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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED: DECEMBER 31, 2000

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.)

591 REDWOOD HIGHWAY, SUITE 3100 MILL VALLEY, CALIFORNIA	94941
(Address of principal executive offices)	(Zip Code)

(415) 389-7373
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:	Name of Exchange on Which Registered:
CLASS B 9.74 % CUMULATIVE CONVERTIBLE PREFERRED STOCK, PAR VALUE $0.01 PER SHARE (Title of Class)	NEW YORK STOCK EXCHANGE
COMMON STOCK, PAR VALUE $0.01 PER SHARE (Title of Class)	NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act:
NONE

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

At March 27, 2001 the aggregate market value of the voting stock held by non-affiliates of the Registrant was $180,480,853.

The number of shares of the Registrant's Common Stock outstanding on March 27, 2001 was 8,868,838.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement issued in connection with the 2001 Annual Meeting of Stockholders are incorporated by reference into Part III.

REDWOOD TRUST, INC.
2000 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

<TABLE>
<CAPTION>

<S>	<C>	Page <C>
	PART I	
Item 1.	BUSINESS	3
Item 2.	PROPERTIES	25
Item 3.	LEGAL PROCEEDINGS	25
Item 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	25
	PART II	
Item 5.	MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS	26
Item 6.	SELECTED FINANCIAL DATA	27
Item 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	28
Item 8.	CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	55
Item 9.	CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	55
	PART III	
Item 10.	DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT	55
Item 11.	EXECUTIVE COMPENSATION	55
Item 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	55
Item 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	55
	PART IV	
Item 14.	EXHIBITS, CONSOLIDATED FINANCIAL STATEMENTS SCHEDULES AND REPORTS ON FORM 8-K	55
CONSOLIDATED FINANCIAL STATEMENTS		F-1

</TABLE>

PART I

ITEM 1. BUSINESS

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Certain matters discussed in this 2000 annual report on Form 10-K may constitute forward-looking statements within the meaning of the federal securities laws that inherently include certain risks and uncertainties. Actual results and the timing of certain events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including, among other things, credit results for our mortgage assets, our cash flows and liquidity, changes in interest rates and market values on our mortgage assets and borrowings, changes in prepayment rates on our mortgage assets, general economic conditions, particularly as they affect the price of mortgage assets and the credit status of borrowers, and the level of liquidity in the capital markets, as it affects our ability to finance our mortgage asset portfolio, and other risk factors outlined in this Form 10-K (see Risk Factors below). Other factors not presently identified may also cause actual results to differ. We continuously update and revise our estimates based on actual conditions experienced. It is not practicable to publish all such revisions and, as a result, no one should assume that results projected in or contemplated by the forward-looking statements included herein will continue to be accurate in the future.

Throughout this Form 10-K and other company documents, the words

"believe", "expect", "anticipate", "intend", "aim", "will", and similar words identify "forward-looking" statements.

REDWOOD TRUST

Redwood Trust, Inc. is a real estate finance company specializing in owning, financing, and credit-enhancing high-quality jumbo residential mortgage loans nationwide.

High-quality jumbo residential mortgage loans of the type that we own and credit-enhance have a long and stable history of strong credit results relative to other types of consumer and commercial lending.

Jumbo residential loans have loan balances that exceed the financing limit imposed on Fannie Mae and Freddie Mac--the government-sponsored real estate finance companies. Most of the loans that we finance have loan balances between $275,000 and $1 million.

There are approximately $800 billion of high-quality jumbo loans in America. At December 31, 2000, we assisted in the financing of over $24 billion of these. We are involved in the financing of one out of every 32 of the more valuable houses in the country that have a jumbo-sized mortgage loan.

We finance high-quality jumbo residential loans in two ways.

In our residential credit-enhancement portfolio, we enable the securitization and funding of loans in the capital markets by committing our capital to partially credit-enhance the loans. We do this by structuring and acquiring subordinated credit-enhancement interests that are created at the time the loans are securitized. After we have credit-enhanced these loans, AAA rated mortgage backed securities can be created and sold into global capital markets to fund the mortgages. In essence, we perform a type of guarantee or insurance function with respect to these loans.

In our residential retained loan portfolio, we acquire loans and hold them on our balance sheet to earn interest income. We typically fund the purchase of these loans through the issuance of long-term amortizing debt.

To create jumbo loan financing opportunities for our credit-enhancement portfolio and our residential retained loan portfolio, we work actively with mortgage origination companies that are selling newly originated loans and with banks that are selling seasoned loan portfolios.

We also finance U.S. real estate in a number of other ways, including through our investment portfolio (mortgage-backed securities) and our commercial loan portfolio.

In 2000, pricing levels were attractive in the jumbo loan market. We currently expect attractive pricing to continue into 2001, as the supply of loans and credit-enhancement opportunities is expected to increase (as new mortgage origination increases and banks increasingly seek to sell seasoned loan portfolios). In addition, we believe that competition to acquire or credit-enhance these loans will remain subdued.

Our credit results have been excellent. We believe that our mortgage delinquency rates and mortgage credit losses are lower than those of the residential mortgage portfolios of Fannie Mae and Freddie Mac and of the large jumbo residential finance companies such as Bank of America and Washington Mutual.

We have elected, and intend to continue to elect, to be taxed as a REIT. As a REIT, we distribute the bulk of our net earnings to stockholders as dividends. Assuming that we retain REIT status, we will not pay most types of corporate income taxes.

Redwood Trust, Inc. was incorporated in the State of Maryland on April 11, 1994 and commenced operations on August 19, 1994. Our principal executive offices are located at 591 Redwood Highway, Suite 3100, Mill Valley, CA 94941, telephone 415-389-7373.

At March 30, 2001, Redwood had outstanding 8,868,838 shares of common stock (New York Stock Exchange, Symbol "RWT") and 902,068 shares of Class B Cumulative Convertible Preferred Stock (New York Stock Exchange, Symbol "RWT-PB").

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

For a description of important risk factors, among others, that could affect our actual results and could cause our actual consolidated results to differ materially from those expressed in any forward-looking statements made by us, see "Risk Factors" commencing on Page 11 of this Form 10-K.

