual amount of net servicer advances we may fund in the future is subject to significant uncertainty and will be based on the credit and prepayment performance of the underlying loans.

**Note 16. Commitments and Contingencies - (continued)**

***Commitment to Acquire HEIs***

During the second quarter of 2022, we entered into an additional flow purchase agreement to acquire $100 million home equity investment contracts from a third party. At June 30, 2022, we had outstanding flow purchase agreements with third parties, with an aggregate commitment to purchase $350 million of HEIs, of which $225 million of the commitments remained outstanding. We account for these investments under the fair value option. See *Note 10* for additional detail on these investments.

***Commitments to Fund Strategic Investments***

In the first quarter of 2022, we entered into a $25 million commitment to an investment fund with the mission of providing quality workforce housing opportunities in several California urban communities, including the San Francisco Bay Area. At June 30, 2022, we had funded $9.4 million of this commitment. This investment is included in Other Investments on our Consolidated Balance Sheets.

In 2021, we entered into a commitment to fund a $5 million RWT Horizons investment. At June 30, 2022, we had funded $1 million of this commitment. This investment is included in Other Investments on our Consolidated Balance Sheets.

***Loss Contingencies — Risk-Sharing***

During 2015 and 2016, we sold conforming loans to the Agencies with an original unpaid principal balance of $3.19 billion, subject to our risk-sharing arrangements with the Agencies. At June 30, 2022, the maximum potential amount of future payments we could be required to make under these arrangements was $44 million and this amount was partially collateralized by assets we transferred to pledged accounts and is presented as pledged collateral in Other assets on our consolidated balance sheets. We have no recourse to any third parties that would allow us to recover any amounts related to our obligations under the arrangements. At June 30, 2022, we had incurred less than $100 thousand of cumulative losses under these arrangements. For the three and six months ended June 30, 2022, other income related to these arrangements was $0.3 million and $1 million, respectively.

All of the loans in the reference pools subject to these risk-sharing arrangements were originated in 2014 and 2015, and at June 30, 2022, the loans had an unpaid principal balance of $476 million and a weighted average FICO score of 756 (at origination) and LTV ratio of 74% (at origination). At June 30, 2022, $12 million of the loans were 90 days or more delinquent, of which four of these loans with an unpaid principal balance of $1 million were in foreclosure. At June 30, 2022, the carrying value of our guarantee obligation was $7 million and included $5 million designated as a non-amortizing credit reserve, which we believe is sufficient to cover current expected losses under these obligations.

Our consolidated balance sheets include assets of special purpose entities ("SPEs") associated with these risk-sharing arrangements (i.e., the "pledged collateral" referred to above) that can only be used to settle obligations of these SPEs for which the creditors of these SPEs (the Agencies) do not have recourse to us. At both June 30, 2022 and December 31, 2021, assets of such SPEs totaled $34 million, and liabilities of such SPEs totaled $7 million.

***Loss Contingencies — Residential Repurchase Reserve***

We maintain a repurchase reserve for potential obligations arising from representation and warranty violations related to residential loans we have sold to securitization trusts or third parties and for conforming residential loans associated with MSRs that we have purchased from third parties. We do not originate residential loans and we believe the initial risk of loss due to loan repurchases (i.e., due to a breach of representations and warranties) would generally be a contingency to the companies from whom we acquired the loans. However, in some cases, for example, where loans were acquired from companies that have since become insolvent, repurchase claims may result in our being liable for a repurchase obligation. Additionally, for certain loans we sold during the second quarter of 2020 that were previously held for investment, we have a direct obligation to repurchase these loans in the event of any early payment defaults (or "EPDs") by the underlying mortgage borrowers within certain specified periods following the sales.

At June 30, 2022 and December 31, 2021, our repurchase reserve associated with our residential loans and MSRs was $6 million and $9 million, respectively, and was recorded in Accrued expenses and other liabilities on our consolidated balance sheets. During the six months ended June 30, 2022 and 2021, we received three and one repurchase requests, respectively, and repurchased zero and one loan, respectively. During both the three and six months ended June 30, 2022, we recorded a reversal of repurchase provision

**Note 16. Commitments and Contingencies - (continued)**

expense of $4 million, and during the three and six months ended June 30, 2021, we recorded repurchase provision expense of $0.2 million and $0.3 million, respectively, that were recorded in Mortgage banking activities, net, Investment fair value changes, net, and Other income on our consolidated statements of income.

***Loss Contingencies — Litigation, Claims and Demands***

There is no significant update regarding the litigation matters described in *Note 16* within the financial statements included in Redwood's Annual Report on Form 10-K for the year ended December 31, 2021 under the heading "Loss Contingencies - Litigation, Claims and Demands." At June 30, 2022, the aggregate amount of loss contingency reserves established in respect of the FHLB-Seattle and Schwab litigation matters described in our Annual Report on Form 10-K for the year ended December 31, 2021 was $2 million.

**Note 17. Equity**

The following table provides a summary of changes to accumulated other comprehensive income (loss) by component for the three and six months ended June 30, 2022 and 2021.

***Table 17.1 – Changes in Accumulated Other Comprehensive Income (Loss) by Component***

| | Three Months Ended June 30, 2022 | | Three Months Ended June 30, 2021 | |
|---|---|---|---|---|
| **(In Thousands)** | **Available-for-Sale Securities** | **Interest Rate Agreements Accounted for as Cash Flow Hedges** | **Available-for-Sale Securities** | **Interest Rate Agreements Accounted for as Cash Flow Hedges** |
| Balance at beginning of period | $ 48,938 | $ (75,412) | $ 84,527 | $ (79,539) |
| Other comprehensive (loss) income before reclassifications | (33,409) | — | 11,224 | — |
| Amounts reclassified from other accumulated comprehensive (income) loss | 1,066 | 1,029 | (7,500) | 1,028 |
| Net current-period other comprehensive (loss) income | (32,343) | 1,029 | 3,724 | 1,028 |
| **Balance at End of Period** | $ 16,595 | $ (74,383) | $ 88,251 | $ (78,511) |

| | Six Months Ended June 30, 2022 | | Six Months Ended June 30, 2021 | |
|---|---|---|---|---|
| **(In Thousands)** | **Available-for-Sale Securities** | **Interest Rate Agreements Accounted for as Cash Flow Hedges** | **Available-for-Sale Securities** | **Interest Rate Agreements Accounted for as Cash Flow Hedges** |
| Balance at beginning of period | $ 67,503 | $ (76,430) | $ 76,336 | $ (80,557) |
| Other comprehensive (loss) income before reclassifications | (51,282) | — | 22,210 | — |
| Amounts reclassified from other accumulated comprehensive (income) loss | 374 | 2,047 | (10,295) | 2,046 |
| Net current-period other comprehensive (loss) income | (50,908) | 2,047 | 11,915 | 2,046 |
| **Balance at End of Period** | $ 16,595 | $ (74,383) | $ 88,251 | $ (78,511) |

**ote 17. Equity - (continued)**

The following table provides a summary of reclassifications out of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2022 and 2021.

*Table 17.2 – Reclassifications Out of Accumulated Other Comprehensive Income (Loss)*

| | | Amount Reclassified From Accumulated Other Comprehensive (Loss) | |
|---|---|---|---|
| | Affected Line Item in the | Three Months Ended June 30, | |
| (In Thousands) | Income Statement | 2022 | 2021 |
| **Net Realized (Gain) Loss on AFS Securities** | | | |
| Increase (decrease) in allowance for credit losses on AFS securities | Investment fair value changes, net | $ 1,066 | $ (13) |
| Gain on sale of AFS securities | Realized gains, net | — | (7,487) |
| | | $ 1,066 | $ (7,500) |
| **Net Realized Loss on Interest Rate Agreements Designated as Cash Flow Hedges** | | | |
| Amortization of deferred loss | Interest expense | $ 1,029 | $ 1,028 |
| | | $ 1,029 | $ 1,028 |

| | | Amount Reclassified From Accumulated Other Comprehensive (Loss) | |
|---|---|---|---|
| | Affected Line Item in the | Six Months Ended June 30, | |
| (In Thousands) | Income Statement | 2022 | 2021 |
| **Net Realized (Gain) Loss on AFS Securities** | | | |
| Increase (decrease) in allowance for credit losses on AFS securities | Investment fair value changes, net | $ 1,771 | $ (388) |
| Gain on sale of AFS securities | Realized gains, net | (1,397) | (9,907) |
| | | $ 374 | $ (10,295) |
| **Net Realized Loss on Interest Rate Agreements Designated as Cash Flow Hedges** | | | |
| Amortization of deferred loss | Interest expense | $ 2,047 | $ 2,046 |
| | | $ 2,047 | $ 2,046 |

***Issuance of Common Stock***

We have an established program to sell common stock from time to time in at-the-market ("ATM") offerings. During the six months ended June 30, 2022, we issued 5,232,869 common shares for net proceeds of $67 million under this program. During the three months ended March 31, 2022, we increased the capacity of this program to $175 million, all of which remained outstanding for future offerings under this program as of June 30, 2022.

***Direct Stock Purchase and Dividend Reinvestment Plan***

During the six months ended June 30, 2022, we did not issue any shares of common stock through our Direct Stock Purchase and Dividend Reinvestment Plan. At June 30, 2022, approximately 6 million shares remained outstanding for future offerings under this plan.

**ote 17. Equity - (continued)**

*Earnings per Common Share*

The following table provides the basic and diluted (loss) earnings per common share computations for the three and six months ended June 30, 2022 and 2021.

***Table 17.3 – Basic and Diluted Earnings per Common Share***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(In Thousands, except Share Data)** | **2022** | **2021** | **2022** | **2021** |
| **Basic Earnings per Common Share:** | | | | |
| Net (loss) income attributable to Redwood | $ (99,966) | $ 90,025 | $ (69,051) | $ 187,282 |
| Less: Dividends and undistributed earnings allocated to participating securities | (1,159) | (3,149) | (2,286) | (6,458) |
| Net (loss) income allocated to common shareholders | $ (101,125) | $ 86,876 | $ (71,337) | $ 180,824 |
| Basic weighted average common shares outstanding | 119,660,173 | 112,921,070 | 119,771,554 | 112,337,984 |
| **Basic (Loss) Earnings per Common Share** | $ (0.85) | $ 0.77 | $ (0.60) | $ 1.61 |
| **Diluted Earnings per Common Share:** | | | | |
| Net (loss) income attributable to Redwood | $ (99,966) | $ 90,025 | $ (69,051) | $ 187,282 |
| Less: Dividends and undistributed earnings allocated to participating securities | (1,159) | (2,869) | (2,286) | (5,829) |
| Add back: Interest expense on convertible notes for the period, net of tax | — | 6,990 | — | 13,971 |
| Net (loss) income allocated to common shareholders | $ (101,125) | $ 94,146 | $ (71,337) | $ 195,424 |
| Weighted average common shares outstanding | 119,660,173 | 112,921,070 | 119,771,554 | 112,337,984 |
| Net effect of dilutive equity awards | — | 273,139 | — | 234,353 |
| Net effect of assumed convertible notes conversion to common shares | — | 28,566,875 | — | 28,566,875 |
| Diluted weighted average common shares outstanding | 119,660,173 | 141,761,084 | 119,771,554 | 141,139,212 |
| **Diluted (Loss) Earnings per Common Share** | $ (0.85) | $ 0.66 | $ (0.60) | $ 1.38 |

We included participating securities, which are certain equity awards that have non-forfeitable dividend participation rights, in the calculations of basic and diluted earnings per common share as we determined that the two-class method was more dilutive than the alternative treasury stock method for these shares. Dividends and undistributed earnings allocated to participating securities under the basic and diluted earnings per share calculations require specific shares to be included that may differ in certain circumstances.

During the three and six months ended June 30, 2021, certain of our convertible notes were determined to be dilutive and were included in the calculation of diluted EPS under the "if-converted" method. Under this method, the periodic interest expense (net of applicable taxes) for dilutive notes is added back to the numerator and the weighted average number of shares that the notes are entitled to (if converted, regardless of whether they are in or out of the money) are included in the denominator.

For the three and six months ended June 30, 2022,33,992,377 and 31,294,614 of common shares, respectively, related to the assumed conversion of our convertible notes were antidilutive and were excluded in the calculation of diluted earnings per share. For the three and six months ended June 30, 2022, the number of outstanding equity awards that were antidilutive totaled 249,224 and 278,604, respectively. For the three and six months ended June 30, 2021, the number of outstanding equity awards that were antidilutive totaled 18,645 and 17,053, respectively.

**ote 17. Equity - (continued)**

***Stock Repurchases***

Our Board of Directors previously approved an authorization for the repurchase of up to $100 million of our common stock, and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. This authorization has no expiration date and does not obligate us to acquire any specific number of shares or securities. During the three months ended June 30, 2022, we repurchased 3.7 million shares of our common stock for a total cost of $33 million. At June 30, 2022, $46 million of the current authorization remained available for the repurchase of shares of our common stock and we also continued to be authorized to repurchase outstanding debt securities. In July 2022, our Board of Directors approved a new repurchase authorization – see *Note 24* for further discussion.

**Note 18. Equity Compensation Plans**

At June 30, 2022 and December 31, 2021, 5,551,039 and 5,958,390 shares of common stock, respectively, were available for grant under our Incentive Plan. The unamortized compensation cost of awards issued under the Incentive Plan, which are settled by delivery of shares of common stock and purchases under the Employee Stock Purchase Plan, totaled $39 million at June 30, 2022, as shown in the following table.

***Table 18.1 – Activities of Equity Compensation Costs by Award Type***

| | Six Months Ended June 30, 2022 | | | | | |
|---|---|---|---|---|---|---|
| **(In Thousands)** | **Restricted Stock Awards** | **Restricted Stock Units** | **Deferred Stock Units** | **Performance Stock Units** | **Employee Stock Purchase Plan** | **Total** |
| Unrecognized compensation cost at beginning of period | $ 84 | $ 3,589 | $ 26,473 | $ 12,237 | $ — | $ 42,383 |
| Equity grants | — | 2,684 | 4,350 | — | 323 | 7,357 |
| Performance-based valuation adjustment | — | — | — | (1,719) | — | (1,719) |
| Equity grant forfeitures | (5) | (339) | — | — | — | (344) |
| Equity compensation expense | (72) | (1,049) | (5,782) | (1,988) | (162) | (9,053) |
| **Unrecognized Compensation Cost at End of Period** | $ 7 | $ 4,885 | $ 25,041 | $ 8,530 | $ 161 | $ 38,624 |

At June 30, 2022, the weighted average amortization period remaining for all of our equity awards was less than two years.

***Restricted Stock Awards ("RSAs")***

At June 30, 2022 and December 31, 2021, there were 1,551 and 28,141 shares of RSAs outstanding, respectively. Restrictions on these shares lapse during 2022. During the six months ended June 30, 2022, there were no RSAs granted, restrictions on 26,249 RSAs lapsed and those shares were distributed, and 341 RSAs were forfeited.

***Restricted Stock Units ("RSUs")***

At June 30, 2022 and December 31, 2021, there were 486,546 and 431,072 RSUs outstanding, respectively. During the six months ended June 30, 2022, there were 206,179 RSUs granted, 120,154 RSUs distributed, and 30,551 RSUs forfeited. Unvested RSUs at June 30, 2022 vest through 2026.

***Deferred Stock Units ("DSUs")***

At June 30, 2022 and December 31, 2021, there were 4,551,475 and 4,022,088 DSUs outstanding, respectively, of which 2,089,958 and 1,469,903, respectively, had vested. During the six months ended June 30, 2022, there were 824,875 DSUs granted, 295,488 DSUs distributed, and zero DSUs forfeited. Unvested DSUs at June 30, 2022 vest through 2026.

**Note 18. Equity Compensation Plans - (continued)**

***Performance Stock Units ("PSUs")***

At June 30, 2022 and December 31, 2021, the target number of PSUs that were unvested was1,267,849 and 1,473,883, respectively. Vesting for PSUs generally occurs three years from their respective grant dates based on various total shareholder return performance calculations, as discussed in *Note 18* to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2021. During the three months ended June 30, 2022, for PSUs granted in 2020 and 2021, we decreased the book value total shareholder return estimate for the 2022 performance period, reducing the future equity compensation expense related to these awards by $2 million.

For 206,034 target PSU awards that were granted in December 2018, the performance vesting period ended on January 1, 2022. These 2018 PSU awards failed to reach a threshold level under their performance-based vesting criteria and resulted in the vesting of no shares of our common stock underlying these PSUs.

***Employee Stock Purchase Plan ("ESPP")***

The ESPP allows a maximum of 850,000 shares of common stock to be purchased in aggregate for all employees. As of June 30, 2022 and December 31, 2021, 607,877 and 569,728 shares had been purchased, respectively, and there remained a negligible amount of uninvested employee contributions in the ESPP at June 30, 2022.

**Note 19. Mortgage Banking Activities, Net**

The following table presents the components of Mortgage banking activities, net, recorded in our consolidated statements of income for the three and six months ended June 30, 2022 and 2021.

***Table 19.1 – Mortgage Banking Activities***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(In Thousands)** | **2022** | **2021** | **2022** | **2021** |
| **Residential Mortgage Banking Activities, Net** | | | | |
| Changes in fair value of: | | | | |
| Residential loans, at fair value (1) | $ (33,414) | $ 76,907 | $ (102,236) | $ 47,634 |
| Trading securities (2) | 1,315 | (1,095) | 4,101 | (374) |
| Risk management derivatives (3) | 9,900 | (55,740) | 83,254 | 33,224 |
| Other income (expense), net (4) | 4,412 | 1,193 | 5,029 | 2,216 |
| Total residential mortgage banking activities, net | (17,787) | 21,265 | (9,852) | 82,700 |
| **Business Purpose Mortgage Banking Activities, Net:** | | | | |
| Changes in fair value of: | | | | |
| Single-family rental loans, at fair value (1) | (39,994) | 25,966 | (65,187) | 36,214 |
| Risk management derivatives (3) | 15,487 | (2,504) | 32,520 | 1,354 |
| Bridge loans, at fair value | 116 | 2,225 | 2,251 | 3,269 |
| Other income, net (5) | 12,161 | 7,467 | 26,566 | 13,489 |
| Total business purpose mortgage banking activities, net | (12,230) | 33,154 | (3,850) | 54,326 |
| **Mortgage Banking Activities, Net** | $ (30,017) | $ 54,419 | $ (13,702) | $ 137,026 |

(1) For residential loans, includes changes in fair value for associated loan purchase and forward sale commitments. For single-family rental loans, includes changes in fair value for associated interest rate lock commitments.
(2) Represents fair value changes on trading securities that are being used as hedges to manage the mark-to-market risks associated with our residential mortgage banking operations.
(3) Represents market valuation changes of derivatives that were used to manage risks associated with our mortgage banking operations.
(4) Amounts in this line item include other fee income from loan acquisitions and provisions for repurchases, presented net.
(5) Amounts in this line item include other fee income from loan originations.