COMPANY BUSINESS AND STRATEGY

Redwood's objective is to produce attractive growth in earnings per share and dividends per share for stockholders through the efficient financing and management of high-quality jumbo residential loans.

An increasing proportion of the high-quality jumbo residential loan market is financed through securitization in the capital markets rather than by the deposit bases maintained by banks and thrifts. As a non-depository finance company funded in the capital markets, Redwood is positioned to benefit from and to promote this trend. We have been gaining market share in this segment of the finance business at the expense of banks and thrifts, and we expect to continue to do so.

While banks and thrifts are our competitors in one sense, for the most part they are our customers and partners. Most banks are interested in earning fees from mortgage origination, and also are interested in maintaining relationships with households so that they can cross-sell multiple financial products. As a pure mortgage finance company, we compliment their efforts. We buy residential mortgage loans from them, thus helping them to divest of assets that they find unattractive to hold on their balance sheet. When they sell us loans, they continue to originate new loans (and keep the fees) and continue to service the loans that they have sold to us (and thus keep the household relationships). By working together in this fashion, both Redwood and our bank and thrift partners meet their goals.

An integral part of our objective is growth. We believe that our earnings per share and dividends per share are likely to benefit from growth in our equity capital base and in the amount of jumbo loans that we finance. As we become a larger company, we believe we will benefit from operating expense leverage (revenues will grow more quickly than operating expenses). We also believe we will benefit from a lower effective cost of borrowed funds, and from an improved ability to make commitments to and form deeper relationships with mortgage originators

and bank portfolio sellers. In addition, earnings and dividends per share will likely benefit to the extent that equity offerings at prices in excess of book value increase average book value per share.

We can grow through internal cash generation and asset appreciation. Typically our cash flows exceed our dividend, working capital, and capital expenditure requirements; by retaining this free cash flow, we can grow. Additionally, absent a poor credit cycle, the market value of our credit-sensitive assets may increase over time as our loans season and our risks are reduced. Increased market values for these assets add to our equity base and allow us to increase our jumbo loan asset commitments.

We will also seek to increase the size of our capital base through issuing new equity securities. We will do so when we believe we have attractive business opportunities and when we believe such issuance is likely to benefit our per share earnings, dividends, and stock price. Since we currently assist in the financing of approximately 3% of the high-quality jumbo residential loans in the U.S., we have the potential ability to grow for many years by increasing our market share. In addition, the dollar amount of jumbo loans outstanding in America typically grows at 6% to 10% per year.

From the founding of Redwood in 1994 through December 31, 2000, stockholder wealth (consisting of book value per share, dividends received, and reinvestment of dividends) has increased at a compound annual rate of 18%. Much of this increase in stockholder wealth was achieved through the beneficial effects of growth, both internally-funded growth and externally-funded growth.

PRODUCT LINES

At December 31, 2000, Redwood had four mortgage portfolios representing its four product lines. Our current intention is to focus on the management and growth of these four existing product lines.

We operate our four product lines as a single business segment of real estate finance, with common staff and management, commingled financing arrangements, and flexible capital commitments.

RESIDENTIAL CREDIT-ENHANCEMENT PORTFOLIO

In a manner analogous to the guarantee programs of Fannie Mae and Freddie Mac, Redwood credit enhances pools of mortgage loans to enable their securitization.

By assuming some of the risk of credit loss of these loans, we enable these loans to be funded in the capital markets. Sellers of mortgage loans, by taking advantage of our credit-enhancement services, can fund their originations by creating and selling mortgage-backed securities with a credit rating of AAA. These AAA securities are sold to a wide variety of buyers that are willing to fund mortgage assets, but are not willing to build the operations necessary to manage mortgage credit risk.

We credit enhance high-quality jumbo residential loans through structuring and acquiring subordinated credit-enhancement interests that are created at the time the loans are securitized. Sometimes we buy these credit-enhancement interests in the secondary market for mortgage assets; sometimes we work with seller/securitizers directly to choose loans that will be included in a pool and to structure the terms of the credit-enhancement interest for that pool.

Generally, we credit-enhance loans from the top 15 high-quality national mortgage origination firms plus a few other smaller firms that specialize in very high-quality jumbo residential loan originations. We also work with large banks that are sellers of seasoned portfolios of high-quality jumbo loans. We either work directly with these customers, or we work in conjunction with an investment bank on these transactions.

The pricing that we receive for providing credit-enhancement is a function of supply and demand (as well as perception of risk). Supply is largely a function of the number of jumbo mortgage loans originated, the number of seasoned bank portfolios for sale, and the percentage of such loans that are securitized. Generally, supply is

increasing over time as the outstanding balance of jumbo mortgages grows and as the share of jumbo mortgages that are securitized increases.

Demand also affects the attractiveness of pricing in our market. Demand is a function of competition. In the two periods in which we increased our credit-enhancement business at a rapid pace (1994 to 1996 and 1999 to 2000), competition was subdued. Because of the relative lack of demand, pricing was attractive.

In 1997 and 1998, many financial institutions (including banks, thrifts, insurance companies, Wall Street firms, and hedge funds) entered this business. Many of these new entrants had relatively inefficient balance sheets for this particular business, lacked mortgage credit management infrastructure, lacked prudence in their asset/liability management practices, or lacked focus. Most have now exited this business, improving pricing for specialist firms such as ourselves.

During the 1997 to 1998 period, the entrance of many new firms into our business increased demand and generally made pricing unattractive. Our response was to halt growth of our credit-enhancement portfolio and sell a portion of our credit-enhancement interests. Because of aggressive pricing in mortgage credit-enhancement, our new asset commitments during this period were generally in our investment portfolio.

When pricing improved in 1999, we resumed growth in the jumbo market, although our largest capital commitment during that year was to our common stock repurchase program. During 2000, we increased the size of our credit-enhancement portfolio and commitments from $8 billion to $25 billion.

We credit-enhance fixed rate, adjustable rate, and hybrid mortgage loans. For our credit-enhancement portfolio, a "fixed rate" market (where the percentage of newly originated mortgages that are fixed rate is relatively high) is generally favorable. Since most fixed rate loans are securitized, we are likely to have an increased supply of credit-enhancement opportunities in a fixed rate market.