**Note 20. Other Income, Net**

The following table presents the components of Other income recorded in our consolidated statements of income for the three and six months ended June 30, 2022 and 2021.

***Table 20.1 – Other Income, Net***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(In Thousands)** | **2022** | **2021** | **2022** | **2021** |
| MSR income, net [1] | $ 5,376 | $ (43) | $ 9,679 | $ 654 |
| Bridge loan fees | 1,473 | 911 | 2,463 | 1,604 |
| Risk share income | 323 | 861 | 783 | 1,743 |
| Other | (166) | 397 | 64 | 1,968 |
| **Other Income, Net** | $ 7,006 | $ 2,126 | $ 12,989 | $ 5,969 |

(1) Includes servicing fees and fair value changes for MSRs, net.

**Note 21. General and Administrative Expenses, Loan Acquisition Costs, and Other Expenses**

Components of our general and administrative expenses, loan acquisition costs, and other expenses for the three and six months ended June 30, 2022 and 2021 are presented in the following table.

***Table 21.1 – Components of General and Administrative Expenses, Loan Acquisition Costs, and Other Expenses***

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(In Thousands)** | **2022** | **2021** | **2022** | **2021** |
| **General and Administrative Expenses** | | | | |
| Fixed compensation expense | $ 12,110 | $ 11,269 | $ 26,738 | $ 23,074 |
| Annual variable compensation expense | 1,811 | 12,508 | 5,168 | 31,177 |
| Long-term incentive award expense (1) | 5,532 | 5,682 | 11,192 | 9,851 |
| Acquisition-related equity compensation expense (2) | — | 1,212 | — | 2,424 |
| Systems and consulting | 3,703 | 3,272 | 6,887 | 6,249 |
| Office costs | 2,083 | 2,024 | 4,108 | 3,832 |
| Accounting and legal | 1,576 | 1,221 | 3,251 | 1,935 |
| Corporate costs | 1,000 | 873 | 1,864 | 1,564 |
| Other | 4,151 | 2,533 | 7,612 | 4,039 |
| **Total General and Administrative Expenses** | 31,966 | 40,594 | 66,820 | 84,145 |
| | | | | |
| **Loan Acquisition Costs** | | | | |
| Commissions | 2,116 | 1,661 | 4,730 | 2,924 |
| Underwriting costs | 1,096 | 1,836 | 2,468 | 3,521 |
| Transfer and holding costs | 268 | 251 | 747 | 862 |
| **Total Loan Acquisition Costs** | 3,480 | 3,748 | 7,945 | 7,307 |
| | | | | |
| **Other Expenses** | | | | |
| Amortization of purchase-related intangible assets | 3,306 | 3,873 | 6,840 | 7,746 |
| Other | 162 | 112 | 713 | 335 |
| **Total Other Expenses** | 3,468 | 3,985 | 7,553 | 8,081 |
| **Total General and Administrative Expenses, Loan Acquisition Costs, and Other Expenses** | $ 38,914 | $ 48,327 | $ 82,318 | $ 99,533 |

(1) For the three months ended June 30, 2022 and 2021, long-term incentive award expense included $5 million and $4 million of expense for awards settleable in shares of our common stock, and $0.4 million and $1 million of expense for awards settleable in cash, respectively. For the six months ended June 30, 2022 and 2021, long-term incentive award expense included $10 million and $7 million of expense for awards settleable in shares of our common stock, and $1 million and $3 million of expense for awards settleable in cash, respectively.

(2) Acquisition-related equity compensation expense relates to 588,260 shares of restricted stock that were issued to members of CoreVest management as a component of the consideration paid to them for our purchase of their interests in CoreVest in 2019. The grant date fair value of these restricted stock awards was $10 million, which was recognized as compensation expense over the two-year vesting period on a straight-line basis in accordance with GAAP.

**Note 21. General and Administrative Expenses, Loan Acquisition Costs, and Other Expenses - (continued)**

***Long-Term Cash-Based Awards and Cash Settled Deferred Stock Units***

During the six months ended June 30, 2022, $2 million of long-term cash-based retention awards were granted to employees that will vest and be paid over a three-year period, subject to continued employment through the vesting periods from 2022 through 2025. At both June 30, 2022 and December 31, 2021, the unamortized compensation cost of long-term cash-based awards was $4 million.

During the six months ended June 30, 2022, there were no cash-settled deferred stock units granted to employees. Cash-settled deferred stock units that were granted in 2020 and 2021 vest over four years through 2025. At June 30, 2022 and December 31, 2021, the unamortized compensation cost of cash settled deferred stock units was $3 million and $7 million, respectively. The unamortized compensation cost is adjusted for changes in the value of our common stock at the end of each reporting period.

Refer to Note 21 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2021, for additional information regarding long-term cash-based awards and cash-settled deferred stock units.

**Note 22. Taxes**

We believe that we have met all requirements for qualification as a REIT for federal income tax purposes. To qualify as a REIT, the Company must distribute at least 90% of its annual REIT taxable income and meet certain other requirements that relate to, among others, the assets it holds, the income it generates, and the composition of its stockholders.

For the six months ended June 30, 2022 and 2021, we recognized a benefit from income taxes of $12 million and a provision for income taxes of $18 million, respectively. The following is a reconciliation of the statutory federal and state tax rates to our effective tax rate at June 30, 2022 and 2021.

***Table 22.1 – Reconciliation of Statutory Tax Rate to Effective Tax Rate***

| | June 30, 2022 | June 30, 2021 |
|---|---|---|
| Federal statutory rate | 21.0 % | 21.0 % |
| State statutory rate, net of Federal tax effect | 8.6 % | 8.6 % |
| Differences in taxable (loss) income from GAAP income | (22.4)% | (14.1)% |
| Change in valuation allowance | (4.4)% | (3.3)% |
| Dividends paid deduction | 11.9 % | (3.3)% |
| **Effective Tax Rate** | 14.7 % | 8.9 % |

We assessed our tax positions for all open tax years (i.e., Federal, 2018 to 2022, and State, 2017 to 2022) at June 30, 2022 and December 31, 2021, and concluded that we had no uncertain tax positions that resulted in material unrecognized tax benefits.

**Note 23. Segment Information**

Redwood operates in three segments: Residential Mortgage Banking, Business Purpose Mortgage Banking and Investment Portfolio. The accounting policies of the reportable segments are the same as those described in Note 3 — Summary of Significant Accounting Policies. For a full description of our segments, see *Part I, Item 1—Business* in our Annual Report on Form 10-K for the year ended December 31, 2021.

Segment contribution represents the measure of profit that management uses to assess the performance of our business segments and make resource allocation and operating decisions. Certain corporate expenses not directly assigned or allocated to one of our three segments, as well as activity from certain consolidated Sequoia entities, are included in the Corporate/Other column as reconciling items to our consolidated financial statements. These unallocated corporate expenses primarily include interest expense from our convertible notes and trust preferred securities, indirect general and administrative expenses and other expense.

The following tables present financial information by segment for the three and six months ended June 30, 2022 and 2021.

**Note 23. Segment Information - (continued)**

***Table 23.1 – Business Segment Financial Information***

| | Three Months Ended June 30, 2022 | | | | |
|---|---|---|---|---|---|
| **(In Thousands)** | **Residential Mortgage Banking** | **Business Purpose Mortgage Banking** | **Investment Portfolio** | **Corporate/ Other** | **Total** |
| Interest income | $ 13,199 | $ 8,586 | $ 144,478 | $ 1,192 | $ 167,455 |
| Interest expense | (8,297) | (4,258) | (102,589) | (11,823) | (126,967) |
| **Net interest income** | 4,902 | 4,328 | 41,889 | (10,631) | 40,488 |
| **Non-interest (loss) income** | | | | | |
| Mortgage banking activities, net | (17,787) | (12,230) | — | — | (30,017) |
| Investment fair value changes, net | — | — | (98,111) | 10,139 | (87,972) |
| Other income, net | — | 1,054 | 6,235 | (283) | 7,006 |
| Realized gains, net | — | — | — | — | — |
| **Total non-interest (loss) income, net** | (17,787) | (11,176) | (91,876) | 9,856 | (110,983) |
| General and administrative expenses | (6,082) | (11,069) | (3,041) | (11,774) | (31,966) |
| Loan acquisition costs | (881) | (2,599) | — | — | (3,480) |
| Other expenses | 74 | (3,306) | (236) | — | (3,468) |
| Benefit from (provision for) income taxes | 5,588 | 3,169 | 686 | — | 9,443 |
| **Segment Contribution** | $ (14,186) | $ (20,653) | $ (52,578) | $ (12,549) | |
| **Net (Loss)** | | | | | $ (99,966) |
| Non-cash amortization (expense) income, net | $ (760) | $ (3,480) | $ (1,450) | $ (2,137) | $ (7,827) |

| | Six Months Ended June 30, 2022 | | | | |
|---|---|---|---|---|---|
| **(In Thousands)** | **Residential Mortgage Banking** | **Business Purpose Mortgage Banking** | **Investment Portfolio** | **Corporate/ Other** | **Total** |
| Interest income | $ 26,166 | $ 13,427 | $ 315,050 | $ 2,212 | $ 356,855 |
| Interest expense | (15,233) | (6,826) | (219,171) | (22,035) | (263,265) |
| **Net interest income** | 10,933 | 6,601 | 95,879 | (19,823) | 93,590 |
| **Non-interest (loss) income** | | | | | |
| Mortgage banking activities, net | (9,852) | (3,850) | — | — | (13,702) |
| Investment fair value changes, net | — | — | (103,517) | 9,425 | (94,092) |
| Other income, net | — | 1,629 | 11,517 | (157) | 12,989 |
| Realized gains, net | — | — | 2,581 | — | 2,581 |
| **Total non-interest (loss) income, net** | (9,852) | (2,221) | (89,419) | 9,268 | (92,224) |
| General and administrative expenses | (12,183) | (21,541) | (6,174) | (26,922) | (66,820) |
| Loan acquisition costs | (2,298) | (5,647) | — | — | (7,945) |
| Other expenses | 74 | (6,840) | (787) | — | (7,553) |
| Benefit from (provision for) income taxes | 6,595 | 6,450 | (1,144) | — | 11,901 |
| **Segment Contribution** | $ (6,731) | $ (23,198) | $ (1,645) | $ (37,477) | |
| **Net (Loss)** | | | | | $ (69,051) |
| Non-cash amortization (expense) income, net | $ (298) | $ (7,370) | $ (9,644) | $ (4,170) | $ (21,482) |

**Note 23. Segment Information - (continued)**

| (In Thousands) | Residential Mortgage Banking | Business Purpose Mortgage Banking | Investment Portfolio | Corporate/ Other | Total |
|---|---|---|---|---|---|
| | **Three Months Ended June 30, 2021** | | | | |
| Interest income | $ 13,246 | $ 3,026 | $ 121,248 | $ 1,175 | $ 138,695 |
| Interest expense | (7,618) | (1,521) | (88,693) | (10,233) | (108,065) |
| **Net interest income** | 5,628 | 1,505 | 32,555 | (9,058) | 30,630 |
| **Non-interest income** | | | | | |
| Mortgage banking activities, net | 21,265 | 33,154 | — | — | 54,419 |
| Investment fair value changes, net | — | — | 49,727 | (247) | 49,480 |
| Other income, net | — | 156 | 1,705 | 265 | 2,126 |
| Realized gains, net | — | — | 8,384 | — | 8,384 |
| **Total non-interest income, net** | 21,265 | 33,310 | 59,816 | 18 | 114,409 |
| General and administrative expenses | (6,898) | (12,356) | (3,157) | (18,183) | (40,594) |
| Loan acquisition costs | (1,887) | (1,861) | — | — | (3,748) |
| Other expenses | — | (3,873) | (112) | — | (3,985) |
| Provision for income taxes | (3,725) | (2,182) | (780) | — | (6,687) |
| **Segment Contribution** | $ 14,383 | $ 14,543 | $ 88,322 | $ (27,223) | |
| **Net Income** | | | | | $ 90,025 |
| Non-cash amortization (expense) income, net | $ (13) | $ (4,054) | $ 7 | $ (1,955) | $ (6,015) |

| (In Thousands) | Residential Mortgage Banking | Business Purpose Mortgage Banking | Investment Portfolio | Corporate/ Other | Total |
|---|---|---|---|---|---|
| | **Six Months Ended June 30, 2021** | | | | |
| Interest income | $ 20,825 | $ 5,881 | $ 237,757 | $ 2,537 | $ 267,000 |
| Interest expense | (12,365) | (3,120) | (174,638) | (20,494) | (210,617) |
| **Net interest income** | 8,460 | 2,761 | 63,119 | (17,957) | 56,383 |
| **Non-interest income** | | | | | |
| Mortgage banking activities, net | 82,700 | 54,326 | — | — | 137,026 |
| Investment fair value changes, net | — | — | 95,488 | (921) | 94,567 |
| Other income, net | — | 278 | 5,279 | 412 | 5,969 |
| Realized gains, net | — | — | 11,100 | — | 11,100 |
| **Total non-interest income (loss), net** | 82,700 | 54,604 | 111,867 | (509) | 248,662 |
| General and administrative expenses | (19,587) | (22,550) | (6,321) | (35,687) | (84,145) |
| Loan acquisition costs | (3,291) | (3,353) | (659) | (4) | (7,307) |
| Other expenses | (6) | (7,650) | (442) | 17 | (8,081) |
| Provision for income taxes | (13,211) | (3,503) | (1,516) | — | (18,230) |
| **Segment Contribution** | $ 55,065 | $ 20,309 | $ 166,048 | $ (54,140) | |
| **Net Income** | | | | | $ 187,282 |
| Non-cash amortization income (expense), net | $ (16) | $ (8,152) | $ (227) | $ (3,850) | $ (12,245) |

**Note 23. Segment Information - (continued)**

The following table presents the components of Corporate/Other for the three and six months ended June 30, 2022 and 2021.

***Table 23.2 – Components of Corporate/Other***

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| **(In Thousands)** | **Legacy Consolidated VIEs (1)** | **Other** | **Total** | **Legacy Consolidated VIEs (1)** | **Other** | **Total** |
| Interest income | $ 1,108 | $ 84 | $ 1,192 | $ 1,169 | $ 6 | $ 1,175 |
| Interest expense | (967) | (10,856) | (11,823) | (755) | (9,478) | (10,233) |
| **Net interest income** | 141 | (10,772) | (10,631) | 414 | (9,472) | (9,058) |
| **Non-interest income** | | | | | | |
| Investment fair value changes, net | (336) | 10,475 | 10,139 | (216) | (31) | (247) |
| Other income | — | (283) | (283) | — | 265 | 265 |
| **Total non-interest income, net** | (336) | 10,192 | 9,856 | (216) | 234 | 18 |
| General and administrative expenses | — | (11,774) | (11,774) | — | (18,183) | (18,183) |
| Loan acquisition costs | — | — | — | — | — | — |
| Other expenses | — | — | — | — | — | — |
| **Total** | $ (195) | $ (12,354) | $ (12,549) | $ 198 | $ (27,421) | $ (27,223) |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| **(In Thousands)** | **Legacy Consolidated VIEs (1)** | **Other** | **Total** | **Legacy Consolidated VIEs (1)** | **Other** | **Total** |
| Interest income | $ 2,120 | $ 92 | $ 2,212 | $ 2,517 | $ 20 | $ 2,537 |
| Interest expense | (1,668) | (20,367) | (22,035) | (1,630) | (18,864) | (20,494) |
| **Net interest income** | 452 | (20,275) | (19,823) | 887 | (18,844) | (17,957) |
| **Non-interest income** | | | | | | |
| Investment fair value changes, net | (1,050) | 10,475 | 9,425 | (915) | (6) | (921) |
| Other income | — | (157) | (157) | — | 412 | 412 |
| Realized gains, net | — | — | — | — | — | — |
| **Total non-interest income, net** | (1,050) | 10,318 | 9,268 | (915) | 406 | (509) |
| General and administrative expenses | — | (26,922) | (26,922) | — | (35,687) | (35,687) |
| Loan acquisition costs | — | — | — | — | (4) | (4) |
| Other expenses | — | — | — | — | 17 | 17 |
| **Total** | $ (598) | $ (36,879) | $ (37,477) | $ (28) | $ (54,112) | $ (54,140) |

(1) Legacy consolidated VIEs represent Legacy Sequoia entities that are consolidated for GAAP financial reporting purposes. See *Note 4* for further discussion on VIEs.

**Note 23. Segment Information - (continued)**

The following table presents supplemental information by segment at June 30, 2022 and December 31, 2021.

***Table 23.3 – Supplemental Segment Information***

| (In Thousands) | Residential Mortgage Banking | Business Purpose Lending Mortgage Banking | Investment Portfolio | Corporate/ Other | Total |
|---|---|---|---|---|---|
| **June 30, 2022** | | | | | |
| Residential loans | $ 990,924 | $ — | $ 5,378,886 | $ 208,789 | $ 6,578,599 |
| Business purpose loans | — | 503,945 | 4,698,992 | — | 5,202,937 |
| Consolidated Agency multifamily loans | — | — | 443,114 | — | 443,114 |
| Real estate securities | 3,994 | — | 280,284 | — | 284,278 |
| Other investments | — | — | 615,807 | 63,860 | 679,667 |
| Intangible assets | — | 34,720 | — | — | 34,720 |
| Total assets | 1,032,281 | 645,428 | 11,513,520 | 684,307 | 13,875,536 |
| | | | | | |
| **December 31, 2021** | | | | | |
| Residential loans | $ 1,673,235 | $ — | $ 5,688,742 | $ 230,455 | $ 7,592,432 |
| Business purpose loans | — | 347,860 | 4,443,129 | — | 4,790,989 |
| Consolidated Agency multifamily loans | — | — | 473,514 | — | 473,514 |
| Real estate securities | 4,927 | — | 372,484 | — | 377,411 |
| Other investments | — | — | 606,267 | 35,702 | 641,969 |
| Intangible assets | — | 41,561 | — | — | 41,561 |
| Total assets | 1,716,285 | 464,967 | 11,770,486 | 755,206 | 14,706,944 |

**Note 24. Subsequent Events**

In July 2022, we completed the previously-announced acquisition of Riverbend Funding, LLC for an initial cash purchase price paid at closing of approximately $44 million (subject to certain adjustments including potential earnout consideration).

In July 2022, our Board of Directors approved an authorization for the repurchase of up to $125 million of our common stock, and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. This authorization replaced our previous $100 million stock repurchase authorization. This authorization has no expiration date and does not obligate us to acquire any specific number of shares or securities.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### INTRODUCTION

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity and certain other factors that may affect our future results. Our MD&A is presented in five main sections:

- Overview
- Results of Operations
  - Consolidated Results of Operations
  - Results of Operations by Segment
  - Income Taxes
- Liquidity and Capital Resources
- Critical Accounting Estimates
- Market and Other Risks

Our MD&A should be read in conjunction with the Consolidated Financial Statements and related Notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q and in Part II, Item 8, Financial Statements and Supplementary Data in our most recent Annual Report on Form 10-K, as well as the sections entitled "Risk Factors" in Part I, Item 1A of our most recent Annual Report on Form 10-K and Part II, Item 1A of this Quarterly Report on Form 10-Q, as well as other cautionary statements and risks described elsewhere in this report and our most recent Annual Report on Form 10-K. The discussion in this MD&A contains forward-looking statements that involve substantial risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, such as those discussed in the Cautionary Statement below.

References herein to "Redwood," the "company," "we," "us," and "our" include Redwood Trust, Inc. and its consolidated subsidiaries, unless the context otherwise requires. Financial information concerning our business is set forth in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and notes thereto, which are included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Our website can be found at www.redwoodtrust.com. We make available, free of charge through the investor information section of our website, access to our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the U.S. Securities Exchange Act of 1934, as well as proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the U.S. Securities and Exchange Commission ("SEC"). We also make available, free of charge, access to our charters for our Audit Committee, Compensation Committee, and Governance and Nominating Committee, our Corporate Governance Standards, and our Code of Ethics governing our directors, officers, and employees. Within the time period required by the SEC and the New York Stock Exchange, we will post on our website any amendment to the Code of Ethics and any waiver applicable to any executive officer or director of Redwood. In addition, our website includes information concerning purchases and sales of our equity securities by our executive officers and directors, and may include disclosure relating to certain non-GAAP financial measures (as defined in the SEC's Regulation G) that we may make public orally, telephonically, by webcast, by broadcast, or by similar means from time to time. The information on our website is not part of this Quarterly Report on Form 10-Q.

Our Investor Relations Department can be contacted at One Belvedere Place, Suite 300, Mill Valley, CA 94941, Attn: Investor Relations, telephone (866) 269-4976.

## Our Business

Redwood Trust, Inc., together with its subsidiaries, is a specialty finance company focused on several distinct areas of housing credit, with a mission to help make quality housing, whether rented or owned, accessible to all American households. Our operating platforms occupy a unique position in the housing finance value chain, providing liquidity to growing segments of the U.S. housing market not well served by government programs. We deliver customized housing credit investments to a diverse mix of investors through our best-in-class securitization platforms, whole-loan distribution activities and our publicly-traded securities. Our aggregation, origination and investment activities have evolved to incorporate a diverse mix of residential, business purpose and multifamily assets. Our goal is to provide attractive returns to shareholders through a stable and growing stream of earnings and dividends, capital appreciation, and a commitment to technological innovation that facilitates risk-minded scale. We operate our business in three segments: Residential Mortgage Banking, Business Purpose Mortgage Banking, and Investment Portfolio. For a full description of our segments, see *Part 1, Item 1—Business* in our Annual Report on Form 10-K for the year ended December 31, 2021.

## Cautionary Statement

This Quarterly Report on Form 10-Q and the documents incorporated by reference herein contain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve numerous risks and uncertainties. Our actual results may differ from our beliefs, expectations, estimates, and projections and, consequently, you should not rely on these forward-looking statements as predictions of future events. Forward-looking statements are not historical in nature and can be identified by words such as "anticipate," "estimate," "will," "should," "expect," "believe," "intend," "seek," "plan" and similar expressions or their negative forms, or by references to strategy, plans, or intentions. These forward-looking statements are subject to risks and uncertainties, including, among other things, those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, under the caption "Risk Factors." Other risks, uncertainties, and factors that could cause actual results to differ materially from those projected may be described from time to time in reports we file with the SEC, including reports on Forms 10-Q and 8-K. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Statements regarding the following subjects, among others, are forward-looking by their nature: (i) statements we make regarding Redwood's business strategy and strategic focus, including statements relating to our overall market position, strategy and long-term prospects (including trends driving the flow of capital in the housing finance market, our strategic initiatives designed to capitalize on those trends, our ability to attract capital to finance those initiatives, our approach to raising capital, and our ability to pay dividends in the future); (ii) statements related to our financial outlook and expectations for 2022 and future years, including statements regarding the economic impact of inflation, supply chain disruptions, and war in Europe; (iii) statements regarding our expectations with respect to Riverbend's integration into, and effect upon, the Redwood and CoreVest businesses; (iv) statements related to our opportunities for growth, including opportunities to grow and increase our market share for our residential and business purpose lending mortgage banking platforms; (v) statements related to our investment portfolio, including that there remains potential upside in our portfolio through market discount, and that at June 30, 2022, our securities portfolio had approximately $391 million of net discount to par (approximately $3.35 per share), which we have the potential to recover over time; (vi) statements related to RWT Horizons and our strategic investment initiatives; (vii) statements relating to our estimate of our available capital (including that we estimate our available capital at June 30, 2022 was approximately $190 million); (viii) statements relating to acquiring residential mortgage loans in the future that we have identified for purchase or plan to purchase, including the amount of such loans that we identified for purchase during the second quarter of 2022 and at June 30, 2022, expected fallout and the corresponding volume of residential mortgage loans expected to be available for purchase, and residential mortgage loans subject to forward sale commitments; (ix) statements we make regarding future dividends, including with respect to our regular quarterly dividends in 2022; and (x) statements regarding our expectations and estimates relating to the characterization for income tax purposes of our dividend distributions, our expectations and estimates relating to tax accounting, tax liabilities and tax savings, and GAAP tax provisions, and our estimates of REIT taxable income and TRS taxable income.

Many of the factors that could affect our actual results are summarized below. One of the most significant factors, however, is the ongoing impact of the pandemic on the United States economy, homeowners, renters of housing, the housing market, the mortgage finance markets and the broader financial markets. It is difficult to fully assess the impact of the pandemic at this time, including because of the uncertainty around the severity and duration of the pandemic domestically and internationally, as well as the uncertainty around the efficacy of Federal, State and local governments' efforts to contain the spread of COVID-19 and respond to its direct and indirect impacts on many aspects of Americans' lives and economic activity. Moreover, each of the factors summarized below is likely to also be impacted directly or indirectly by the ongoing impact of the pandemic and investors are cautioned to interpret substantially all of the risks identified in the Company's previously published "Risk Factors" as being heightened as a result of the ongoing impact of the pandemic.

Important factors, among others, that may affect our actual results include:

- the impact of the COVID-19 pandemic;
- general economic trends and the performance of the housing, real estate, mortgage finance, and broader financial markets;
- federal and state legislative and regulatory developments and the actions of governmental authorities and entities;
- changing benchmark interest rates, and the Federal Reserve’s actions and statements regarding monetary policy;
- our ability to compete successfully;
- our ability to adapt our business model and strategies to changing circumstances;
- strategic business and capital deployment decisions we make;
- our use of financial leverage;
- our exposure to a breach of our cybersecurity or data security;
- our exposure to credit risk and the timing of credit losses within our portfolio;
- the concentration of the credit risks we are exposed to, including due to the structure of assets we hold, the geographical concentration of real estate underlying assets we own, and our exposure to environmental and climate-related risks;
- the efficacy and expense of our efforts to manage or hedge credit risk, interest rate risk, and other financial and operational risks;
- changes in credit ratings on assets we own and changes in the rating agencies’ credit rating methodologies;
- changes in mortgage prepayment rates;
- changes in interest rates;
- our ability to redeploy our available capital into new investments;
- interest rate volatility, changes in credit spreads, and changes in liquidity in the market for real estate securities and loans;
- our ability to finance the acquisition of real estate-related assets with short-term debt;
- changes in the values of assets we own;
- the ability of counterparties to satisfy their obligations to us;
- our exposure to the discontinuation of LIBOR;
- our exposure to liquidity risk, risks associated with the use of leverage, and market risks;
- changes in the demand from investors for residential and business purpose mortgages and investments, and our ability to distribute residential and business purpose mortgages through our whole-loan distribution channel;
- our involvement in securitization transactions, the profitability of those transactions, and the risks we are exposed to in engaging in securitization transactions;
- exposure to claims and litigation, including litigation arising from our involvement in loan origination and securitization transactions;
- whether we have sufficient liquid assets to meet short-term needs;
- our ability to successfully retain or attract key personnel;
- changes in our investment, financing, and hedging strategies and new risks we may be exposed to if we expand our business activities;
- our exposure to a disruption of our technology infrastructure and systems;
- the impact on our reputation that could result from our actions or omissions or from those of others;
- our failure to maintain appropriate internal controls over financial reporting and disclosure controls and procedures;
- the termination of our captive insurance subsidiary’s membership in the Federal Home Loan Bank and the implications for our income generating abilities;
- the impact of changes to U.S. federal income tax laws on the U.S. housing market, mortgage finance markets, and our business;
- our failure to comply with applicable laws and regulation, including our ability to obtain or maintain the governmental licenses;
- our ability to maintain our status as a REIT for tax purposes;
- limitations imposed on our business due to our REIT status and our status as exempt from registration under the Investment Company Act of 1940;
- our common stock may experience price declines, volatility, and poor liquidity, and we may reduce our dividends in a variety of circumstances;
- decisions about raising, managing, and distributing capital;
- our exposure to broad market fluctuations; and
- other factors not presently identified.

This Quarterly Report on Form 10-Q may contain statistics and other data that in some cases have been obtained from or compiled from information made available by servicers and other third-party service providers.

## OVERVIEW

### Business Update

The second quarter of 2022 was marked by volatility, the impact of inflation, and rising mortgage rates. The ongoing repricing of interest rate-sensitive assets accelerated during the quarter, impacting the value of mortgage-related investments. Our positioning became decisively more conservative in order to manage mortgage credit and market risk, as we prioritized loan pipeline turnover and strong liquidity. We ended the second quarter with $371 million of unrestricted cash, low leverage and significant unencumbered assets, strong credit performance from our investment portfolio, and conservative volume in our mortgage banking pipelines at quarter-end.

Our book value declined approximately 10% during the quarter to $10.78 per share at June 30, 2022, primarily reflecting negative fair value changes impacting our investment portfolio. Our overall decline in GAAP book value included $(1.02) per share of investment portfolio fair value changes that primarily reflect unrealized mark-to-market losses due to credit spread widening. These assets remain on our balance sheet and we generally expect to hold them for the long term. We observed very little deterioration in expected future cash flows during the quarter. As a result, much of the GAAP losses in our investment portfolio segment were non-cash. At June 30, 2022, our securities portfolio had approximately $391 million of net discount to par (approximately $3.35 per share), which we have the potential to recover over time, offset by any net losses on the underlying loans[(1)]. While we have previously seen book value upside potential from call rights on outstanding RMBS transactions, we expect call activity will remain limited in the near term given the overall interest rate and prepayment environment.

During the second quarter of 2022, we actively managed our jumbo residential and single-family rental ("SFR") mortgage loan pipelines as interest rate volatility increased, guiding residential loan acquisition volumes lower for interest rate-sensitive assets (such as residential jumbo and business purpose term loans), and adjusting interest rates within our SFR pipeline to reflect current market conditions. Coupled with hedging discipline, this activity allowed us to mitigate the impact of negative market price movements in the underlying securities. In our Residential business, for example, margin declines during the second quarter were less than half the underperformance of jumbo loans versus their benchmarks during the same period.

We also continued to strengthen our capital position during the second quarter of 2022, including through the issuance of $215 million in convertible notes in June 2022, and the extension or initiation since January 1, 2022 of approximately $3.8 billion of warehouse financing capacity, over 60% of which is non-marginable[(2)]. This allowed us to remain opportunistic, and we deployed approximately $245 million of capital during the second quarter, including $33 million into share repurchases at a significant discount to our June 30, 2022 book value. The remainder of capital deployment was primarily related to business purpose lending ("BPL") investments, including bridge loans with higher interest rates, and growth in our home equity investment ("HEI") portfolio. For capital deployed during the second quarter, we were focused on investment opportunities with lower interest-rate sensitivity and target yields approximately in the range of 12% to 18%.[(3)]

Our mortgage banking platforms will remain focused on returning to profitability and maintaining a stable market presence. The functions we serve in the non-Agency mortgage finance ecosystem remain a critical source of market liquidity for hundreds of mortgage originators, thousands of real estate investors, and a deep cohort of whole loan and RMBS investors. While sentiment has begun to improve, most market participants remain uncertain around the direction of the economy, and we suspect that the sentiment of most will follow the Federal Reserve's monetary policy actions and the resulting path of interest rates. We will continue to prioritize the path to consistent profitability, which we expect to entail lower loan acquisition and origination volume levels in the near-term relative to our long-term strategic growth ambitions.

As a direct BPL lender, we leverage technology to serve our clients more quickly, and closely monitor our net cost to originate. We can also pivot efficiently to meet both borrower demand and appropriate risk and return thresholds for our capital. As such, approximately 60% of second quarter BPL originations were primarily floating-rate bridge loans. While second quarter BPL mortgage banking income was impacted by significant spread widening on our securitizations, we adjusted our loan pricing and interest rates and continued to observe strong demand for bridge loans, with borrowers accepting higher interest rates for shorter-term loans with more prepayment flexibility. While we expect BPL origination volume to likely slow in the second half of the year, we believe we can continue to serve our borrowers in ways many others cannot.

We have recently witnessed significant retrenchment by other market participants that we do not believe possess the liquidity or track record to survive a sustained market downturn. Many of these companies had only commenced operations in recent years, during the most accommodating period in the history of the mortgage market due to quantitative easing by the Federal Reserve and historically low mortgage rates. We expect this trend to bode well for Redwood, in terms of opportunities for both organic growth and further strategic acquisitions. We have already seen credit standards begin to tighten for a number of other lenders, offering us an opportunity to increase our competitive advantage and market share.

We expect to continue to evaluate strategic merger and acquisition opportunities, with an emphasis on identifying leading platforms that can be potentially acquired at favorable prices compared to recent years. On July 1, 2022, we successfully closed the acquisition of Riverbend Funding, LLC (“Riverbend”). We anticipate full integration with Riverbend to be complete by the end of 2022. We believe Riverbend’s bridge loan origination capability will add valuable diversity to CoreVest’s existing loan product and geographic scope.

We continue to remain focused on the fundamentals supporting our long-term investment portfolio. Many of our assets are now well seasoned, with continued expectations of pay performance and low losses driven in part by recent home price appreciation. For instance, the loans underlying our SLST reperforming loan investments, which constitute approximately 20% of our investment portfolio (by capital), have over 15 years of seasoning, declining delinquencies (from issuance), cumulative losses of less than 0.2% and home price appreciation-adjusted loan-to-value ratios of approximately 45%. Overall, across our investment portfolio delinquencies remain low – at June 30, 2022, 90+ day delinquencies within our jumbo, SFR and bridge portfolios stood at 1.7%, 2.4% and 2.6%, respectively.

Following active use of our share repurchase program in the second quarter, in July 2022, we announced a new $125 million common stock repurchase program (replacing our previously approved repurchase plan from 2018) and continued our previous authorization for the repurchase of outstanding corporate debt. As we look towards the remainder of the year, we view current market challenges as significant long-term opportunities for Redwood. The housing market remains woefully undersupplied, creating a durable technical driver that supports investments in residential credit across a broad array of economic scenarios. We will continue to maintain a patient, long-term investor mindset, aggressively manage risk, and work diligently to enhance our franchise value while pursuing efficiencies.

*Footnotes to Business update*

(1) Based on our current estimates, we believe low realized losses and ultimate recovery of asset values will help us realize positive fair value changes for our investment portfolio over time. There are several factors that may impact our ability to recover all, or a portion, of these fair value changes which may be be out of our control, including credit performance and prepayment speeds, and which may cause our actual results to vary.

(2) Not subject to margin calls based solely on the lender's determination, in its discretion, of the market value of the underlying collateral that is non-delinquent.

(3) Target yields are based on our current market observations, estimates and assumptions, including our assumptions regarding credit losses, prepayment speeds, market interest rates, and discount rates, all of which are subject to significant uncertainty and which may cause our actual results to vary. We continue to believe that today’s investing environment is attractive and, over future quarters, we intend to deliberately deploy available capital into accretive opportunities across organic and third-party investments, including potential common stock repurchases.

**Second Quarter Overview**

The following table presents key financial metrics for the three and six months ended June 30, 2022.

***Table 1 – Key Financial Results and Metrics***

| (In Thousands, except per Share Data) | Three Months Ended June 30, 2022 | Six Months Ended June 30, 2022 |
|---|---|---|
| Net (loss) income per diluted common share | $ (0.85) | $ (0.60) |
| Annualized GAAP return on equity | (28.8)% | (9.8)% |
| Dividends per share | $ 0.23 | $ 0.46 |
| Book value per share | $ 10.78 | $ 10.78 |
| Economic return on book value (1) | (8.3)% | (6.8)% |

(1) Economic return on book value is based on the periodic change in GAAP book value per common share plus dividends declared per common share during the period.