Substantially all of the $23 billion of loans that we added to our credit-enhancement portfolio in 1999 and 2000 were "A" or "prime" quality loans. We do not seek to credit-enhance "B", "C", or "D" quality loans (sub-prime loans).

Our goal is to post credit results for our mortgage portfolio that equal or exceed the credit results of Fannie Mae, Freddie Mac, and the large "A" quality jumbo portfolio lenders such as Bank of America and

Washington Mutual.

The amount of capital that we hold to credit enhance our credit enhancement portfolio loans (the principal value of the credit-enhancement interests that we acquire) is determined by the credit rating agencies (Moody's Investors Service, Standard & Poor's Ratings Services, and Fitch IBCA). These credit agencies examine each pool of mortgage loans in detail. Based on their review of individual loan characteristics, they determine the credit-enhancement capital levels necessary to award AAA ratings to the bulk of the securities formed from these mortgages. Once we provide this credit-enhancement capital, the credit-enhanced AAA securities can be sold to a wide variety of capital market participants.

Typically the principal value of the credit-enhancement interests that we acquire is equal to 0.5% to 2.0% of the initial principal value of the mortgages. Our capital requirements are greater than the 0.45% of loans that Fannie Mae and Freddie Mac are required by regulation to hold as capital for similar quality smaller-than-jumbo mortgages. However, our capital requirements are less than the 4.0% of loan balances that banks and thrifts are required by their regulators to hold as capital for high-quality residential loans (of any size) if held unsecuritized on their balance sheets. Thus, by financing in the capital markets, our capital structure can be more capital efficient than that of the banks and thrifts that are our competitors in the jumbo market.

Although the principal value of our credit-enhancement interests is equal to 0.5% to 2.0% of the loans that we credit enhance, our actual investment (and our risk) is less than this amount since we acquire these interests at a price which is at a discount to principal value. A portion of this discount we designate as our credit reserve for future losses; the remainder we amortize into income over time.

The loans that we credit-enhance in this portfolio do not appear as assets on our balance sheet. Rather, our net basis in credit-enhancement interests is shown as a balance sheet asset. At December 31, 2000, the principal value of our credit-enhancement interests was $125 million and our basis in these assets was $81 million.

Our first defense against credit loss is the quality of our loans. Compared to most corporate and consumer loans, the mortgage loans that we credit-enhance have a much lower loss frequency (they tend not to default) and a much lower loss severity (the amount of the loan that we lose when they do default is low).

Our borrowers typically have stable sources of income. Debt service payments of all types usually consume less than one-third of their income (or else there are other favorable underwriting characteristics in the loan that serve as compensating factors to higher debt ratios). Our borrowers generally have liquid assets. They have proven their credit-worthiness in a number of ways, including generally having an unblemished credit record and a credit (FICO) score at origination of greater than 680.

Our loans are secured by the borrowers' homes. On average, we estimate that our loan balances are less than 63% of the current market value of the homes (and other collateral and credit-enhancements) securing these loans. In the rare instances when a homeowner defaults, we work with our mortgage servicing partners to mitigate losses, which may include foreclosing on and selling the house. While we cannot always avoid a credit loss through our loss mitigation efforts, when we do incur a loss it is usually a small one relative to our loan balance.

Our exposure to the credit risks of the mortgages that we credit-enhance is further limited in a number of respects:

(1) Representations and warranties: As the credit-enhancer of a mortgage securitization, we benefit from representations and warranties received from the sellers of the loans. In limited circumstances, the sellers are obligated to re-purchase delinquent loans from our credit-enhanced pools, thus reducing our potential exposure.

(2) Mortgage insurance: A portion of our credit-enhanced portfolio consists of loans with initial loan-to-value (LTV) ratios in excess of 80%. For the vast majority of these higher LTV loans, we benefit from primary mortgage insurance provided on our behalf by the mortgage insurance companies or from pledged asset accounts. Thus, for what would otherwise be our most risky loans, we have passed much of the risk on to third parties and

our effective loan-to-value ratios are much lower than 80%.

(3) Risk tranching: A typical mortgage securitization has three credit-enhancement interests -- a "first loss" security and securities that are second and third in line to absorb credit losses. Of Redwood's net investment in credit-enhancement assets, $12 million, or 15%, was directly exposed to the risk of mortgage default at December 31, 2000. The remainder of our net investment, $69 million, was in the second or third loss position and benefited from credit-enhancements provided by others (through ownership of credit-enhancement interests junior to our positions) totaling $87 million. Credit enhancement varies by specific asset.

(4) Limited maximum loss: Our potential credit exposure to the mortgages that we credit-enhance is limited to our investment in the credit-enhancement securities that we acquire.

(5) Credit reserve established at acquisition: We acquire credit-enhancement interests at a discount to their principal value. We set aside some of this discount as a credit reserve to provide for future credit losses. In most economic environments, we believe that this reserve should be large enough to absorb future losses. Thus, typically, most of our credit reserves are established at acquisition and are, in effect, paid for by the seller of the credit-enhancement interest.

(6) Acquisition discount: For many of our credit-enhancement interests, the discount that we receive at purchase exceeds anticipated future losses and thus exceeds our designated credit reserve. Since we own these assets at a discount to our credit reserve adjusted value, the income statement effect of any credit losses in excess of our reserve would be mitigated.

We believe that the outlook for our jumbo mortgage credit enhancement portfolio line in 2001 is excellent, as the supply of credit-enhancement opportunities is expected to increase as mortgage originations and mortgage securitizations increase. We expect pricing to remain favorable, as we expect demand from competitors will remain subdued. We expect to achieve continued growth with attractive pricing in this product line.

RESIDENTIAL RETAINED PORTFOLIO

We anticipate that the bulk of our growth, in terms of loans financed in the jumbo residential loan market, is most likely to be in our credit-enhancement portfolio. Nevertheless, we continuously seek to create the more specialized situations that allow us to add value by undertaking securitizations on our balance sheet and thus add to our residential retained loan portfolio.

Our net retained interests from our securitizations are the assets of our residential retained portfolio less the long-term debt that we issue. These retained interests that we create are functionally and structurally similar to the credit-enhancement interests that we acquire. In each case, we are using our capital to credit-enhance high-quality jumbo residential loans so that AAA securities backed by these loans can be created and sold in the capital markets. For our retained portfolio, we acquire whole loans and undertake the securitization of the loans ourselves (structured as an issuance of long term debt). For our credit-enhancement portfolio, the seller of the mortgages undertakes the securitization of the loans and we acquire the credit-enhancement interest from them. Although we have greater control over mortgage underwriting and servicing in our retained portfolio than we do sometimes with our acquisitions of credit enhancement interests, creating retained loan portfolio interests entails certain risks. We undertake securitizations ourselves only when we believe that we have a distinct advantage in doing so relative to the alternative of allowing the seller to undertake the securitization.

At December 31, 2000, our basis in our net retained interests from our securitizations totaled $37 million and our basis in our portfolio of acquired credit-enhancement interests totaled $81 million. These assets are shown in a different manner on our balance sheet. For our residential retained portfolio securitizations, we show both the underlying residential whole loans (residential whole loans of $1.13 billion at December 31, 2000) and the securities that we issue (long

term debt of $1.09 billion) on our balance sheet. For acquired credit-enhancement interests, we show only the net amount ($81 million) as an asset.

The process of adding to our retained loan portfolio commences when we underwrite and acquire mortgage loans from sellers. For our retained portfolio, we generally acquire loans in bulk purchases so that we can quickly build a portfolio large enough (usually $200 million or more) to support an efficient issuance of long-term debt. Although there is a limited supply of large portfolios for sale, competition to acquire portfolios of this size is also limited. We source our portfolio acquisitions primarily from large, well-established mortgage originators and the larger banks and thrifts.

We believe that competition in the jumbo whole loan market is substantially reduced from its peak in 1997 to 1998. There were several thrifts and banks that were active buyers of high-quality jumbo residential loan portfolios. Most of these thrifts and banks are now out of the market, as they have been acquired by other depository institutions with different asset gathering strategies or they have changed strategies to focus on building portfolios of other asset types. Several other mortgage REITs were also active buyers of large portfolios, but appear to be less interested now due to severe financial difficulties, a change in strategy, or a change in ownership.

We generally seek to acquire "A" quality adjustable-rate and hybrid loans for our retained loan portfolio. The securitization process for fixed-rate loans is highly efficient; we usually believe that there is little that we can add by securitizing these loans ourselves. Securitization of adjustable-rate and hybrid loans is less common, and is less well understood by many market participants. As the ultimate buyer of the credit-enhancement interests, and one of the leaders in developing the technology of securitizing adjustable rate and hybrid loans, we can sometimes add value by acquiring and securitizing these loans ourselves.

Bulk sales of residential whole loan portfolios that meet our acquisition criteria and that are priced attractively relative to our long-term debt issuance levels have been rare in recent years. Many banks have portfolios of adjustable-rate and hybrid loans that they intend to sell. If interest rates drop, a greater supply of such portfolios may become available. When banks and mortgage originators are ready to sell, they may sell their portfolios as whole loans, in which case we would likely have the opportunity to acquire loans for our retained portfolio. Alternatively, they may hire a Wall Street firm to assist them with a securitization, in which case we would likely have the opportunity to acquire credit-enhancement interests for our credit-enhancement portfolio.

We fund our loan acquisitions initially with short-term debt. When we are ready to issue long-term debt, we contribute these loans to our 100%-owned, special purpose-financing subsidiary ("Sequoia"). Sequoia, through a trust, then issues mostly AAA rated long term debt that generally matches the interest rate and prepayment characteristics of the loans and remits the proceeds of this offering back to us. Our net investment equals our basis in the loans less the proceeds that we received from the sale of long-term debt. The amount of equity that we invest in these trusts to support our long-term debt issuance is determined by the credit rating agencies, based on their review of the loans and the structure of the transaction.

The net interest income that we generate per dollar of loan financed in our retained portfolio is higher than it is for our credit-enhancement portfolio. In our retained portfolio, we are generally both credit-enhancing the loans and earning the spread between the yield on the mortgages and the cost of funds of our long-term debt. The amount of capital that we employ as a percentage of the underlying loans in our retained portfolio is also generally higher than in our credit-enhancement portfolio. The returns on equity that we generate from our retained portfolio can be higher than we earn from our credit-enhancement portfolio, but also can be more variable with respect to market factors such as changes in interest rates and mortgage prepayment rates.

We plan to accumulate more high-quality jumbo residential loans when loans are available on attractive terms relative to our anticipated costs of issuing long-term debt.

INVESTMENT PORTFOLIO

In our investment portfolio, we finance real estate through acquiring and funding mortgage securities. Generally these securities have high

credit ratings. The substantial majority of this portfolio is rated AAA or AA, or effectively has a AAA rating through a corporate guarantee from Fannie Mae or Freddie Mac.

Since we can fund these securities with a low cost of funds in the collateralized short-term debt (repo) markets, and since we have an efficient tax-advantaged corporate structure, we believe that we have some advantages in the mortgage-backed securities market relative to many other capital market investors.

The maintenance of an investment portfolio serves several functions for us:

(1) Given our balance sheet characteristics, tax status, and the capabilities of our staff, mortgage securities investments can earn an attractive return on equity,

(2) Using a portion of our capital to fund mortgage assets with low levels of credit risk acts as a diversification for our balance sheet,

(3) The high level of current cash flow from these securities (including principal receipts from mortgage prepayments) and the general ability to sell these assets into active trading markets has attractive liquidity characteristics for asset/liability management purposes, and

(4) Our investment portfolio can be an attractive place to employ capital (and earn rates of return that are higher than cash) when our capital is not immediately needed to support our credit-related product lines or when we need flexibility to adjust our capital allocations.

The bulk of our investment portfolio consists of adjustable-rate and floating rate mortgage securities funded with floating rate short-term debt. We do own some fixed rate assets in this portfolio that are either hedged or that we hold unhedged to counter-balance certain other characteristics of our balance sheet.

The substantial majority of our investment portfolio securities are backed by high-quality residential mortgage loans. We do have smaller positions in residential securities backed by less than high-quality loans (when the securities are substantially credit-enhanced relative to the risks of the loans and thus qualify for investment grade debt ratings), in commercial mortgage securities, and in non-real estate related securities (such as U.S. Treasuries and non-real estate asset-backed securities).