**Operational Business Highlights**

<u>*Investment Portfolio*</u>

- Deployed $166 million of capital into new, attractively priced organic and third-party investments
- Credit performance remained strong with stable delinquencies and continued home price appreciation

<u>*Business Purpose Mortgage Banking*</u>

- Funded $923 million in business purpose loans, essentially flat with first quarter 2022 fundings
    - Second quarter fundings included $561 million of bridge loans (up 35% from the first quarter) and $361 million of single-family rental loans (down 28% from the first quarter)
- Securitized $563 million of loans in two transactions (one backed by $313 million of SFR loans, and one backed by $250 million of bridge loans with a 24-month revolving feature)
- Received a special servicing ranking from DBRS Morningstar, acknowledging CoreVest's successful performance in loan management

<u>*Residential Mortgage Banking*</u>

- Distributed $1.2 billion of jumbo loans through whole loan sales; at June 30, 2022, total net jumbo loan exposure was $751 million, down 44% from the end of the first quarter
- Locked $1.0 billion of jumbo loans, down from $2.6 billion in first quarter 2022; loan purchase commitments were $0.5 billion, down from $2.0 billion in first quarter 2022
    - Second quarter lock mix was 82% purchase money loans and 18% refinancings

**Financing Highlights**

- Maintained robust balance sheet with unrestricted cash of $371 million and available capital of $190 million at June 30, 2022 (available capital reflects the subtraction of approximately $44 million for the initial cash purchase price paid at closing in connection with the acquisition of Riverbend following the end of the second quarter of 2022)
- Successfully closed new warehouse facility with up to $400 million of capacity to fund CLO-eligible multifamily bridge loans originated by CoreVest
- Raised $215 million of gross proceeds through a convertible notes offering with a 5-year term; use of proceeds includes opportunistic deployment of capital into attractive investments in our investment portfolio and operating businesses
- Repurchased 3.7 million shares of Redwood’s common stock at a cost of $33 million (including $25 million purchased in conjunction with RWT’s June convertible notes offering and an additional $8 million through open market purchases), resulting in $0.10 per share of book value accretion in the second quarter

**RWT Horizons Highlights**

- Completed three new investments in the second quarter of 2022
- Recognized approximately $10 million of pre-tax valuation gain from an early RWT Horizons investment

## RESULTS OF OPERATIONS

Within this *Results of Operations* section, we provide commentary that compares results year-over-year for 2022 and 2021. Most tables include a "change" column that shows the amount by which the results from 2022 are greater or less than the results from the respective period in 2021. Unless otherwise specified, references in this section to increases or decreases during the "three-month periods" refer to the change in results for the second quarter of 2022, compared to the second quarter of 2021, and increases or decreases during the "six-month periods" refer to the change in results for the six months ended June 30, 2022 compared to the six months ended June 30, 2021.

### Consolidated Results of Operations

The following table presents the components of our net (loss) income for the three and six months ended June 30, 2022 and 2021.

***Table 2 – Net (Loss) Income***

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| **(In Thousands, except per Share Data)** | **2022** | **2021** | **Change** | **2022** | **2021** | **Change** |
| **Net Interest Income** | $ 40,488 | $ 30,630 | $ 9,858 | $ 93,590 | $ 56,383 | $ 37,207 |
| **Non-interest Income** | | | | | | |
| Mortgage banking activities, net | (30,017) | 54,419 | (84,436) | (13,702) | 137,026 | (150,728) |
| Investment fair value changes, net | (87,972) | 49,480 | (137,452) | (94,092) | 94,567 | (188,659) |
| Other income, net | 7,006 | 2,126 | 4,880 | 12,989 | 5,969 | 7,020 |
| Realized gains, net | — | 8,384 | (8,384) | 2,581 | 11,100 | (8,519) |
| Total non-interest (loss) income, net | (110,983) | 114,409 | (225,392) | (92,224) | 248,662 | (340,886) |
| General and administrative expenses | (31,966) | (40,594) | 8,628 | (66,820) | (84,145) | 17,325 |
| Loan acquisition costs | (3,480) | (3,748) | 268 | (7,945) | (7,307) | (638) |
| Other expenses | (3,468) | (3,985) | 517 | (7,553) | (8,081) | 528 |
| **Net (loss) income before income taxes** | (109,409) | 96,712 | (206,121) | (80,952) | 205,512 | (286,464) |
| Benefit from (provision for) income taxes | 9,443 | (6,687) | 16,130 | 11,901 | (18,230) | 30,131 |
| **Net (Loss) Income** | $ (99,966) | $ 90,025 | $ (189,991) | $ (69,051) | $ 187,282 | $ (256,333) |
| Diluted (loss) earnings per common share | $ (0.85) | $ 0.66 | $ (1.51) | $ (0.60) | $ 1.38 | $ (1.98) |

*Net Interest Income*

The increase in net interest income during the three- and six-month periods was primarily attributable to the performance of our investment portfolio, which accounted for $9 million and $33 million of the increase, respectively, and generally resulted from higher average asset balances in 2022, as we increased our investments in bridge loans and bonds we retained from CoreVest SFR securitizations during the prior twelve months. Additionally, we recognized elevated levels of discount accretion on our available-for-sale securities and yield maintenance income on our SFR securities during the first quarter of 2022. In association with a rise in interest rates during 2022 that accelerated into the second quarter, prepayment speeds on many of our assets slowed and discount accretion on our available-for-sale securities decreased meaningfully and we also experienced lower yield maintenance income on our SFR securities in the second quarter.

The increase in net interest income during the three- and six-month periods was also attributable to higher average balances of SFR loans held in inventory at our business purpose mortgage banking business, which accounted for $3 million and $4 million of the increase, respectively. Net interest income from residential mortgage banking activities increased by $2 million for the six-month periods, but decreased by $0.7 million during the three months periods, as we conservatively positioned our pipeline in the second quarter of 2022 given the challenging market backdrop.

While our overall weighted average cost of funds declined during the three- and six-month periods, given rising benchmark interest rates, we expect our borrowing costs in general to increase in the near-term. However, given our relative balance of fixed and floating rate assets and liabilities, we expect the net impact to net interest income to be muted. Additionally, in June we issued new convertible notes that will negatively impact net interest income in the near term, until the capital is deployed into interest earning assets.

Additional detail on net interest income is provided in the *"Net Interest Income"* section that follows.

*Mortgage Banking Activities, Net*

The decrease in income from mortgage banking activities during the three-month periods was attributable to a $39 million decrease from our Residential Mortgage Banking operations and a $45 million decrease from our Business Purpose Mortgage Banking operations. The decrease in income from mortgage banking activities during the six-month periods was attributable to a $93 million decrease from our Residential Mortgage Banking operations and a $58 million decrease from our Business Purpose Mortgage Banking operations.

The decreases from Residential Mortgage Banking operations were attributable to lower acquisition volumes as well as decreased margins during 2022. A sharp increase in mortgage rates during the first half of 2022 resulted in a decrease in residential mortgage origination activity industry-wide, which also negatively impacted our loan acquisition volumes. Additionally, given market volatility, we focused on risk management and were deliberate in moderating volume and transferring financial risk quickly in the second quarter of 2022. Margins and profitability during the first half of 2022 were impacted by wider credit spreads for securitizations and whole loans, as well as increased rate volatility, which resulted in higher hedging costs.

Despite record volumes during the first half of 2022, Business Purpose Mortgage Banking activities produced losses as continued market volatility and extreme credit spread widening, which accelerated into the second quarter of 2022, negatively impacted valuations of our loan inventory held-for-sale and resulted in lower margins for SFR loans we originated during the quarter.

A more detailed analysis of the changes in this line item is included in the "*Results of Operations by Segment*" section that follows.

*Investment Fair Value Changes, Net*

Investment fair value changes, net, is primarily comprised of the change in fair values of our portfolio investments accounted for under the fair value option. During the three and six months ended June 30, 2022, negative investment fair value changes reflected extreme levels of credit spread widening across many of our investments, partially offset by fair value increases in our IO securities and MSRs, which benefited from rising interest rates, and our home equity investments, which benefited from continued home price appreciation. Negative fair value changes primarily reflected unrealized mark-to-market losses, while fundamental credit performance, including delinquencies and LTVs, remained stable across most of our portfolio.

During the three and six months ended June 30, 2021, positive investment fair value changes reflected improvements in credit performance and credit spread tightening across our investment portfolio.

Additional detail on our investment fair value changes during 2022 is included in the "*Results of Operations by Segment*" section that follows as well as *Table 5.6* of our *Notes to Consolidated Financial Statements* in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

*Other Income*

The increase in other income for the three- and six-month periods primarily resulted from higher income on our MSR investments, which accounted for $5 million and $9 million of the increase, respectively. The increase in income from MSRs was primarily due to positive valuation changes resulting from a slowdown in prepayment speeds during the first half of 2022 as interest rates rose.

Additional detail on our other income is presented in *Table 20.1* of our *Notes to Consolidated Financial Statements* in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

*Realized Gains, Net*

During the three and six months ended June 30, 2022, we realized gains of zero and $3 million, primarily resulting from calls associated with third-party available-for-sale ("AFS") securities during the first quarter of 2022. During the three and six months ended June 30, 2021, we realized gains of $8 million and $11 million, respectively, primarily resulting from the call of one and four seasoned Sequoia securitizations, respectively.

*General and Administrative Expenses*

General and administration expenses decreased for the three- and six-month periods, primarily due to $11 million and $26 million decreases in variable compensation expense, respectively, associated with the decreases in earnings during the respective periods. While variable compensation expenses have been lower in the first half of 2022 compared to the first half of 2021, we anticipate incurring increased compensation expense in the second half of 2022 to the extent we provide retention-based compensation to employees. Fixed compensation expense in the second quarter of 2022 included a $2 million benefit from a payroll tax refund related to a prior year that was realized during the quarter. These decreases were partially offset by higher compensation expenses associated with an increased headcount in 2022 and higher per-employee costs.

Additional detail on our General and administrative expenses is presented in *Table 21.1* of our *Notes to Consolidated Financial Statements* in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

*Loan Acquisition Costs*

Loan acquisition costs for our business purpose mortgage banking operations increased $1 million and $2 million for the three- and six-month periods, respectively, as a result of higher loan origination volumes in 2022. These increases were offset by a decrease in loan origination costs of $1 million during the second quarter of 2022 at our residential mortgage banking operations, as a result of lower acquisition volumes during the quarter.

*Provision for Income Taxes*

Our provision for income taxes is almost entirely related to activity at our taxable REIT subsidiaries, which primarily includes our mortgage banking activities and MSR investments, as well as certain other investment and hedging activities. The switch to a tax benefit from a tax provision year-over-year was primarily the result of GAAP losses at our TRS during the first half of 2022 versus GAAP income earned during the same periods in 2021.

For additional detail on income taxes, see the "*Taxable Income and Tax Provision*" section that follows.

***Net Interest Income***

The following table presents the components of net interest income for the three and six months ended June 30, 2022 and 2021.

***Table 3 – Net Interest Income***

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| **(Dollars in Thousands)** | **Interest Income/ (Expense)** | **Average Balance (1)** | **Yield** | **Interest Income/ (Expense)** | **Average Balance (1)** | **Yield** |
| **Interest Income** | | | | | | |
| Residential loans, held-for-sale | $ 15,463 | $ 1,507,928 | 4.1 % | $ 13,266 | $ 1,825,086 | 2.9 % |
| Residential loans - HFI at Legacy Sequoia(2) | 1,108 | 213,793 | 2.1 % | 1,169 | 263,735 | 1.8 % |
| Residential loans - HFI at Sequoia(2) | 31,923 | 3,778,552 | 3.4 % | 14,492 | 1,444,831 | 4.0 % |
| Residential loans - HFI at Freddie Mac SLST(2) | 16,553 | 1,725,030 | 3.8 % | 19,506 | 2,111,445 | 3.7 % |
| Business purpose loans - HFS | 8,715 | 602,597 | 5.8 % | 3,167 | 252,233 | 5.0 % |
| Business purpose loans - HFI | 15,611 | 978,086 | 6.4 % | 12,307 | 667,956 | 7.4 % |
| Single-family rental loans - HFI at CAFL(2) | 49,878 | 2,976,988 | 6.7 % | 54,849 | 3,336,773 | 6.6 % |
| Bridge loans - HFI at CAFL(2) | 6,730 | 416,288 | 6.5 % | — | — | — % |
| Multifamily loans at Freddie Mac K-Series(2) | 4,732 | 448,002 | 4.2 % | 4,860 | 488,715 | 4.0 % |
| Trading securities | 4,327 | 155,168 | 11.2 % | 5,527 | 140,115 | 15.8 % |
| Available-for-sale securities | 3,501 | 137,179 | 10.2 % | 3,752 | 128,413 | 11.7 % |
| Other interest income | 8,914 | 870,538 | 4.1 % | 5,800 | 779,236 | 3.0 % |
| **Total interest income** | 167,455 | 13,810,149 | 4.9 % | 138,695 | 11,438,538 | 4.9 % |
| **Interest Expense** | | | | | | |
| Short-term debt facilities | (11,819) | 1,598,593 | (3.0)% | (10,085) | 1,850,913 | (2.2)% |
| Short-term debt - servicer advance financing | (1,842) | 232,942 | (3.2)% | (1,110) | 164,154 | (2.7)% |
| ABS issued - Legacy Sequoia(2) | (967) | 212,033 | (1.8)% | (755) | 260,857 | (1.2)% |
| ABS issued - Sequoia(2) | (28,329) | 3,536,911 | (3.2)% | (11,374) | 1,220,211 | (3.7)% |
| ABS issued - Freddie Mac SLST(2) | (13,372) | 1,419,538 | (3.8)% | (16,611) | 1,864,842 | (3.6)% |
| ABS issued - Freddie Mac K-Series(2) | (4,351) | 416,148 | (4.2)% | (4,478) | 459,344 | (3.9)% |
| ABS issued - CAFL(2) | (41,840) | 2,984,375 | (5.6)% | (43,201) | 3,087,741 | (5.6)% |
| Long-term debt facilities | (13,592) | 1,405,431 | (3.9)% | (10,972) | 674,306 | (6.5)% |
| Long-term debt - corporate | (10,855) | 703,810 | (6.2)% | (9,479) | 650,953 | (5.8)% |
| **Total interest expense** | (126,967) | 12,509,781 | (4.1)% | (108,065) | 10,233,321 | (4.2)% |
| **Net Interest Income** | $ 40,488 | | | $ 30,630 | | |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | 2021 | | |
| (Dollars in Thousands) | Interest Income/ (Expense) | Average Balance (1) | Yield | Interest Income/ (Expense) | Average Balance (1) | Yield |
| **Interest Income** | | | | | | |
| Residential loans, held-for-sale | $ 30,356 | $ 1,620,642 | 3.7 % | $ 19,931 | $ 1,381,960 | 2.9 % |
| Residential loans - HFI at Legacy Sequoia(2) | $ 2,120 | $ 218,032 | 1.9 % | 2,517 | 268,724 | 1.9 % |
| Residential loans - HFI at Sequoia(2) | $ 64,021 | $ 3,865,980 | 3.3 % | 29,975 | 1,414,397 | 4.2 % |
| Residential loans - HFI at Freddie Mac SLST(2) | $ 33,753 | $ 1,777,180 | 3.8 % | 39,665 | 2,143,942 | 3.7 % |
| Business purpose loans - HFS | $ 13,753 | $ 537,053 | 5.1 % | 6,014 | 258,600 | 4.7 % |
| Business purpose loans - HFI | $ 27,538 | $ 844,682 | 6.5 % | 24,775 | 649,943 | 7.6 % |
| Single-family rental loans - HFI at CAFL (2) | $ 122,671 | $ 3,127,065 | 7.8 % | 103,722 | 3,296,042 | 6.3 % |
| Bridge loans - HFI at CAFL(2) | $ 11,271 | $ 353,181 | 6.4 % | — | — | — % |
| Multifamily loans at Freddie Mac K-Series (2) | $ 9,485 | $ 457,750 | 4.1 % | 9,646 | 491,282 | 3.9 % |
| Trading securities | 9,596 | 162,202 | 11.8 % | 11,423 | 136,336 | 16.8 % |
| Available-for-sale securities | 14,187 | 137,608 | 20.6 % | 7,519 | 132,823 | 11.3 % |
| Other interest income | 18,104 | 928,072 | 3.9 % | 11,813 | 801,270 | 2.9 % |
| **Total interest income** | 356,855 | 14,029,447 | 5.1 % | 267,000 | 10,975,319 | 4.9 % |
| **Interest Expense** | | | | | | |
| Short-term debt facilities | (21,645) | 1,662,458 | (2.6)% | (16,572) | 1,423,017 | (2.3)% |
| Short-term debt - servicer advance financing | (3,504) | 250,009 | (2.8)% | (2,396) | 175,132 | (2.7)% |
| ABS issued - Legacy Sequoia(2) | (1,668) | 215,911 | (1.5)% | (1,630) | 265,430 | (1.2)% |
| ABS issued - Sequoia (2) | (56,500) | 3,622,067 | (3.1)% | (23,480) | 1,192,582 | (3.9)% |
| ABS issued - Freddie Mac SLST(2) | (27,457) | 1,473,896 | (3.7)% | (33,982) | 1,906,613 | (3.6)% |
| ABS issued - Freddie Mac K-Series (2) | (8,722) | 425,946 | (4.1)% | (8,834) | 462,962 | (3.8)% |
| ABS issued - CAFL (2) | (100,207) | 3,120,553 | (6.4)% | (81,054) | 3,046,141 | (5.3)% |
| Long-term debt facilities | (23,200) | 1,272,918 | (3.6)% | (23,804) | 723,861 | (6.6)% |
| Long-term debt - FHLBC | — | — | — % | (2) | 558 | (0.7)% |
| Long-term debt - corporate | (20,362) | 678,442 | (6.0)% | (18,863) | 650,508 | (5.8)% |
| **Total interest expense** | (263,265) | 12,936,978 | (4.1)% | (210,617) | 9,846,804 | (4.3)% |
| **Net Interest Income** | $ 93,590 | | | $ 56,383 | | |

(1) Average balances for residential loans held-for-sale, residential loans held-for-investment, business purpose loans, multifamily loans held-for-investment, and trading securities are calculated based upon carrying values, which represent estimated fair values. Average balances for available-for-sale securities and debt are calculated based upon amortized historical cost, except for certain ABS issued, which is based upon fair value.

(2) Interest income from residential loans held-for-investment ("HFI") at Legacy Sequoia and the interest expense from ABS issued - Legacy Sequoia represent activity from our consolidated Legacy Sequoia entities. Interest income from residential loans - HFI at Sequoia and the interest expense from ABS issued - Sequoia represent activity from our consolidated Sequoia entities. Interest income from residential loans - HFI at Freddie Mac SLST and the interest expense from ABS issued - Freddie Mac SLST represent activity from our consolidated Freddie Mac SLST entities. Interest income from multifamily loans at Freddie Mac K-Series and the interest expense from ABS issued - Freddie Mac K-Series represent activity from our consolidated Freddie Mac K-Series entities. Interest income from single-family rental loans - HFI at CAFL, bridge loans - HFI at CAFL and the interest expense from ABS issued - CAFL represent activity from our consolidated CAFL entities.

## Results of Operations by Segment

We report on our business using three segments: Residential Mortgage Banking, Business Purpose Mortgage Banking, and Investment Portfolio. For additional information on our segments, refer to *Note 23* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q.

The following table presents the segment contribution from our three segments reconciled to our consolidated net (loss) income for the three and six months ended June 30, 2022 and 2021.