Although we have the ability to hold these securities to maturity, and our average holding period is quite long, we do sell securities from time to time. We do this either as part of our management of this portfolio or in order to

free capital for other uses. Because of this flexible approach, we manage this portfolio on a total-rate-of-return basis, taking into account both prospective income and prospective market value trends in our investment analysis. To preserve management flexibility, we generally use mark-to-market accounting for this portfolio. As a result of market value fluctuations, quarterly reported earnings from our investment portfolio can be variable.

We compete in the high-grade mortgage securities market with a great number of capital markets participants. In 1997 and 1998, competition increased significantly and asset prices rose. We responded by halting the growth of this portfolio and selling certain assets. Pricing in this market again became attractive in late 1998 as a result of capital market turmoil. Pricing has generally remained attractive through the end of 2000. In 1999 and 2000, our investment portfolio has ranged in size from $0.8 billion to $1.3 billion, depending on the capital needs of the rest of our balance sheet.

Our current plan is to reduce the relative importance of our investment portfolio in our asset mix over time as we acquire residential credit assets. We currently plan to add to this portfolio when prospective returns are attractive relative to our other opportunities and, on a temporary basis, when we raise new equity capital.

COMMERCIAL RETAINED PORTFOLIO

Redwood's primary business focus is on residential real estate finance. On a limited basis, we also pursue opportunities in the commercial real

estate loan market. For several years, we have been originating commercial real estate loans. Currently, our goal is to originate loans for portfolio, although we also seek to sell our commercial loans from time to time. We finance our commercial portfolio with committed bank lines, and we are seeking to diversify our funding sources through selling senior participations in our loans. We may acquire other types of commercial mortgage assets in the future. Total commercial loans, including those owned by our affiliate, RWT Holdings, Inc. ("Holdings"), were $76 million at December 31, 2000.

OPERATIONS

Our portfolio management staff forms flexible interdisciplinary product management teams that work to develop our four product lines and to increase our profitability over time. Our finance staff participates on these teams, and manages our overall balance sheet, borrowings, cash position, accounting, finance, tax, equity issuance, and investor relations.

We build and maintain relationships with mortgage originators, banks that are likely to sell mortgage loan portfolios, Wall Street firms that broker mortgage product, mortgage servicing companies that process payments for us and assist with loss mitigation, technology and information providers that can help us conduct our business more effectively with the banks and Wall Street firms that provide us credit and assist with the issuance of our long-term debt, and with commercial property owners.

We evaluate, underwrite, and execute asset acquisitions and commercial mortgage originations. We also evaluate potential asset sales. Some of the factors that we take into consideration are: asset yield characteristics; liquidity; anticipated credit losses; expected prepayment rates; the cost of funding; the amount of capital necessary to carry that investment in a prudent manner and to meet our internal risk-adjusted capital guidelines; the cost of any hedging that might be employed; potential market value fluctuations; contribution to our overall asset/liability goals; potential earnings volatility in adverse scenarios; and cash flow characteristics.

We monitor and actively manage our credit risks. We work closely with our residential and commercial mortgage servicers, especially with respect to all delinquent loans. While procedures for working out troubled credit situations for residential loans are relatively standardized, we still find that an intense focus on assisting and monitoring our servicers in this process yields good results. We work to enforce the representations and warranties of our sellers, forcing them to repurchase loans if there is a breach of the conditions established at purchase. If a mortgage pool starts to under-perform our expectations, or if a servicer is not fully cooperative with our monitoring efforts, we will often seek to sell a credit-enhancement investment at the earliest opportunity before its market value is diminished.

Prior to acquisition of a credit-enhancement interest, we typically review origination processes, servicing standards, and individual loan data. In many cases, we underwrite individual loan files and influence which loans are included in a securitization. Prior to acquisition of whole loans for our residential retained loan portfolio, we conduct a legal document review of the loans, review individual loan characteristics, and underwrite loans that appear to have higher risk characteristics. We only acquire the loans that we feel comfortable with.

We actively monitor and adjust the asset/liability characteristics of our balance sheet. We follow our internal risk-adjusted capital guidelines, seeking to make sure that we are sufficiently capitalized to hold our assets to maturity through periods of market fluctuation. We intensely monitor our cash levels, the liquidity of our assets, the stability of our borrowings, and our projected cash flows and market values to make sure that we remain well funded and liquid. We generally seek to match the interest rate characteristics of our assets and liabilities within a range. If we cannot achieve our matching objectives on-balance sheet, we use interest rate hedge agreements to adjust our overall asset/liability mix. We monitor potential earnings fluctuations and cash flow changes from prepayments. We project credit losses and cash flows from our credit sensitive assets, and reassess our credit provisions and reserves, based on information from our loss mitigation efforts, borrower credit trends, and housing price trends. We regularly monitor the market values of our assets and liabilities by reviewing pricing from external and internal sources.

We initiate new short-term borrowings on a regular basis with a variety

of counter-parties. We structure long-term debt issuance. We model potential securitizations as market conditions fluctuate, allowing us to price potential loan acquisitions intended to be funded via long-term debt in our retained loan portfolio. We work with the credit rating agencies to determine credit-enhancement levels required to issue new long-term debt. In cases where we intend to acquire a credit-enhancement interest in a securitization performed by others, we sometimes assist them with maximizing the efficiency of the structuring of their securitization.

RISK FACTORS

The following is a summary of the risk factors that we currently believe are important and that could cause our results to differ from expectations. This is not an exhaustive list; other factors not listed here could be material to our results.

We can provide no assurances with respect to projections or forward-looking statements made by us or by others with respect to our future results. Any one of the factors listed here, or other factors not so listed, could cause actual results to differ materially from expectations. It is not possible to accurately project future trends with respect to these factors, or to project which factors will be most important in determining our results, or to project what our future results will be.

Throughout this Form 10-K and other company documents, the words "believe", "expect", "anticipate", "intend", "aim", "will", and similar words identify "forward-looking" statements.

Mortgage loan delinquencies, defaults, and credit losses could reduce our earnings. We have other types of credit risk that could also cause losses. Credit losses could reduce our cash flow and access to liquidity.

As a core part of our business, we assume the credit risk of mortgage loans. We do this in each of our portfolios. We may add other product lines over time that may have different types of credit risk than are described here. We are generally not limited in the types of assets that we can own or in the types of credit risk or other types of risk that we can undertake.

Credit losses on residential mortgage loans can occur for many reasons, including: poor origination practices (leading to losses from fraud, faulty appraisals, documentation errors, poor underwriting, legal errors, etc.); poor servicing practices; weak economic conditions; declines in the values of homes; special hazards; earthquakes and other natural events; over-leveraging of the borrower; changes in legal protections for lenders; reduction in personal incomes; job loss; and personal events such as divorce or health problems.

Of our total net investment in our credit-enhancement portfolio, 15% ($12 million) was in a first loss position with respect to the underlying loans. We generally expect that the entire amount of these first loss investments will be subject to credit loss, potentially even in healthy economic environments. Our ability to make an attractive return on these investments depends on how quickly these expected losses occur. If the losses occur more quickly than we anticipate, we may not recover our investment and/or our rates of return may suffer.

Second loss investments, which are subject to credit loss when the entire first loss investment (whether owned by us or by others) has been eliminated by credit losses, make up 26% ($21 million) of our net investment in credit enhancement interests. Third loss investments, or other investments that themselves enjoy various forms of material credit-enhancement, make up 59% ($48 million) of our net investment in credit enhancement interests. Given our normal expectations for credit losses, we would anticipate some future losses on many of our second loss interests but no losses on investments in the third loss or similar position. If credit losses are greater than, or occur sooner than, expected, our expected future cash flows will be reduced and our earnings will be negatively affected. Credit losses and delinquencies could also affect the cash flow dynamics of these securitizations and thus extend the period over which we will receive a return of principal from these investments. In most cases, this would reduce our economic and accounting returns. From time to time, we may pledge these interests as collateral for borrowings: a deterioration of credit results in this portfolio may adversely affect the terms or availability of these borrowings, and thus our liquidity.

In our credit-enhancement portfolio, we may benefit from credit rating

upgrades or restructuring opportunities through re-securitizations or other means in the future. If credit results deteriorate, these opportunities may not be available to us, or may be delayed.

In anticipation of future credit losses, we designate a portion of the purchase discount associated with many of our credit enhancement interests as a form of credit reserve. The remaining discount is amortized into income over time via the effective yield method. If the credit reserve we set aside at acquisition proves to be insufficient, we may need to reduce our effective yield income recognition in the future or we may adjust our basis in these interests, thus reducing earnings.

We are considering adopting EITF 99-20 during the first quarter of 2001. Generally, under EITF 99-20, if prospective cash flows from certain investments deteriorate even slightly from original expectations (due to changes in anticipated credit losses, prepayment rates, and so forth), then the asset will be marked-to-market (if the market value is lower than our basis). Mark-to-market adjustments under EITF 99-20 will reduce earnings.

In our residential retained loan portfolio, we assume the direct credit risk of residential mortgages. Realized credit losses will reduce our earnings and future cash flow. We have a credit reserve for these loans and we may continue to add to this reserve in the future. There can be no assurance that our credit reserve will be sufficient to cover future losses. We may need to reduce earnings by increasing our credit-provisioning expenses in the future. Prospective changes in accounting rules may alter, limit, or eliminate our ability to create such credit reserves.

Despite our efforts to manage our credit risk (as described in "Company Business and Strategy: Operations"), there are many aspects of credit that we cannot control, and there can be no assurance that our quality control and loss mitigation operations will be successful in limiting future delinquencies, defaults, and losses. Our underwriting reviews may not be effective. The representations and warranties that we receive from sellers may not be enforceable. We may not receive funds that we believe we are due to us from mortgage insurance companies. We rely on our servicers; they may not cooperate with our loss mitigation efforts, or such efforts may otherwise be ineffective. Various service providers to securitizations (such as trustees, bond insurance providers, custodians, etc.) may not perform in a manner that promotes our interests. The value of the homes collateralizing our loans may decline. The frequency of default, and the loss severity on our loans upon default, may be greater than we anticipated. Interest-only loans, negative amortization loans, loans with balances over $1 million, and loans that are partially collateralized by non-real estate assets may have special risks. Our geographical diversification may be ineffective in reducing losses. If loans become REO (real estate owned), we, or our agents, will have to manage these properties and may not be able to sell them. Changes in consumer behavior, bankruptcy laws, and the like may exacerbate our losses. In some states and circumstances, we have recourse against the borrower's other assets and income; but, nevertheless, we may only be able to look to the value of the underlying property for any

recoveries. Expanded loss mitigation efforts in the event that defaults increase could be costly. It is likely, in many instances, that we will not be able to anticipate increased credit losses in a pool soon enough to allow us to sell such credit-enhancement interests at a reasonable price.

Most of our investment portfolio assets (99% at December 31, 2000) were effectively rated AAA or AA. These assets benefit from various forms of corporate guarantees from Fannie Mae, Freddie Mac, and other companies and/or from credit enhancement provided by third parties (usually through their ownership of subordinated credit enhancement interests). Thus, our investment portfolio assets are protected from currently expected levels of credit losses. However, in the event of greater than expected future delinquencies, defaults, or credit losses, or a substantial deterioration in the financial strength of Fannie Mae, Freddie Mac, or other corporate guarantors, our results would likely be adversely affected. We may experience credit losses. Deterioration of the credit results or guarantees of these assets may reduce the market value of these assets, thus limiting our borrowing capabilities and access to liquidity. Generally, we do not control or influence the underwriting, servicing, management, or loss mitigation efforts with respect to these assets. Results could be affected through credit rating downgrades, market value losses, reduced liquidity, adverse financing terms, reduced cash flow, experienced credit losses, or in other ways. To the extent that we invest in non-investment grade assets in our investment portfolio (1% of our investment portfolio at December 31,

2000), our protection against credit loss is smaller and our credit risks and liquidity risks are increased. If we acquire equity securities, results may be volatile.