***Table 4 – Segment Results Summary***

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| **(In Thousands)** | **2022** | **2021** | **Change** | **2022** | **2021** | **Change** |
| **Segment Contribution from:** | | | | | | |
| Residential Mortgage Banking | $ (14,186) | $ 14,383 | $ (28,569) | $ (6,731) | $ 55,065 | $ (61,796) |
| Business Purpose Mortgage Banking | (20,653) | 14,543 | (35,196) | (23,198) | 20,309 | (43,507) |
| Investment Portfolio | (52,578) | 88,322 | (140,900) | (1,645) | 166,048 | (167,693) |
| Corporate/Other | (12,549) | (27,223) | 14,674 | (37,477) | (54,140) | 16,663 |
| **Net (Loss) Income** | $ (99,966) | $ 90,025 | $ (189,991) | $ (69,051) | $ 187,282 | $ (256,333) |

The sections that follow provide further detail for our three business segments and their results of operations for the three and six months ended June 30, 2022.

*Corporate/Other*

The decrease in net expense from Corporate/Other for the three- and six-month periods was primarily due to $6 million and $9 million, respectively, of lower compensation expense for corporate employees, primarily related to variable compensation, which decreased in association with lower earnings year-over-year. In addition, other income increased by approximately $10 million, resulting from pre-tax valuation gains recognized in the second quarter of 2022 from an early RWT Horizons investment. These decreases were partially offset by increased net interest expense of $2 million in the second quarter of 2022, primarily related to the issuance of new convertible notes in June 2022.

***Residential Mortgage Banking Segment***

Our Residential Mortgage Banking segment consists of a mortgage loan conduit that acquires residential loans from third-party originators for subsequent sale, securitization through our Sequoia private-label securitization program, or transfer into our investment portfolio. We typically acquire prime jumbo mortgages and the related mortgage servicing rights on a flow basis from our network of loan sellers. This segment also includes various derivative financial instruments that we utilize to manage certain risks associated with our inventory of residential loans held-for-sale within this segment. This segment's main source of mortgage banking income is net interest income from its inventory of loans held-for-sale, as well as income from mortgage banking activities, which includes valuation increases (or gains) on loans we acquire and subsequently sell, securitize, or transfer into our investment portfolio, and the hedges used to manage risks associated with these activities. Direct operating expenses and tax expenses associated with these activities are also included in this segment.

Net income from this segment is primarily comprised of net interest income earned on loans while they are held in inventory, mortgage banking activities income (including mark-to-market adjustments on loans from the time they are purchased to when they are sold or securitized, mark-to-market adjustments on new and outstanding loan purchase commitments and gains/losses from associated hedges), and all direct expenses associated with these activities. Subordinate securities that we retain from our Sequoia securitizations (many of which we consolidate for GAAP purposes) are transferred to and held in our Investment Portfolio segment.

The following table provides the activity of residential loans held in inventory for sale at our mortgage banking business during the three and six months ended June 30, 2022.

***Table 5 – Loan Inventory for Residential Mortgage Banking Operations — Activity***

| **(In Thousands)** | **Three Months Ended June 30, 2022** | **Six Months Ended June 30, 2022** |
|---|---|---|
| Balance at beginning of period | $ 1,101,006 | $ 1,673,236 |
| Acquisitions | 1,137,466 | 3,145,911 |
| Sales | (1,200,885) | (3,050,759) |
| Transfers between segments (1) | — | (684,491) |
| Principal repayments | (22,146) | (43,285) |
| Changes in fair value, net | (24,517) | (49,688) |
| **Balance at End of Period** | $ 990,924 | $ 990,924 |

(1) Represents the fair value of the net transfers of loans from held-for-sale to held-for-investment within our Residential Lending investment portfolio, associated with securitizations we sponsored that we consolidate under GAAP.

During the three and six months ended June 30, 2022, our residential mortgage loan conduit locked $1.01 billion and $3.64 billion of loans ($0.54 billion and $2.49 billion adjusted for expected pipeline fallout - i.e., loan purchase commitments), including $824 million and $3.21 billion of Select loans and $188 million and $430 million of Choice loans, and purchased $1.14 billion and $3.15 billion of loans, respectively. During the three and six months ended June 30, 2022, approximately 82% and 69% of locked loans were purchase-money loans and 18% and 31% were refinancings, respectively. During the three and six months ended June 30, 2022, we distributed $1.24 billion and $3.07 billion of loans (unpaid principal balance) through whole loan sales, respectively. During the six months ended June 30, 2022, we completed one securitization backed by $687 million of loans (unpaid principal balance).

During the second quarter of 2022, we focused on transferring financial risk and selling our lower-coupon inventory expediently to whole loan investors. When markets normalize, we expect securitization activity to pick up, particularly as banks seek a place to invest deposits. At June 30, 2022, we had total net loan exposure of $751 million (down 44% from March 31, 2022), including $991 million of loans in inventory on our balance sheet, $285 million of loans identified for purchase (locked loans, unadjusted for fallout), and $541 million of forward sale agreements for loans. As of June 30, 2022, we had sold substantially all of our lower coupon jumbo mortgages, and our remaining mortgage banking loan inventory had an average mortgage rate over 5%.

We utilize a combination of capital and our residential loan warehouse facilities to manage our inventory of residential loans held-for-sale. At June 30, 2022, we had residential warehouse facilities outstanding with seven different counterparties, with $2.75 billion of total capacity and $1.66 billion of available capacity. These included non-marginable facilities (i.e., not subject to margin calls based solely on the lender's determination, in its discretion, of the market value of the underlying collateral that is non-delinquent) with $1.38 billion of total capacity and marginable facilities with $1.38 billion of total capacity.

The following table presents key earnings and operating metrics for our Residential Mortgage Banking segment during the three and six months ended June 30, 2022.

***Table 6 – Residential Mortgage Banking Earnings Summary and Operating Metrics***

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| **(In Thousands)** | **2022** | **2021** | **Change** | **2022** | **2021** | **Change** |
| Mortgage banking (loss) income | $ (12,885) | $ 26,893 | $ (39,778) | $ 1,081 | $ 91,160 | $ (90,079) |
| Operating expenses | (6,889) | (8,785) | 1,896 | (14,407) | (22,884) | 8,477 |
| Benefit from (provision for) income taxes | 5,588 | (3,725) | 9,313 | 6,595 | (13,211) | 19,806 |
| Segment Contribution | $ (14,186) | $ 14,383 | $ (28,569) | $ (6,731) | $ 55,065 | $ (61,796) |
| Loan purchase commitments (loan locks, adjusted for expected fallout) | $ 537,925 | $ 2,743,105 | $ (2,205,180) | $ 2,493,866 | $ 6,253,397 | $ (3,759,531) |

Residential mortgage banking income presented in the table above is comprised of net interest income from residential loans held-for-sale in inventory and mortgage banking activities, net from this segment (see *Note 19* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q for further detail on the composition of mortgage banking activities, net). Operating expenses presented in the table above includes general and administrative expenses, loan acquisition costs and other expenses for this segment.

The decrease in contribution from our residential mortgage banking operations during the three- and six-month periods was primarily attributable to lower mortgage banking activities income, as discussed in the preceding *Consolidated Results of Operations* section of this MD&A. These decreases in income were partially offset by lower general and administrative expenses, which declined during the three- and six-month periods, primarily due to lower variable compensation expenses.

Our gross margin (mortgage banking income earned in the period divided by loan purchase commitments entered into during the period) for the second quarter of 2022 was negative 240 basis points, a decrease from 71 basis points during the first quarter of 2022. As discussed previously, our margins during the second quarter of 2022 were negatively impacted by wider credit spreads during the quarter, and in particular from the impact of spread widening on our inventory from March 31, 2022 that we carried into the second quarter. While we began to see some stabilization in interest rates and credit spread moderation during July 2022, a re-widening of credit spreads or further rate volatility could continue to negatively impact our margins and profitability.

Activity at this segment is performed within our taxable REIT subsidiary and subject to federal and state income taxes. The benefit from income taxes for the second quarter of 2022 was due to an overall GAAP loss incurred at our TRS during that period.

***Business Purpose Mortgage Banking Segment***

Our Business Purpose Mortgage Banking segment consists of a platform that originates and acquires business purpose loans (consisting of SFR loans and bridge loans) for subsequent securitization, sale, or transfer into our investment portfolio. SFR loans are business purpose mortgage loans to investors in single-family (primarily 1-4 unit) rental properties. Bridge loans are business purpose mortgage loans to investors rehabilitating and subsequently reselling or renting residential and multifamily properties. We typically originate SFR loans and distribute most of our SFR loans through our CAFL private-label securitization program and on occasion will sell as whole loans. We originate and acquire bridge loans and typically transfer these loans into our Investment Portfolio where they will be retained for investment, and on occasion may sell as whole loans. This segment also includes various derivative financial instruments that we utilize to manage certain risks associated with our inventory of single-family rental loans held-for-sale.

Net income from this segment is primarily comprised of net interest income earned on loans while they are held in inventory, mortgage banking activities income (including mark-to-market adjustments on loans from the time they are purchased to when they are sold, securitized or transferred into our investment portfolio, fee income earned on originations and gains/losses from associated hedges), and all direct expenses associated with these activities. Subordinate securities that we retain from our CAFL securitizations (which we consolidate for GAAP purposes) and bridge loans we originate in this segment are transferred to and held in our Investment Portfolio segment.

On July 1, 2022, we closed the previously announced acquisition of Riverbend, a private mortgage lender to investors in transitional residential and multifamily real estate. This acquisition adds capacity, product breadth and geographic footprint to our existing bridge loan origination platform.

The following table provides business purpose loan origination activity at Redwood during the three and six months ended June 30, 2022.

***Table 7 – Business Purpose Loans — Funding Activity***

| | Three Months Ended June 30, 2022 | | | Six Months Ended June 30, 2022 | | |
|---|---|---|---|---|---|---|
| **(In Thousands)** | **Single-Family Rental** | **Bridge [1]** | **Total** | **Single-Family Rental** | **Bridge [1]** | **Total** |
| Fair value at beginning of period | $ 505,889 | $ — | $ 505,889 | $ 358,309 | $ — | $ 358,309 |
| Fundings | 361,731 | 561,264 | 922,995 | 866,912 | 976,185 | 1,843,097 |
| Sales | — | — | — | (331,750) | — | (331,750) |
| Transfers between segments [2] | (295,037) | (560,128) | (855,165) | (295,037) | (977,424) | (1,272,461) |
| Principal repayments | (30,201) | — | (30,201) | (31,584) | — | (31,584) |
| Changes in fair value, net | (37,211) | (1,136) | (38,347) | (61,679) | 1,239 | (60,440) |
| **Fair Value at End of Period** | $ 505,171 | $ — | $ 505,171 | $ 505,171 | $ — | $ 505,171 |

(1) We originate bridge loans at our TRS and then transfer them to our REIT. Origination fees and any fair value changes on these loans prior to transfer are recognized within Mortgage banking activities, net on our consolidated statements of income. Once the loans are transferred to our REIT, they are classified as held-for-investment, with subsequent fair value changes generally recorded through Investment fair value changes, net on our consolidated statements of income. For bridge loans held at our REIT that are transferred into our CAFL bridge securitizations, we record any changes in fair value from the date of origination or purchase to the time of securitization as Mortgage banking activities, net on our consolidated statements of income. Once loans are transferred into a securitization, any changes in fair value are recorded through Investment fair value changes, net on our consolidated statements of income. For the carrying value and activity of our bridge loans held-for-investment, see the Investment Portfolio section that follows.

(2) For single-family rental loans, amounts represent transfers of loans from held-for-sale at our Business Purpose Mortgage Banking segment to held-for-investment at our Investment Portfolio segment, associated with securitizations we sponsored that we consolidate under GAAP. Bridge loan amounts represent the transfer of loans originated or acquired by our Business purpose mortgage banking group at our TRS and transferred to our Investment Portfolio segment at our REIT as described in preceding footnote.

Single-family rental loan fundings for the three and six months ended June 30, 2022 included $38 million and $100 million of loans acquired from third parties, respectively. Bridge loan fundings for the three and six months ended June 30, 2022 included $19 million and $22 million of loans acquired from third parties, respectively. During the three and six months ended June 30, 2022, we completed two business purpose loan securitizations, one backed by approximately $250 million of bridge loans that includes a 24-month revolving feature, and one backed by $313 million of SFR loans. At June 30, 2022, we had $505 million of single-family rental loans in inventory on our balance sheet.

During the second quarter of 2022, demand for business purpose loans remained strong as rates moved higher. Given continued rate volatility, our borrowers opted for short-term fully prepayable bridge loans relative to term loans, leading to strong volumes in bridge (up 35% from the first quarter of 2022) – particularly in multifamily (up 31% from the first quarter of 2022) and renovate/build-to-rent (up 74% from the first quarter of 2022).

We utilize a combination of capital and loan warehouse facilities to manage our inventory of single-family rental loans that we hold for sale. At June 30, 2022, we had business purpose warehouse facilities outstanding with five different counterparties, with $2.25 billion of total capacity (used for both SFR and bridge loans) and $997 million of available capacity (inclusive of capacity on non-recourse facilities). All of these facilities are non-marginable (i.e., not subject to margin calls based solely on the lender's determination, in its discretion, of the market value of the underlying collateral that is non-delinquent).

The following table presents an earnings summary for our Business Purpose Mortgage Banking segment for the three and six months ended June 30, 2022.

***Table 8 – Business Purpose Mortgage Banking Earnings Summary***

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| **(In Thousands)** | **2022** | **2021** | **Change** | **2022** | **2021** | **Change** |
| Mortgage banking income | $ (6,848) | $ 34,815 | $ (41,663) | $ 4,380 | $ 57,365 | $ (52,985) |
| Operating expenses | (16,974) | (18,090) | 1,116 | (34,028) | (33,553) | (475) |
| Benefit from income taxes | 3,169 | (2,182) | 5,351 | 6,450 | (3,503) | 9,953 |
| Segment Contribution | $ (20,653) | $ 14,543 | $ (35,196) | $ (23,198) | $ 20,309 | $ (43,507) |

Business Purpose Mortgage Banking income presented in the table above is comprised of net interest income from single-family rental ("SFR") loans held-for-sale in inventory, mortgage banking activities, net (see *Note 19* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q for further detail on the composition of mortgage banking activities), and other income, net for this segment. Operating expenses presented in the table above includes general and administrative expenses, loan acquisition costs and other expenses for this segment.

The decrease in contribution from our business purpose mortgage banking operations during the three- and six-month periods was primarily attributable to lower mortgage banking activities income. While higher loan origination volumes during 2022 contributed to increased origination fees and higher net interest income earned on loan inventory during the first half of 2022, severe credit spread widening significantly impacted margins and profitability. Continued rate volatility or a further widening of spreads would continue to impact our margins and profitability at this business.

General and administrative expenses declined during the three- and six-month periods, primarily due to lower variable compensation expenses. These decreases were partially offset by higher fixed compensation and other costs associated with an increased headcount during 2022. Additionally, higher funding volumes in the first half of 2022 resulted in higher loan acquisition costs relative to 2021.

Activity at this segment is performed within our taxable REIT subsidiary and subject to federal and state income taxes. The benefit from income taxes for the first half of 2022 was due to an overall GAAP loss incurred at our TRS during that period.

***Investment Portfolio Segment***

Our Investment Portfolio segment consists of investments sourced through our residential and business purpose mortgage banking operations, including primarily securities retained from our residential and business purpose securitization activities (some of which we consolidate for GAAP purposes), business purpose residential and multifamily bridge loans, as well as third-party investments including RMBS issued by third parties (including Agency CRT securities), investments in Freddie Mac K-Series multifamily loan securitizations and reperforming loan securitizations (both of which we consolidate for GAAP purposes), servicer advance investments, HEIs, and other housing-related investments. This segment's main sources of income are net interest income and other income from investments, changes in fair value of investments and associated hedges, and realized gains and losses upon the sale of securities. Direct operating expenses and tax provisions associated with these activities are also included in this segment.

The following table presents details of our Investment Portfolio at June 30, 2022 and December 31, 2021 organized by investments organically created through our mortgage banking segments and acquired from third-parties. Amounts presented in the table represent our retained economic investments in consolidated Sequoia, CAFL SFR, Freddie Mac SLST, Freddie Mac K-Series, Servicing Investment and HEI securitizations as noted.

***Table 9 – Investment Portfolio - Detail of Economic Interests***

| (In Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Organic Residential Investments | | |
| Residential loans at Redwood[1] | $ 222,143 | $ 172,047 |
| Residential securities at Redwood[2] | 112,562 | 143,838 |
| Residential securities at consolidated Sequoia entities[3] | 236,777 | 245,417 |
| Other investments[4] | 50,150 | 12,438 |
| Organic Business Purpose Investments | | |
| Bridge loans | 1,651,489 | 944,606 |
| Single-family rental securities at consolidated CAFL SFR entities[5] | 307,413 | 301,506 |
| Other investments | 1,869 | 5,935 |
| Third-Party Investments | | |
| Residential securities at Redwood | 146,382 | 195,930 |
| Residential securities at consolidated Freddie Mac SLST entities[6] | 390,417 | 444,751 |
| Multifamily securities at Redwood | 21,129 | 32,715 |
| Multifamily securities at consolidated Freddie Mac K-Series entities[7] | 31,732 | 31,657 |
| Servicing investments[8] | 96,487 | 102,540 |
| HEIs[9] | 145,003 | 43,638 |
| Other investments | 8,633 | 10,400 |
| **Total Segment Investments** | $ 3,422,186 | $ 2,687,418 |

(1) Balance comprised of loans called from Sequoia securitizations.

(2) Excludes $4 million of trading securities that are designated as hedges for our mortgage banking operations and are not considered part of our investment portfolio.

(3) Represents our retained economic investment in securities issued by consolidated Sequoia securitization VIEs. For GAAP purposes, we consolidated $3.53 billion of loans and $3.29 billion of ABS issued associated with these investments at June 30, 2022. We consolidated $3.63 billion of loans and $3.38 billion of ABS issued associated with these investments at December 31, 2021.

(4) Organic residential other investments at June 30, 2022 includes net risk share investments of $27 million, representing $34 million of restricted cash and other assets, net of other liabilities of $7 million.

(5) Represents our retained economic investment in securities issued by consolidated CAFL SFR securitization VIEs. For GAAP purposes, we consolidated $3.05 billion of loans and $2.73 billion of ABS issued associated with these investments at June 30, 2022. We consolidated $3.49 billion of loans and $3.21 billion of ABS issued associated with these investments at December 31, 2021.