The loans in our commercial retained loan portfolio may have higher degrees of credit and other risks than do our residential mortgage loans, including various environmental and legal risks. The net operating income and market values of income-producing properties may vary with economic cycles and as a result of other factors, so that debt service coverage is unstable. The value of the property may not protect the value of the loan if there is a default. Our commercial loans are not geographically diverse, so we are at risk for regional factors: at December 31, 2000, $56 million (73%) of our loan balances that we held at Redwood and Holdings were on commercial properties located in California. Many of our commercial loans are not fully amortizing, so the timely recovery of our principal is dependent on the borrower's ability to refinance at maturity. We lend against income-properties that are in transition. Such lending entails higher risks than traditional commercial property lending against stabilized properties. Initial debt service coverage ratios, loan-to-value ratios, and other indicators of credit quality may not meet standard commercial mortgage market criteria. The underlying properties may not transition or stabilize as expected. Personal guarantees and forms of cross-collateralization may not be effective. We generally do not service our loans; we rely on our servicers to a great extent to manage our commercial assets and work out loans and properties if there are delinquencies or defaults. This may not work to our advantage. Our loans are illiquid; if we choose to sell them, we may not be able to do so in a timely manner or for a reasonable price. Financing these loans may be difficult, and may become more difficult if credit quality deteriorates. We may sell senior participations in our loans, or similarly divide our loan assets so that the asset we retain is junior and has concentrated credit and other risks. We have directly originated our commercial loans. This may expose us to certain credit, legal, and other risks that may be greater than is usually present with acquired loans. We have sold commercial mortgage loans. The representations and warranties we made on these sales are limited, but could cause losses in some circumstances. We may invest in other types of commercial loan assets, such as mezzanine loans, second liens, credit-enhancement interests of commercial loan securitizations, junior participations, collateralized bond obligations (CBO's), and so forth, that may entail other types of risks.

Aside from mortgage credit risk, we have other credit risks that are generally related to the counter-parties with which we do business. In the event a counter-party to our short-term borrowings becomes insolvent, we may fail in recovering the full value of our collateral, thus reducing our earnings and liquidity. In the event a counter-party to our interest rate agreements becomes insolvent, our ability to realize benefits from hedging may be diminished, and any cash or collateral that we pledged to these counter-parties may be unrecoverable. We may be forced to unwind these agreements at a loss. In the event that one of our servicers becomes insolvent or fails to perform, loan delinquencies and credit losses may increase. We may not receive funds to which we are entitled. In various other aspects of our business, we depend on the performance of third parties that we do not control. We attempt to diversify our counter-party exposure and to limit our counter-party exposure to strong companies with investment-grade credit ratings, but we are not always able to do so. Our counter-party risk management strategy may prove ineffective.

Tax and GAAP accounting for credit losses differ. We have not reduced our past and current taxable income to provide for a reserve for future credit losses. Thus, if credit losses occur in the future, taxable income may be reduced relative to GAAP income. When taxable income is reduced, our minimum dividend distribution requirements under the REIT tax rules are reduced. We could reduce our dividend rate in such a circumstance. Alternatively, credit losses in our assets may be capital losses for tax. Unless we had offsetting capital gains, our minimum dividend distribution requirement would not be reduced by these credit losses, but eventually our cash flow would be. This could reduce our free cash flow and liquidity.

If we incur increased levels of credit losses, our earnings might be reduced, but also our cash flows, asset market values, and access to borrowings might be reduced. The amount of capital and cash reserves that we hold to help us manage credit and other risks may prove to be insufficient to protect us from earnings volatility, liquidity, and solvency issues.

Fluctuations in our results may be exacerbated by the leverage that we employ and by liquidity risks.

We employ substantial financial leverage on our balance sheet relative to many non-financial companies (although we employ less leverage than most banks, thrifts, and other financial institutions). We believe the amount of leverage that we employ is appropriate, given the risks in our balance sheet, the financing structures that we employ, and our management policies. In order to operate our business successfully, we require continued access to debt on favorable terms with respect to financing costs, capital efficiency, covenants, and other factors. We may not be able to achieve the optimal amount of leverage.

Given the degree of leverage that we employ, earnings fluctuations, and liquidity and financial soundness issues could arise in the future. Due to our leverage, relatively small changes in asset quality, asset yield, cost of borrowed funds, and other factors could have relatively large effects on our company and our stockholders. Our use of leverage may not enhance our returns.

Although we do not have a corporate debt rating, the nationally-recognized credit rating agencies have a strong influence on the amount of capital that we hold relative to the amount of credit risk we take. The rating agencies determine the amount of net investment we must make to credit-enhance the long-term debt (mostly rated AAA) that we issue to fund our residential retained loan portfolio. They also determine the amount of principal value required for the credit-enhancement interests we acquire. The credit-rating agencies, however, do not have influence over how we fund our net credit investments nor do they determine or influence many of our other capital and leverage policies. With respect to our short-term debt, our lenders (typically large commercial banks and Wall Street firms) limit the amount of funds that they will advance versus our collateral. We typically employ far less leverage than would be permitted by our lenders. However, lenders can reduce the amount of leverage that they will permit us to undertake, or the value of our collateral may decline, thus reducing our liquidity.

Unlike banks, thrifts, and the government-sponsored real estate finance companies, we are not regulated by national regulatory bodies. Thus, the amount of financial leverage that we employ is largely controlled by management, and by the risk-adjusted capital policies approved by our Board of Directors.

In the period in which we are accumulating residential whole loans in order to build a portfolio of efficient size to issue long-term debt, variations in the market for long-term debt issuance could affect our results. Ultimately we may not be able to issue long term debt, the cost of such debt could be greater than we anticipated, the net investment in our financing trust required by the rating agencies could be greater than anticipated, certain of our loans could not be accepted into the financing trust, or other negative effects could occur.

We borrow on a short-term basis to fund our investment portfolio, to fund residential loans prior to the issuance of long-term debt, to employ a certain amount of leverage with respect to our net investments in credit-enhancement interests, to fund our commercial loan portfolio, to fund working capital and general corporate needs, and for other reasons. We borrow short-term by pledging our mortgage assets as collateral. We usually borrow via uncommitted borrowing facilities for the substantial majority of our short-term debt funded assets that are generally liquid, have active trading markets, and have readily discernible market prices. The term of these borrowings can range from one day to one year. To fund less liquid or more specialized assets, we typically utilize committed

credit lines from commercial banks and finance companies with a one to two year term. Whether committed or not, we need to roll over short-term debt on a frequent basis; our ability to borrow is dependent on our ability to deliver sufficient market value of collateral to meet lender requirements. Our payment of commitment fees and other expenses to secure committed borrowing lines may not protect us from liquidity issues or losses. Variations in lenders' ability to access funds, lender confidence in Redwood, lender collateral requirements, available borrowing rates, the acceptability and market values of our collateral, and other factors could force us to utilize our liquidity reserves or to sell assets, and thus affect our liquidity, financial soundness, and earnings. In recent years, we believe that the marketplace for our type of secured short-term borrowing has been more stable than the commercial paper market (corporate unsecured short-term borrowing) utilized by much of corporate America, but there is no assurance that such stability will continue.