(6) Represents our economic investment in securities issued by consolidated Freddie Mac SLST securitization entities. For GAAP purposes, we consolidated $1.63 billion of loans and $1.24 billion of ABS issued associated with these investments at June 30, 2022. We consolidated $1.89 billion of loans and $1.45 billion of ABS issued associated with these investments at December 31, 2021.

(7) Represents our economic investment in securities issued by consolidated Freddie Mac K-Series securitization entities. For GAAP purposes, we consolidated $443 million of loans and $411 million of ABS issued associated with these investments at June 30, 2022. We consolidated $474 million of loans and $442 million of ABS issued associated with these investments at December 31, 2021.

(8) Represents our economic investment in consolidated Servicing Investment variable interest entities. At June 30, 2022, for GAAP purposes, we consolidated $305 million of servicing investments and $232 million of non-recourse short-term securitization debt, as well as other assets and liabilities for these entities. At December 31, 2021, for GAAP purposes, we consolidated $385 million of servicing investments and $294 million of non-recourse short-term securitization debt, as well as other assets and liabilities for these entities.

(9) At June 30, 2022 and December 31, 2021, represents HEIs owned at Redwood of $130 million and $33 million, respectively, and our retained economic investment in securities issued by the consolidated HEI securitization entity of $15 million and $10 million, respectively. At June 30, 2022, for GAAP purposes, we consolidated $146 million of HEIs and $110 million of ABS issued, as well as other assets and liabilities for this entity. At December 31, 2021, for GAAP purposes, we consolidated $160 million of HEIs and $137 million of ABS issued, as well as other assets and liabilities for this entity.

The growth in our Investment Portfolio during the first half of 2022 was primarily attributable to a net increase in business purpose bridge loans, the acquisition of residential jumbo loans from calls and incremental investments in HEIs through a third-party flow purchase agreement. See the *Investments Detail and Activity* section that follows for additional detail on our portfolio investments and their associated borrowings.

The following table presents an earnings summary for our Investment Portfolio segment for the three and six months ended June 30, 2022.

***Table 10 – Investment Portfolio Earnings Summary***

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| **(In Thousands)** | **2022** | **2021** | **Change** | **2022** | **2021** | **Change** |
| Net interest income | $41,889 | $32,555 | $ 9,334 | $ 95,879 | $ 63,119 | $ 32,760 |
| Investment fair value changes, net | (98,111) | 49,727 | (147,838) | (103,517) | 95,488 | (199,005) |
| Other income, net | 6,235 | 1,705 | 4,530 | 11,517 | 5,279 | 6,238 |
| Realized gains, net | — | 8,384 | (8,384) | 2,581 | 11,100 | (8,519) |
| Operating expenses | (3,277) | (3,269) | (8) | (6,961) | (7,422) | 461 |
| Benefit from (provision for) income taxes | 686 | (780) | 1,466 | (1,144) | (1,516) | 372 |
| Segment Contribution | $ (52,578) | $ 88,322 | $ (140,900) | $ (1,645) | $ 166,048 | $ (167,693) |

The decrease in contribution from the investment portfolio during the three- and six-month periods was primarily attributable to negative investment fair value changes, as discussed in the preceding *Consolidated Results of Operations* section of this MD&A. These decreases were partially offset by higher net interest income and other income during the three- and six-month periods, each as discussed in the *Consolidated Results of Operations* section of this MD&A.

Net interest income during the first quarter of 2022 included approximately $8 million of yield maintenance income (triggered by prepayments) received on retained SFR securities. During the second quarter of 2022, interest rates increased sharply, prepayments slowed and yield maintenance income on retained SFR securities declined to $4 million. Additionally, during the first quarter of 2022, we recorded $8 million of discount accretion for AFS securities, much of which was associated with securities we expected to be called given high prepayment speeds experienced during 2021. As a result of interest rate increases during the first half of 2022, expected call dates were extended for certain available-for-sale securities and discount accretion income from these securities declined, resulting in $1 million of total discount accretion in the second quarter of 2022.

Investment fair value changes is primarily comprised of the change in fair value (both realized and unrealized) of our portfolio investments accounted for under the fair value option and hedges associated with these investments (see *Table 5.6* in Note 5 in Part I, Item 1 of this Quarterly Report on Form 10-Q for further detail on the composition of investment fair value changes – difference in amount from the table above to *Table 5.6* in the notes to our consolidated financial statements relates to fair value changes for investments held at corporate/other). The negative investment fair value changes in the first half of 2022 were nearly all unrealized and resulted primarily from credit spread widening across many of our investments, which began in the first quarter and increased sharply during the end of the second quarter. Rising interest rates and slower actual and expected prepayment speeds resulted in positive fair value changes for our interest only securities, and hedges allocated to our investment portfolio, and credit improvements benefited several of our investments, including in particular our retained CAFL SFR securities and bridge loans. While our investments generally continue to experience stable credit performance, further spread widening or a deterioration in credit could result in additional negative investment fair value changes for our investments.

Other income within this segment is primarily comprised of income (loss) from our MSR investments, bridge loan extension ees, and risk share investment income. Details on the composition of Other income is included in Note 20 in Part I, Item 1 of this Quarterly Report on Form 10-Q. Realized gains generally result from sales or calls of available-for-sale securities we own. Refer to the analysis of this line item in the *Consolidated Results of Operations* section of this MD&A for an explanation of current year activity. Operating expenses at this segment are primarily attributable to compensation expense and remained relatively consistent during the three- and six-month periods, as decreases in variable compensation were partially offset by higher fixed compensation costs resulting from higher headcount in 2022.

We hold certain of our investments, primarily our MSRs, at our taxable REIT subsidiary. Our Provision for income taxes at this segment is primarily driven by the amount of income earned from these assets and, for the first half of 2022, reflects positive net income earned from investment portfolio activities at our taxable REIT subsidiary.

*Investments Detail and Activity*

This section presents additional details on our investments and their activity during the three and six months ended June 30, 2022.

*Real Estate Securities Portfolio*

The following table sets forth our real estate securities activity by collateral type for the three and six months ended June 30, 2022.

***Table 11 – Real Estate Securities Activity by Collateral Type[(1)]***

| **Three Months Ended June 30, 2022** | **Residential** | | **Multifamily** | |
|---|---|---|---|---|
| **(In Thousands)** | **Senior** | **Subordinate** | **Mezzanine** | **Total** |
| Beginning fair value | $ 34,206 | $ 300,352 | $ 24,324 | $ 358,882 |
| Acquisitions: | | | | |
| Sequoia securities | — | — | — | — |
| Third-party securities | — | — | — | — |
| Sales: | | | | |
| Sequoia securities | (3,855) | — | — | (3,855) |
| Third-party securities | (6,337) | (13,137) | — | (19,474) |
| Gains on sales and calls, net | — | — | — | — |
| Effect of principal payments (2) | — | (753) | (2,009) | (2,762) |
| Change in fair value, net | 7,482 | (54,810) | (1,185) | (48,513) |
| **Ending Fair Value** | $ 31,496 | $ 231,652 | $ 21,130 | $ 284,278 |

| **Six Months Ended June 30, 2022** | **Residential** | | **Multifamily** | |
|---|---|---|---|---|
| **(In Thousands)** | **Senior** | **Subordinate** | **Mezzanine** | **Total** |
| Beginning fair value | $ 21,787 | $ 322,909 | $ 32,715 | $ 377,411 |
| Acquisitions: | — | — | — | |
| Sequoia securities | — | — | — | — |
| Third-party securities | 5,006 | 10,000 | — | 15,006 |
| Sales: | — | — | — | |
| Sequoia securities | (3,855) | — | — | (3,855) |
| Third-party securities | (6,337) | (13,137) | — | (19,474) |
| Gains on sales and calls, net | — | 1,914 | — | 1,914 |
| Effect of principal payments (2) | — | (15,677) | (8,688) | (24,365) |
| Change in fair value, net | 14,895 | (74,357) | (2,897) | (62,359) |
| **Ending Fair Value** | $ 31,496 | $ 231,652 | $ 21,130 | $ 284,278 |

(1) Amounts presented in this table include securities reported on our balance sheet and does not include securities we own in consolidated entities. See the following table for a presentation of all securities we own, including those in consolidated entities.

(2) The effect of principal payments reflects the change in fair value due to principal payments, which is calculated as the cash principal received on a given security during the period multiplied by the prior quarter ending price or acquisition price for that security.

At June 30, 2022, our securities at Redwood (exclusive of securities owned in consolidated entities) consisted of fixed-rate assets (91%), adjustable-rate assets (6%), and hybrid assets that reset within the next year (3%).

The following table sets forth activity in our real estate securities portfolio for the three and six months ended June 30, 2022, organized by investments organically created through our mortgage banking segments and acquired from third-parties. This table includes both our securities held on balance sheet and our economic interest in securities we own in securitizations we consolidate in accordance with GAAP.

***Table 12 – Activity of Real Estate Securities Owned at Redwood and in Consolidated Entities***

| | Residential Organic | | Business Purpose Organic | Third-Party Investments | | | |
|---|---|---|---|---|---|---|---|
| **Three Months Ended June 30, 2022 (In Thousands)** | **Sequoia Securities on Balance Sheet** | **Consolidated Sequoia Securities** | **Consolidated CAFL Securities** | **Consolidated SLST Securities** | **Consolidated Multifamily Securities** | **Other Third-Party Securities** | **Total** |
| Beginning fair value | $ 133,014 | $ 244,396 | $ 305,554 | $ 436,677 | $ 31,921 | $ 225,868 | $ 1,377,430 |
| Acquisitions[1] | — | — | 23,687 | — | — | — | 23,687 |
| Sales | (3,854) | (612) | — | — | — | (19,475) | (23,941) |
| Gains on sales and calls, net | — | — | — | — | — | — | — |
| Effect of principal payments [2] | (193) | (1,095) | — | (10,424) | — | (2,569) | (14,281) |
| Change in fair value, net | (16,405) | (5,912) | (21,828) | (35,837) | (189) | (32,108) | (112,279) |
| **Ending Fair Value** [3] | $ 112,562 | $ 236,777 | $ 307,413 | $ 390,416 | $ 31,732 | $ 171,716 | $ 1,250,616 |

| | Residential Organic | | Business Purpose Organic | Third-Party Investments | | | |
|---|---|---|---|---|---|---|---|
| **Six Months Ended June 30, 2022 (In Thousands)** | **Sequoia Securities on Balance Sheet** | **Consolidated Sequoia Securities** | **Consolidated CAFL Securities** | **Consolidated SLST Securities** | **Consolidated Multifamily Securities** | **Other Third-Party Securities** | **Total** |
| Beginning fair value | $ 145,757 | $ 245,417 | $ 301,506 | $ 444,751 | $ 31,657 | $ 231,654 | $ 1,400,742 |
| Acquisitions[1] | — | 3,742 | 23,687 | — | — | 15,006 | 42,435 |
| Sales | (3,854) | (612) | — | — | — | (19,475) | (23,941) |
| Gains on sales and calls, net | 284 | — | — | — | — | 1,630 | 1,914 |
| Effect of principal payments [2] | (10,632) | (2,033) | — | (21,572) | — | (13,733) | (47,970) |
| Change in fair value, net | (18,993) | (9,737) | (17,780) | (32,763) | 75 | (43,366) | (122,564) |
| **Ending Fair Value** [3] | $ 112,562 | $ 236,777 | $ 307,413 | $ 390,416 | $ 31,732 | $ 171,716 | $ 1,250,616 |

(1) During the six months ended June 30, 2022, we retained $4 million of securities from one Sequoia securitization.

(2) The effect of principal payments reflects the change in fair value due to principal payments, which is calculated as the cash principal received on a given security during the period multiplied by the prior quarter ending price or acquisition price for that security.

(3) At June 30, 2022, $4 million of securities within the "Other third-party securities" column of this table were used as hedges for our residential mortgage banking operations. These same securities are presented as a component of securities within our residential lending segment on our segment balance sheet.

At June 30, 2022, our securities (both those held on our balance sheet and our economic interests in consolidated VIEs) consisted of fixed-rate assets (98%), adjustable-rate assets (1%) and hybrid assets that reset within the next year (1%).

We directly finance our holdings of real estate securities with a combination of non-recourse debt, non-marginable term debt and marginable debt in the form of repurchase (or “repo”) financing. At June 30, 2022, real estate securities with a fair value of $446 million (including securities owned in consolidated Sequoia and CAFL securitization entities) were financed with $310 million of long-term, non-marginable recourse debt through our subordinate securities financing facilities, re-performing loan securities with a fair value of $390 million were financed with $115 million of non-recourse securitization debt, and real estate securities with a fair value of $124 million (including securities owned in consolidated securitization entities) were financed with $95 million of short-term debt incurred through repurchase facilities with four different counterparties. The remaining $290 million of our securities, including certain securities we own that were issued by consolidated securitization entities, were financed with capital.

The following table summarizes the credit characteristics of our entire real estate securities portfolio by collateral type at June 30, 2022. This table includes both our securities held on balance sheet and our economic interests in securities we own in securitizations we consolidate in accordance with GAAP.

***Table 13 – Credit Statistics of Real Estate Securities Owned at Redwood and in Consolidated Entities***

| | | | | Weighted Average Values | | | |
|---|---|---|---|---|---|---|---|
| **June 30, 2022** **(Dollars in Thousands)** | **Market Value - IO Securities** | **Market Value - Non-IO Securities** | **Principal Balance - Non-IO Securities** | **Gross Weighted Average Coupon** | **90+ Delinquency** | **3-Month Prepayment Rate** | **Investment Thickness[(1)]** |
| Sequoia securities on balance sheet | $ 27,293 | $ 85,269 | $ 140,270 | 3.8 % | 0.5 % | 18 % | 7 % |
| Consolidated Sequoia securities | 23,452 | 213,325 | 248,551 | 4.7 % | 2.0 % | 25 % | 40 % |
| **Total Sequoia Securities** | 50,745 | 298,594 | 388,821 | 4.4 % | 1.5 % | 23 % | 29 % |
| Consolidated Freddie Mac SLST securities | 10,854 | 379,562 | 511,195 | 4.5 % | 13.3 % | 12 % | 29 % |
| RPL securities on balance sheet | 209 | 46,608 | 143,169 | 4.3 % | 3.7 % | 12 % | 2 % |
| **Total RPL Securities** | 11,063 | 426,170 | 654,364 | 4.5 % | 12.3 % | 12 % | 26 % |
| Consolidated Freddie Mac K-Series securities | — | 31,732 | 36,468 | 4.3 % | — % | — % | 10 % |
| Multifamily securities on balance sheet | 179 | 20,950 | 22,809 | 3.3 % | — % | 23 % | 9 % |
| **Total Multifamily Securities** | 179 | 52,682 | 59,277 | 3.9 % | — % | 9 % | 10 % |
| Consolidated CAFL securities | 40,383 | 267,030 | 402,960 | 5.3 % | 2.4 % | 19 % | 15 % |
| Other third-party securities | 4,010 | 99,760 | 143,136 | 3.3 % | 0.7 % | 15 % | 2 % |
| **Total Securities** | $ 106,380 | $ 1,144,236 | $ 1,648,558 | | | | |

(1) Investment thickness represents the average size of the subordinate securities we own as investments in securitizations, relative to the average overall size of the securitizations. For example, if our investment thickness (of first-loss securities) with respect to a particular securitization is 10%, we have exposure to the first 10% of credit losses resulting from loans underlying that securitization. We generally own first loss positions in Sequoia, RPL and CAFL securities. We own both first loss and mezzanine positions (positions credit enhanced by subordinate securities) in multifamily and other third-party securities.

We primarily target investments that have a sensitivity to housing credit risk, typically sourced through our operating businesses where we control the underwriting and review of underlying collateral. During the first half of 2022, our investment portfolio continued to demonstrate strong performance across a range of credit metrics, including loan delinquencies which generally remained stable, and loan-to-value ratios (LTVs), which continued to decline or remain stable. Given the seasoned nature of our investments (particularly within our RPL securities and Sequoia securities), many of these investments are supported by substantial home price appreciation and borrower equity in the underlying homes.

*Bridge Loans Held-for-Investment*

The following table provides the activity of bridge loans held-for-investment during the three and six months ended June 30, 2022.

***Table 14 – Bridge Loans Held-for-Investment - Activity***

| (In Thousands) | Three Months Ended June 30, 2022 | Six Months Ended June 30, 2022 |
|---|---|---|
| Fair value at beginning of period | $ 1,209,950 | $ 944,606 |
| Transfers between portfolios (1) | 560,128 | 977,424 |
| Transfers to REO | (691) | (963) |
| Principal repayments | (112,162) | (261,538) |
| Changes in fair value, net | (5,736) | (8,040) |
| **Fair Value at End of Period** | $ 1,651,489 | $ 1,651,489 |

(1) We originate bridge loans at our TRS and then transfer them to our REIT. Origination fees and any fair value changes on these loans prior to transfer are recognized within Mortgage banking activities, net on our consolidated statements of income. Once the loans are transferred to our REIT, they are classified as held-for-investment, with subsequent fair value changes generally recorded through Investment fair value changes, net on our consolidated statements of income. For bridge loans held at our REIT that are transferred into our CAFL bridge securitization, we record any changes in fair value from the date of origination or purchase to the time of securitization as Mortgage banking activities, net on our consolidated statements of income. Once loans are transferred into this securitization, any changes in fair value are recorded through Investment fair value changes, net on our consolidated statements of income.

Our $1.65 billion of bridge loans held-for-investment at June 30, 2022 were comprised of first-lien, interest-only loans with a weighted average coupon of 6.78% and original maturities of six to 36 months. At origination, the weighted average FICO score of borrowers backing these loans was 744 and the weighted average LTV ratio of these loans was 67%. At June 30, 2022, of the 3,399 loans in this portfolio, 56 of these loans with an aggregate fair value of $37 million and an aggregate unpaid principal balance of $40 million were in foreclosure and 99 loans with an aggregate fair value of $38 million and an unpaid principal balance of $41 million were greater than 90 days delinquent (certain loans in foreclosure were also 90 days delinquent).

We finance our bridge loans with a combination of recourse, non-marginable warehouse facilities, non-recourse, non-marginable warehouse facilities, and non-recourse securitization debt. During the second quarter of 2022, we completed our second bridge loan securitization. This bridge loan securitizations includes a 24-month revolving feature allowing us to add additional loans as loans within the structure pay down. These two structures have $550 million of total capacity. At June 30, 2022, we had: $196 million of debt incurred through short-term warehouse facilities with three counterparties, which was secured by $265 million of business purpose bridge loans; $635 million of debt incurred through long-term facilities with two different counterparties, which was secured by $779 million of business purpose bridge loans; and $485 million of securitization debt secured by $542 million of business purpose bridge loans and $9 million of restricted cash.

The following table provides the composition of bridge loans held-for-investment by product type as ofJune 30, 2022 and December 31, 2021.

***Table 15 – Bridge Loans Held-for-Investment - By Product Type***

| (In Thousands) | June 30, 2022 | December 31, 2021 |
|---|---|---|
| Multifamily | $ 786,556 | $ 326,004 |
| Renovate / Build to rent | 670,070 | 375,729 |
| Fix and Flip | 133,964 | 150,928 |
| Other | 60,899 | 91,945 |
| **Fair Value at End of Period** | $ 1,651,489 | $ 944,606 |

*Residential Loans*

The following table provides the activity of residential loans held at our investment portfolio during the three and six months ended June 30, 2022.

***Table 16 – Investment Portfolio Residential Loans - Activity***

| **(In Thousands)** | **Three Months Ended June 30, 2022** | **Six Months Ended June 30, 2022** |
|---|---|---|
| Fair value at beginning of period | $ 246,064 | $ 172,048 |
| Acquisitions | — | 102,258 |
| Principal repayments | (15,874) | (39,864) |
| Changes in fair value, net | (8,046) | (12,298) |
| **Fair Value at End of Period** | $ 222,144 | $ 222,144 |

(1) Represents the net transfers of loans into or out of our investment portfolio and their reclassification between held-for-sale to held-for-investment.

During six months ended June 30, 2022, we called three of our unconsolidated Sequoia securitizations and purchased $102 million (unpaid principal balance) of loans from the securitization trusts.

*Other Investments*

The following table sets forth our other investments activity at our Investment Portfolio segment by significant asset type for the three and six months ended June 30, 2022.

***Table 17 – Other Investments at Investment Portfolio Segment - Activity***

| **Three Months Ended June 30, 2022** **(In Thousands)** | **Servicing Investments[1]** | **Home Equity Investments[2]** | **MSRs and Excess Servicing** | **Other** | **Total** |
|---|---|---|---|---|---|
| Balance at beginning of period | $ 302,837 | $ 227,133 | $ 62,762 | $ 2,324 | $ 595,056 |
| New/additional investments | — | 57,248 | — | — | 57,248 |
| Sales/distribution | — | — | — | (469) | (469) |
| Reductions in investments | (26,396) | (13,155) | — | — | (39,551) |
| Changes in fair value, net | (3,231) | 5,140 | 1,601 | 13 | 3,523 |
| Other | — | — | — | — | — |
| **Balance at End of Period** | $ 273,210 | $ 276,366 | $ 64,363 | $ 1,868 | $ 615,807 |

| **Six Months Ended June 30, 2022** **(In Thousands)** | **Servicing Investments[1]** | **Home Equity Investments[2]** | **MSRs and Excess Servicing** | **Other** | **Total** |
|---|---|---|---|---|---|
| Balance at beginning of period | $ 350,923 0 | $ 192,740 0 | $ 56,669 $— | $ 5,935 | $ 606,267 |
| New/additional investments | — | 97,389 | 4,543 | — | 101,932 |
| Sales/distribution | — | — | — | (4,769) | (4,769) |
| Reductions in investments | (71,401) | (25,826) | — | (30) | (97,257) |
| Changes in fair value, net | (6,312) | 12,063 | 3,360 | 732 | 9,843 |
| Other | — | — | (209) | — | (209) |
| **Balance at End of Period** | $ 273,210 | $ 276,366 | $ 64,363 | $ 1,868 | $ 615,807 |

*Footnotes for Table 16*

(1) Our servicing investments are owned through our consolidated Servicing Investment entities. At June 30, 2022, our economic investment in these entities was $96 million (for GAAP purposes, we consolidated $305 million of servicing investments, $232 million of non-recourse short-term securitization debt, as well as other assets and liabil ities for these entities). At December 31, 2021, our economic investment in these entities was $103 million (for GAAP purposes, we consolidated $385 million of servicing investments, $294 million of non-recourse short-term securitization debt, as well as other assets and liabilities for these entities).

(2) Our home equity investments presented in this table as of June 30, 2022, include $146 million of HEIs owned in our consolidated HEI securitization entity and $130 million of HEIs owned directly at Redwood. At June 30, 2022, our economic investment in the consolidated HEI securitization entity was $15 million (for GAAP purposes, we consolidated $146 million of HEIs and $110 million of ABS issued, as well as other assets and liabilities for this entity).

Reductions in investments for our servicing investments primarily represent recoveries of servicing advances within our consolidated servicing VIEs. Positive changes in fair value for HEIs in 2022 primarily reflect improvements in home prices (positive HPA). Changes in fair value for MSRs and excess servicing for 2022 include a reduction in basis from the regular receipt of scheduled cash flows, which was more than offset by a positive impact to fair value from a decrease in forecasted prepayment speeds.

Additional details on our other investments is included in *Note 10* of our *Notes to Consolidated Financial Statements*, included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

## Income Taxes

### *Taxable Income, REIT Status and Dividend Characterization*

As a REIT, under the Internal Revenue Code, Redwood is required to distribute to shareholders at least 90% of its annual REIT taxable income, excluding net capital gains, and meet certain other requirements that relate to, among other matters, the assets it holds, the income it generates, and the composition of its stockholders. To the extent Redwood retains REIT taxable income, including net capital gains, it is taxed at corporate tax rates. Redwood also earns taxable income at its taxable REIT subsidiaries (TRS), which it is not required to distribute under the Internal Revenue Code.

In June 2022, our Board of Directors declared a regular dividend of $0.23 per share for the second quarter of 2022, which was paid on June 30, 2022 to shareholders of record on June 23, 2022. As of June 30, 2022, our year-to-date dividend distributions of $0.46 per share exceeded our minimum distribution requirements and we believe that we have met all requirements for qualification as a REIT for federal income tax purposes. Many requirements for qualification as a REIT are complex and require analysis of particular facts and circumstances. Often there is only limited judicial or administrative interpretive guidance and as such there can be no assurance that the Internal Revenue Service or courts would agree with our various tax positions. If we were to fail to meet all the requirements for qualification as a REIT and the requirements for statutory relief, we would be subject to federal corporate income tax on our taxable income and we would not be able to elect to be taxed as a REIT for four years thereafter. Such an outcome could have a material adverse impact on our consolidated financial statements.

While our minimum REIT dividend requirement is generally 90% of our annual REIT taxable income, we carried a $37 million federal net operating loss carry forward (NOL) into 2022 at our REIT that affords us the ability to retain REIT taxable income up to the NOL amount, tax free, rather than distributing it as dividends. Federal income tax rules require the dividends paid deduction to be applied to reduce REIT taxable income before the applicability of NOLs is considered; therefore, REIT taxable income must exceed our dividend distribution for us to utilize a portion of our NOL and any remaining NOL amount will carry forward into future years.

While the exact amount is uncertain at this time, we currently expect a significant portion of our 2022 dividend distributions to be taxable as ordinary income for federal income tax purposes. Any remaining amount is currently expected to be characterized as a return of capital, which in general is nontaxable (provided it does not exceed a shareholder's tax basis in Redwood shares) and reduces a shareholder's basis in Redwood shares (but not below zero). To the extent such distributions exceed a shareholder's basis in Redwood shares, such excess amount would be taxable as capital gain. Under the federal income tax rules applicable to REITs, none of Redwood’s 2022 dividend distributions are currently expected to be characterized as long-term capital gain dividends. The income or loss generated at our TRS will not directly affect the tax characterization of our 2022 dividends; however, any dividends paid from our TRS to our REIT would allow a portion of our REIT’s dividends to be classified as qualified dividends.

### *Tax Provision under GAAP*

For the three and six months ended June 30, 2022, we recorded tax benefits of $9 million and $12 million, respectively. For the three and six months ended June 30, 2021, we recorded tax provisions of $7 million and $18 million, respectively. Our tax provision is primarily derived from the activities at our TRS as we do not book a material tax provision associated with income generated at our REIT. The switch to a tax benefit from a tax provision year-over-year was primarily the result of GAAP income being recorded at our TRS in 2021 versus GAAP losses being recorded at our TRS in 2022.

Realization of our deferred tax assets ("DTAs") is dependent on many factors, including generating sufficient taxable income prior to the expiration of NOL carryforwards and generating sufficient capital gains in future periods prior to the expiration of capital loss carryforwards. To the extent we determine it is more likely than not that we will not be able to realize a deferred tax asset, we establish a valuation allowance accordingly. At December 31, 2021, we reported net federal ordinary and capital DTAs with no valuation allowance recorded against them. We continue to believe it is more likely than not that we will realize all of our federal deferred tax assets; therefore, there continues to be no valuation allowance recorded against our net federal DTAs. As we have experienced GAAP losses at our TRS the past two quarters, we are continuing to monitor our estimate of the realizability of our net deferred tax assets and will reassess the need for a valuation allowance, in whole or in part, in future periods.

Consistent with prior periods, we continued to maintain a valuation allowance against the majority of our net state DTAs as realization of our state DTAs is dependent on generating sufficient taxable income in the same jurisdictions in which the DTAs exist and we project most of our state DTAs will expire prior to their utilization.

## LIQUIDITY AND CAPITAL RESOURCES

### Summary

In addition to the proceeds from equity and debt capital-raising transactions, our principal sources of cash and liquidity consist of borrowings under mortgage loan warehouse facilities, secured term financing facilities, securities repurchase agreements, payments of principal and interest we receive from our investment portfolio assets, proceeds from the sale of investment portfolio assets, and cash generated from our operating activities. Our most significant uses of cash are to purchase and originate mortgage loans for our mortgage banking operations and manage hedges associated with those activities, to purchase investment securities and make other investments, to repay principal and interest on our debt, to meet margin calls associated with our debt and other obligations, to make dividend payments on our capital stock, and to fund our operations.

At June 30, 2022, our total capital was $2.12 billion and included $1.26 billion of equity capital and $862 million of convertible notes and long-term debt on our consolidated balance sheet, including $199 million of convertible debt due in 2023, $150 million of convertible debt due in 2024, $172 million of exchangeable debt due in 2025, $215 million of convertible debt due in 2027 and $140 million of trust-preferred securities due in 2037.

As of June 30, 2022, our unrestricted cash was $371 million, and we estimate we had approximately $190 million of available capital (available capital reflects the subtraction of approximately $44 million for the initial cash purchase price paid at closing in connection with the acquisition of Riverbend following the end of the second quarter of 2022). While we believe our available cash is sufficient to fund our operations, we may raise equity or debt capital from time to time to increase our unrestricted cash and liquidity, to repay existing debt, to make long-term portfolio investments, to fund strategic acquisitions and investments, or for other purposes. To the extent we seek to raise additional capital, our approach will continue to be based on what we believe to be in the best interests of the company.

In the discussion that follows and throughout this document, we distinguish between marginable and non-marginable debt. When we refer to non-marginable debt and marginable debt, we are referring to whether or not such debt is subject to margin calls based solely on the lender's determination, in its discretion, of the market value of the underlying collateral that is non-delinquent. If a mortgage loan is financed under a marginable warehouse facility, to the extent the market value of the loan declines (which market value is determined by the counterparty under the facility), we will be subject to a margin call, meaning we will be required to either immediately reacquire the loan or meet a margin requirement to pledge additional collateral, such as cash or additional mortgage loans, in an amount at least equal to the decline in value. Non-marginable debt may be subject to a margin call due to delinquency or another credit event related to the mortgage or security being financed, a decline in the value of the underlying asset securing the collateral, or a change in the interest rate of a specified reference security relative to a base interest rate amount. For example, we could be subject to a margin call on non-marginable debt if an appraisal or broker price opinion indicates a decline in the estimated value of the property securing the mortgage loan that is financed by us under a loan warehouse facility, or based on the occurrence of a triggering credit event impacting the financed collateral which is followed by a decline in the market value of the financed collateral (as determined by the lender).

We also distinguish between recourse and non-recourse debt. When we refer to non-recourse debt, we mean debt that is payable solely from the assets pledged to secure such debt, and under which debt no creditor or lender has direct or indirect recourse to us, or any other entity or person (except for customary exceptions for fraud, acts of insolvency, or other "bad acts"), if such assets are inadequate or unavailable to pay off such debt.

We are subject to risks relating to our liquidity and capital resources, including risks relating to incurring debt under loan warehouse facilities, securities repurchase facilities, and other short- and long-term debt facilities and other risks relating to our use of derivatives. A further discussion of these risks is set forth below under the heading "*Risks Relating to Debt Incurred under Short-and Long-Term Borrowing Facilities*."

*Repurchase Authorization*

Our Board of Directors previously approved an authorization for the repurchase of up to $100 million of our common stock, and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. Under this authorization, shares or securities may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. During the three and six months ended June 30, 2022, we repurchased 3.7 million shares of our common stock. At June 30, 2022, $46 million of the authorization remained available for the repurchase of shares of our common stock and we also continued to be authorized to repurchase outstanding debt securities.

In July 2022, our Board of Directors authorized the repurchase of up to $125 million of common stock. This common stock repurchase authorization replaced the $100 million common stock repurchase authorization approved by the Board of Directors in 2018, has no time limit, may be modified, suspended or discontinued at any time, and does not obligate us to acquire any specific number of shares or securities. The Board of Directors also continued its previous authorization for the repurchase of outstanding debt securities. Like other investments we may make, any repurchases of our common stock or debt securities under this authorization would reduce our available capital and unrestricted cash described above.

***Cash Flows and Liquidity for the Six Months Ended June 30, 2022***

Cash flows from our mortgage banking activities and our investments can be volatile from quarter to quarter depending on many factors, including the profitability of mortgage banking activities, the timing and amount of securities acquisitions, sales and repayments, as well as changes in interest rates, prepayments, and credit losses. Therefore, cash flows generated in the current period are not necessarily reflective of the long-term cash flows we will receive from these investments or activities.

***Cash Flows from Operating Activities***

Cash flows from operating activities were negative $491 million during the six months ended June 30, 2022. This amount includes the net cash utilized during the period from the purchase and sale of residential mortgage loans and the origination and sale of our business purpose loans associated with our mortgage banking activities. Purchases of loans are financed to a large extent with short-term and long-term debt, for which changes in cash are included as a component of financing activities. During the first six months of 2022, excluding cash flows from the purchase, origination, sale, principal payments of loans classified as held-for-sale and the settlement of associated derivatives (which cumulatively totaled $558 million), cash flows from operating activities were positive $68 million.

***Cash Flows from Investing Activities***

During the six months ended June 30, 2022, our net cash provided by investing activities was $204 million and primarily resulted from proceeds from principal payments on loans held-for-investment. Because many of our investment securities and loans are financed through various borrowing agreements, a significant portion of the proceeds from any sales or principal payments of these assets are generally used to repay balances under these financing sources. Similarly, all or a significant portion of cash flows from principal payments of loans at consolidated securitization entities would generally be used to repay ABS issued by those entities.

Although we generally intend to hold our loans and investment securities as long-term investments, we may sell certain of these assets in order to manage our liquidity needs and interest rate risk, to meet other operating objectives, and to adapt to market conditions.

As presented in the "*Supplemental Noncash Information*" subsection of our consolidated statements of cash flows, during the six months ended June 30, 2022, we transferred loans between held-for-sale and held-for-investment classification and retained securities from securitizations we sponsored, which represent significant non-cash transactions that were not included in cash flows from investing activities.

***Cash Flows from Financing Activities***

During the six months ended June 30, 2022, our net cash provided by financing activities was $199 million. This primarily resulted from net long-term debt borrowings of $681 million, which included the issuance of $215 million of convertible debt during three months ended June 30, 2022, as well as $214 million of net borrowings under ABS issued, including from the issuance of CAFL SFR, CAFL bridge and Sequoia ABS securitizations during the six months ended June 30, 2022. These amounts were partially offset by $675 million of net paydowns on short-term borrowings, resulting primarily from a reduction in financed loan inventory at our residential mortgage banking business at June 30, 2022, as well as the payment of our two quarterly dividends totaling $57 million. Cash raised through stock issuances under our ATM program of $68 million during the first quarter of 2022 were partially offset by stock repurchases of $27 million during the second quarter of 2022.

During the six months ended June 30, 2022, we declared dividends of $0.46 per common share. On June 9, 2022, the Board of Directors declared a regular dividend of $0.23 per share for the second quarter of 2022, which was paid on June 30, 2022 to shareholders of record on June 23, 2022.

In accordance with the terms of our outstanding deferred stock units, cash-settled deferred stock units, and restricted stock units, which are generally long-term compensation awards, each time we declare and pay a dividend on our common stock, we are required to make a dividend equivalent cash payment in that same per share amount on each outstanding deferred stock unit, cash-settled deferred stock unit, and restricted stock unit.

**Material Cash Requirements**

In the normal course of business, we enter into transactions that may require future cash payments. As required by GAAP, some of these obligations are recorded on the balance sheet, while others are off-balance sheet or recorded on the balance sheet in amounts different from the full contract or notional amount of the transaction.

Our material cash requirements from known contractual and other obligations during the twelve months following June 30, 2022 include maturing short-term debt, interest payments on short-term and long-term debt, payments on operating leases, and funding commitments for bridge loans and under HEI flow purchase agreements. Our material cash requirements from known contractual and other obligations beyond the twelve months following June 30, 2022 include maturing long-term debt, interest payments on long-term debt, payments on operating leases and funding commitments for bridge loans and under HEI flow purchase agreements.

For additional information regarding our material cash requirements, see Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2021 under the caption *Contractual Obligations*. For additional information on commitments and contingencies as of June 30, 2022 that could impact our liquidity and capital resources, see *Note 16* of our *Notes to Consolidated Financial Statements* in Part I, Item 1 of this Quarterly Report on Form 10-Q, which supplements the disclosures included in*Note 16* to the Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2021.

Several of our loan warehouse facilities were established with initial one-year terms and are regularly amended on an annual basis to extend the terms for an additional year ahead of their maturity. We renewed several of these facilities in the first half of 2022 and have other such facilities with scheduled maturities during the next twelve months. While there is no assurance of our ability to renew these facilities, given current market conditions we would expect to extend these in the normal course of business.

We expect to meet our obligations coming due in less than one year fromJune 30, 2022, through a combination of cash on hand, payments of principal and interest we receive from our investment portfolio assets, proceeds from the sale of investment portfolio assets, cash generated from our operating activities, or incremental borrowings under existing, new or amended financing arrangements. As of June 30, 2022, we had approximately $500 million of pledgeable and unencumbered assets.

During the first six months of 2022, the highest balance of our short-term debt outstanding was $2.39 billion.See *Note 13* in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information on our short-term debt. See *Note 15* in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information on our long-term debt.

***Liquidity Needs for our Mortgage Banking Activities***

We generally use loan warehouse facilities to finance the residential loans we acquire and the business purpose loans we originate or acquire in our mortgage banking operations while we aggregate the loans for sale or securitization. These facilities may be designated as short-term or long-term for financial reporting purposes, depending on the remaining maturity of the facility or the amount of time individual borrowings may remain outstanding on a facility.

At June 30, 2022, we had residential warehouse facilities outstanding with seven different counterparties, with $2.75 billion of total capacity and $1.66 billion of available capacity. These included non-marginable facilities with $1.38 billion of total capacity and marginable facilities with $1.38 billion of total capacity.

At June 30, 2022, we had business purpose warehouse facilities outstanding with four different counterparties, with $2.25 billion of total capacity and $997 million of available capacity. All of these facilities are non-marginable.

Several of these facilities have variable interest rates based on LIBOR or SOFR benchmarks and recent policy statements from the Federal Reserve indicate the likelihood of further increases in the federal funds rate, which would result in higher benchmark rates and interest costs for us under certain of our debt facilities.

As discussed above, several of the facilities we use to finance our mortgage banking loan inventory are short-term in nature and will require renewals. Additionally, because several of our warehouse facilities are uncommitted, at any given time we may not be able to obtain additional financing under them when we need it, exposing us to, among other things, liquidity risks. Additional information regarding risks related to the debt we use to finance our mortgage banking operations can be found under the heading "*Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilitie*" that follows within this section.

***Liquidity Needs for our Investment Portfolio***

We use various forms of secured recourse and non-recourse debt to finance assets in our investment portfolio. We distinguish our debt between recourse and non-recourse, as our non-recourse debt is mostly comprised of ABS issued, which has unique characteristics that differentiate it in important ways from our recourse debt. When we refer to non-recourse debt, we mean debt that is payable solely from the assets pledged to secure such debt, and under which debt no creditor or lender has direct or indirect recourse to us, or any other entity or person (except for customary exceptions for fraud, acts of insolvency, or other "bad acts"), if such assets are inadequate or unavailable to pay off such debt.

ABS issued represents debt of securitization entities that we consolidate for GAAP reporting purposes. Our exposure to these entities is primarily through the financial interests we have purchased or retained from these entities (typically subordinate securities and interest only securities). Each securitization entity is independent of Redwood and of each other and the assets and liabilities are not owned by and are not legal obligations of Redwood. As the debt issued by these entities is not a direct obligation of Redwood, and since the debt generally can remain outstanding for the full term of the loans it is financing within each securitization, this debt effectively provides permanent financing for these assets. See *Notes 4* and *14,* respectively, in Part I, Item 1 of this Quarterly Report on Form 10-Q, for additional information on our principles of consolidation and our asset-backed securities issued.

Separately, we use non-recourse debt in the form of non-marginable term facilities to finance a portion of our business purpose bridge loan portfolio. While this debt is non-recourse to Redwood, it does have fixed terms with prepayment options that allows us to refinance this debt or ultimately repay it upon maturity. The remainder of the debt we use to finance our investments is recourse debt. For securities we have financed, the majority of our financing is in the form of recourse non-marginable secured term debt, with the smaller remaining amount being marginable securities repurchase debt. Additionally, a portion of our business purpose bridge loan portfolio is financed with recourse non-marginable secured term debt.

We use a balanced combination of fixed and floating rate debt to finance our fixed and floating rate investments. Recent policy statements from the Federal Reserve indicate the likelihood of further increases in the federal funds rate, which if enacted could result in lower net interest income to the extent our variable rate assets and liabilities are not aligned. Additionally, to the extent interest rates remain elevated or increase further, certain fixed-rate term borrowings that mature in the coming quarters could have to be refinanced at higher interest rates, which could cause a reduction in net interest income.

At June 30, 2022, in aggregate, we had $3.12 billion of secured recourse debt outstanding, financing our mortgage banking and investment portfolio, of which $662 million was marginable and $2.46 billion was non-marginable.

***Corporate Capital***

In addition to secured recourse and non-recourse debt we use specifically in association with our mortgage banking operations and within our investment portfolio, we also use unsecured recourse debt to finance our overall operations. This is generally in the form of convertible debt securities we issue in the public markets and also includes trust preferred securities. See *Note 15* in Part II, Item 8 of our Annual Report on Form 10-K, for additional information on our long-term debt.

**Risks Relating to Debt Incurred Under Short- and Long-Term Borrowing Facilities**

As described above under the heading "*Results of Operations*," in the ordinary course of our business, we use debt financing obtained through several different types of borrowing facilities to, among other things, finance the acquisition and/or origination of residential and business purpose mortgage loans (including those we acquire or originate in anticipation of sale or securitization), and finance investments in securities and other investments. We may also use short- and long-term borrowings to fund other aspects of our business and operations, including the repurchase of shares of our common stock. Recourse debt incurred under these facilities is generally either the direct obligation of Redwood Trust, Inc., or the direct obligation of subsidiaries of Redwood Trust, Inc. and guaranteed by Redwood Trust, Inc. Risks relating to debt incurred under these facilities are described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021, under the caption(s) "*Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities,*" and "*Our use of financial leverage exposes us to increased risks, including liquidity risks from margin calls and potential breaches of the financial covenants under our borrowing facilities, which could result in our being required to immediately repay all outstanding amounts borrowed under these facilities and these facilities being unavailable to use for future financing needs, as well as triggering cross-defaults under other debt agreements*."

Our sources of debt financing include secured borrowings under residential and business purpose mortgage loan warehouse facilities (including recourse and non-recourse warehouse facilities), short-term securities repurchase facilities, a $10 million committed line of short-term secured credit from a bank, short-term servicer advance financing, a secured, revolving debt facility collateralized by mortgage servicing rights, and subordinate securities financing facilities.

Aggregate borrowing limits are stated under certain of these facilities, and certain other facilities have no stated borrowing limit, but many of the facilities are uncommitted, which means that any request we make to borrow funds under these uncommitted facilities may be declined by the lender for any reason, even if at the time of the borrowing request we have then-outstanding borrowings that are less than the borrowing limits under these facilities. In general, financing under these facilities is obtained by transferring or pledging mortgage loans or securities to the counterparty in exchange for cash proceeds (in an amount less than 100% of the principal amount of the transferred or pledged assets).

Under many of our mortgage loan warehouse facilities and our short-term securities repurchase facilities, while transferred or pledged assets are financed under the facility, to the extent the value of the assets, or the collateral underlying those assets, declines, we are generally required to either immediately reacquire the assets or meet a margin requirement to transfer or pledge additional assets or cash in an amount at least equal to the decline in value. We refer to borrowing facilities with margin call provisions based solely on the lender's determination, in its discretion, of changes in the market value of transferred or pledged assets, as marginable debt. Borrowing facilities that we refer to as non-marginable debt may be subject to a margin call due to delinquency or another credit event related to the mortgage or security being financed, a decline in the value of the underlying asset securing the collateral, or a change in the interest rate of a specified reference security relative to a base interest rate amount. For example, we could be subject to a margin call on non-marginable debt if an appraisal or broker price opinion indicates a decline in the estimated value of the property securing the mortgage loan that is financed by us under a loan warehouse facility, or based on the occurrence of a triggering credit event impacting the financed collateral which is followed by a decline in the market value of the financed collateral (as determined by the lender), in which case the creditor may demand that we transfer additional collateral to the creditor (in the form of cash, U.S. Treasury obligations (in certain cases), or additional mortgage loans) with a value equal to the amount of the decline. Of our active financing arrangements with outstanding balances at June 30, 2022, only our short-term securities repurchase facilities (with $95 million of borrowings outstanding at June 30, 2022), and four of our residential mortgage loan warehouse facilities (with $567 million of borrowings outstanding at June 30, 2022) retain market-value based margin call provisions based solely on the lender's determination of market value and, as such, are considered marginable.

Margin call provisions under these facilities are further described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021 under the caption "*Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities - Margin Call Provisions Associated with Short-Term Debt and Other Debt Financing*." Financial covenants included in these facilities are further described Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021 under the caption "*Risks Relating to Debt Incurred under Short- and Long-Term Borrowing Facilities - Financial Covenants Associated with Short-Term Debt and Other Debt Financing*."

Because many of these borrowing facilities are uncommitted, at any given time we may not be able to obtain additional financing under them when we need it, exposing us to, among other things, liquidity risks of the types described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021 under the heading "*Risk Factors*," and in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2021 under the heading "*Market Risks*." In addition, with respect to mortgage loans that at any given time are already being financed through these warehouse facilities, we are exposed to market, credit, liquidity, and other risks of the types described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021 under the heading "*Risk Factors*," and in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2021 under the heading "*Market Risks*," if and when those loans or securities become ineligible to be financed, decline in value, or have been financed for the maximum term permitted under the applicable facility.

At June 30, 2022, and through the date of this Quarterly Report on Form 10-Q, we were in compliance with the financial covenants associated with our short-term debt and other debt financing facilities. In particular, with respect to: (i) financial covenants that require us to maintain a minimum dollar amount of stockholders' equity or tangible net worth at Redwood, at June 30, 2022 our level of stockholders' equity and tangible net worth resulted in our being in compliance with these covenants by more than $200 million; and (ii) financial covenants that require us to maintain recourse indebtedness below a specified ratio at Redwood, at June 30, 2022 our level of recourse indebtedness resulted in our being in compliance with these covenants at a level such that we could incur at least $600 million in additional recourse indebtedness.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates. A discussion of critical accounting policies and the possible effects of changes in estimates on our consolidated financial statements is included in Note 2 — Basis of Presentation and Note 3 — Summary of Significant Accounting Policies included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

We have elected the fair value option of accounting for a significant portion of the assets and some of the liabilities on our balance sheet, and the majority of these assets and liabilities utilize Level 3 valuation inputs, which require a significant level of estimation uncertainty. See Note 5 in Part I, Item 1 of this Quarterly Report on Form 10-Q, for additional information on our assets and liabilities accounted for at fair value at June 30, 2022, including the significant inputs used to estimate their fair values and the impact the changes in their fair values had to our financial condition and results of operations. See Note 5 in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2021, incorporated herein by reference, for the same information on these assets and liabilities as of December 31, 2021. Periodic fluctuations in the values of these assets and liabilities are inherently volatile and thus can lead to significant period-to-period GAAP earnings volatility.

Additional detail on our critical accounting estimates is included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2021, under the heading "*Critical Accounting Estimates."*

## MARKET AND OTHER RISKS

We seek to manage risks inherent in our business — including but not limited to credit risk, interest rate risk, prepayment risk, liquidity risk, and fair value risk — in a prudent manner designed to enhance our earnings and dividends and preserve our capital. In general, we seek to assume risks that can be quantified from historical experience, to actively manage such risks, and to maintain capital levels consistent with these risks. Information concerning the risks we are managing, how these risks are changing over time, and potential GAAP earnings and taxable income volatility we may experience as a result of these risks is discussed in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

In addition to the market risks described above, our business and results of operations are subject to a variety of types of risks and uncertainties, including, among other things, those described under the caption "*Risk Factors*" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Information concerning market risk is incorporated herein by reference to Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, as supplemented by the information under "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Market Risks*" within Item 2 above. Other than the developments described thereunder, including changes in the fair values of our assets, there have been no other material changes in our quantitative or qualitative exposure to market risk since December 31, 2021.

**Item 4. Controls and Procedures**

We have adopted and maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed on our reports under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms and that the information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) of the Exchange Act, we have carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

There have been no changes in our internal control over financial reporting during the second quarter of 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

For information on our legal proceedings, see *Note 16* to the Financial Statements within this Quarterly Report on Form 10-Q under the heading "Loss Contingencies - Litigation, Claims and Demands," which supplements the disclosures included in *Note 16* to the Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2021 under the heading "Loss Contingencies - Litigation, Claims and Demands."

### Item 1A. Risk Factors

Our risk factors are discussed under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended June 30, 2022, we did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

In February 2018, our Board of Directors approved an authorization for the repurchase of our common stock, increasing the total amount authorized for repurchases of common stock to $100 million, and also authorized the repurchase of outstanding debt securities, including convertible and exchangeable debt. This authorization increased the previous share repurchase authorization approved in February 2016 and has no expiration date. This repurchase authorization does not obligate us to acquire any specific number of shares or securities. Under this authorization, shares or securities may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended. During the three months ended June 30, 2022, we repurchased 3,680,795 shares of our common stock. At June 30, 2022, $46 million of this current authorization remained available for the repurchase of shares of our common stock and we also continued to be authorized to repurchase outstanding debt securities.

In July 2022, our Board of Directors authorized the repurchase of up to $125 million of common stock. This common stock repurchase authorization replaces the $100 million common stock repurchase authorization approved by the Board of Directors in 2018, has no time limit and may be modified, suspended or discontinued at any time. The Board of Directors also continued its previous authorization for the repurchase of outstanding debt securities.

The following table contains information on the shares of our common stock that we purchased or otherwise acquired during the three months ended June 30, 2022.

| (In Thousands, except per Share Data) | Total Number of Shares Purchased or Acquired | Average Price per Share Paid | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or approximate dollar value) of Shares that May Yet be Purchased under the Plans or Programs |
|---|---|---|---|---|
| April 1, 2022 - April 30, 2022 | — | $ — | — | $ — |
| May 1, 2022 - May 31, 2022 | — | $ — | — | $ — |
| June 1, 2022 - June 30, 2022 | 3,681 | $ 8.87 | — | $ 45,727 |
| Total | 3,681 | $ 8.87 | — | $ 45,727 |

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Not Applicable

### Item 5. Other Information

None.

**Item 6. Exhibits**

| Exhibit Number | Exhibit |
|---|---|
| 3.1 | Articles of Amendment and Restatement of the Registrant, effective July 6, 1994 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1, filed on August 6, 2008) |
| 3.1.1 | Articles Supplementary of the Registrant, effective August 10, 1994 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.1, filed on August 6, 2008) |
| 3.1.2 | Articles Supplementary of the Registrant, effective August 11, 1995 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.2, filed on August 6, 2008) |
| 3.1.3 | Articles Supplementary of the Registrant, effective August 9, 1996 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.3, filed on August 6, 2008) |
| 3.1.4 | Certificate of Amendment of the Registrant, effective June 30, 1998 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.4, filed on August 6, 2008) |
| 3.1.5 | Articles Supplementary of the Registrant, effective April 7, 2003 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.5, filed on August 6, 2008) |
| 3.1.6 | Articles of Amendment of the Registrant, effective June 12, 2008 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.1.6, filed on August 6, 2008) |
| 3.1.7 | Articles of Amendment of the Registrant, effective May 19, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2009) |
| 3.1.8 | Articles of Amendment of the Registrant, effective May 24, 2011 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 20, 2011) |
| 3.1.9 | Articles of Amendment of the Registrant, effective May 18, 2012 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2012) |
| 3.1.10 | Articles of Amendment of the Registrant, effective May 16, 2013 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 21, 2013) |
| 3.1.11 | Articles of Amendment of the Registrant, effective May 16, 2019 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on May 17, 2019) |
| 3.1.12 | Articles of Amendment of the Registrant, effective June 15, 2020 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.1, filed on June 15, 2020) |
| 3.2.1 | Amended and Restated Bylaws of the Registrant, as adopted on November 3, 2021 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.2.1, filed on November 4, 2021) |
| 4.1 | Indenture, by and among Redwood Trust, Inc. and Wilmington Trust, National Association, as Trustee, dated as of June 9, 2022 (including the form of 7.75% Convertible Senior Note due 2027) (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 4.1, filed June 9, 2022) |
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2022, is filed in inline XBRL-formatted interactive data files:<br><br>(i) Consolidated Balance Sheets at June 30, 2022 and December 31, 2021;<br>(ii) Consolidated Statements of Income (Loss) for the three and six months ended June 30, 2022 and 2021;<br>(iii) Statements of Consolidated Comprehensive Income (Loss) for the three and six months ended June 30, 2022 and 2021;<br>(iv) Consolidated Statements of Changes in Stockholders' Equity for the three and six months ended June 30, 2022 and 2021;<br>(v) Consolidated Statements of Cash Flows for the six months ended June 30, 2022 and 2021; and<br>(vi) Notes to Consolidated Financial Statements. |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101) |

* Indicates exhibits that include management contracts or compensatory plan arrangements.

## 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.**

| | | | |
|---|---|---|---|
| Date: | August 5, 2022 | By: | /s/ Christopher J. Abate |
| | | | Christopher J. Abate<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Date: | August 5, 2022 | By: | /s/ Brooke E. Carillo |
| | | | Brooke E. Carillo<br>Chief Financial Officer<br>(Principal Financial Officer) |
| Date: | August 5, 2022 | By: | /s/ Collin L. Cochrane |
| | | | Collin L. Cochrane<br>Chief Accounting Officer<br>(Principal Accounting Officer) |

**EXHIBIT 31.1**

**CHIEF EXECUTIVE OFFICER CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher J. Abate, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Redwood Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over the financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2022

/s/ Christopher J. Abate
Christopher J. Abate
Chief Executive Officer

**EXHIBIT 31.2**

**CHIEF FINANCIAL OFFICER CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Brooke E. Carillo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Redwood Trust, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over the financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2022

/s/ Brooke E. Carillo

Brooke E. Carillo
Chief Financial Officer

EXHIBIT 32.1

## CERTIFICATION

Pursuant to 18 U.S.C. §1350, the undersigned officer of Redwood Trust, Inc. (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the three months ended June 30, 2022 (the “Quarterly Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

| | |
|---|---|
| Date: August 5, 2022 | /s/ Christopher J. Abate |
| | Christopher J. Abate |
| | Chief Executive Officer |

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of the Quarterly Report or as a separate disclosure document.

**EXHIBIT 32.2**

**CERTIFICATION**

Pursuant to 18 U.S.C. §1350, the undersigned officer of Redwood Trust, Inc. (the “Registrant”) hereby certifies that the Registrant’s Quarterly Report on Form 10-Q for the three months ended June 30, 2022 (the “Quarterly Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

| | |
|---|---|
| Date: August 5, 2022 | /s/ Brooke E. Carillo |
| | Brooke E. Carillo |
| | Chief Financial Officer |

The foregoing certification is being furnished solely pursuant to 18 U.S.C. §1350 and is not being filed as part of the Quarterly Report or as a separate disclosure document.