Various of our borrowing arrangements subject us to debt covenants. While these covenants have not been restrictive through December 31,

2000, they could be restrictive or harmful to stockholder interests in the future. Should we violate debt covenants, we may incur expenses, losses, or reduced ability to access debt.

Preferred stock makes up a portion of our equity capital base (12% at December 31, 2000). Our Class B Preferred Stock has a dividend rate of at least $0.755 per share per quarter, and has certain rights to dividend distributions (and preferences in liquidation) that are senior to common stockholders. Having preferred stock in our capital structure is a form of leverage, and such leverage may or may not work to the advantage of common stockholders.

Changes in the market values of our assets and liabilities can adversely affect our earnings, stockholders' equity, and liquidity.

The market values of our assets, liabilities, and hedges are affected by interest rates, the shape of yield curves, volatility, credit quality trends, mortgage prepayment rates, supply and demand, capital markets trends and liquidity, general economic trends, expectations about the future, and other factors. For the assets that we mark-to-market through our income statement and/or balance sheet, such market value fluctuations will affect our earnings and book value. To the extent that our basis in our assets is thus changed, future income will be affected as well. If we sell an asset that has not been marked-to-market through our income statement at a reduced market price relative to our basis, our earnings will be reduced. Market value reductions of the assets that we pledge for short-term borrowings may reduce our access to liquidity.

Generally, reduced asset market values for the assets that we own may have negative effects, but might improve our opportunities to acquire new assets at attractive pricing levels. Increases in the market values of our existing assets may have positive effects, but may mean that acquiring new assets at attractive prices becomes more difficult.

Changes in mortgage prepayment rates may affect our earnings, liquidity, and the market values of our assets.

Mortgage prepayment rates are affected by interest rates, consumer behavior and confidence, seasoning of loans, the amount of equity in the underlying properties, prepayment terms of the mortgages, the ease and cost of refinancing, the housing turnover rate, media awareness of refinancing opportunities, and many other factors.

Changes in prepayment rates may have multiple effects on our operations. Faster mortgage prepayment rates may lead to increased premium amortization expenses for premium assets, increased working capital requirements, reduced market values for certain types of assets, adverse reductions in the average life of certain assets, and an increase in the need to reinvest cash to maintain operations. Premium assets may experience faster rates of prepayments than discount assets. Slower prepayment rates may lead to reduced discount amortization income for discount assets, reduced market values for discount and other types of assets, extension of the average life of certain investments at a time when this would be contrary to our interests, a reduction in cash flow available to support operations and make new investments, and a reduction in new investment opportunities (since the volume of new origination and securitizations would likely decline). Slower prepayment rates may lead to increased credit losses.

The amount of premium and discount we have on our books, and thus our net amortization expenses, can change over time as we mark-to-market assets or as our asset composition changes through principal repayments and asset purchases and sales.

Interest rate fluctuations can have various effects on our company, and could lead to reduced earnings and / or increased earnings volatility.

Our balance sheet and asset/liability operations are complex and diverse with respect to interest rate movements, so it is not possible to describe all the possible effects of changing interest rates. We do not seek to eliminate all interest rate risk. Changes in interest rates, and in the interrelationships between various interest rates, could have negative effects on our earnings, the market value of our assets and liabilities, mortgage prepayment rates, and our access to liquidity. Changes in interest rates can also affect our credit results.

Generally, rising interest rates could lead to reduced asset market values and slower prepayment rates. Initially, our net interest income may be reduced if short-term interest rates increase, as our cost of funds would likely respond to this increase more quickly than would our asset yields. Within 3 to 12 months of a rate change, however, asset yields for our adjustable rate mortgages may increase commensurately

with the rate increase. Higher short-term interest rates may reduce earnings in the short-term, but could lead to higher long-term earnings, as we earn more on the equity-funded portion of our balance sheet. To the extent that we own fixed rate assets that are funded with floating rate debt, our net interest income from this portion of our balance sheet would be unlikely to recover until interest rates dropped again or the assets matured. Many of our adjustable-rate mortgages have periodic caps that limit the extent to which the coupon we earn can rise or fall (usually a 2% annual cap) and life caps that set a maximum coupon (averaging 11.43% for our portfolio). If short-term interest rates rise rapidly or rise so that our mortgage coupons reach their life caps, the ability of our asset yields to rise along with market rates would be limited, but there would be no such limits on the increase in our liability costs.

Falling interest rates can also lead to reduced asset market values in some circumstances, particularly for prepayment sensitive assets and for many types of interest rate agreement hedges. Decreases in short-term interest rates can be positive for earnings in the near-term, as our cost of funds may decline more quickly than our asset yields would. For longer time horizons, falling short-term interest rates can reduce our earnings, as we may earn lower yields from the assets that are equity-funded on our balance sheet.

Changes in the interrelationships between various interest rates can reduce our net interest income even in the absence of a clearly defined interest rate trend. If the short-term interest rate indices that drive our asset yields were to decline relative to the short-term interest rate indices that determine our cost of funds, our net interest income would be reduced.

Hedging activities may reduce long-term earnings and may fail to reduce earnings volatility or to protect the capital of the company in difficult economic environments.

Hedging against interest rate movements using interest rate agreements and other instruments usually has the effect over long periods of time of lowering long-term earnings. To the extent that we hedge, it is usually to protect the company from some of the effects of a rapid or prolonged increase in short-term interest rates or to lower short-term earnings volatility. Such hedging may not be in the long-term interest of stockholders, and may not achieve its desired goals. For instance, hedging costs may rise as interest rates increase, without an offsetting increase in hedging income. In a rapidly rising interest rate environment, the market values of hedges may not increase as predicted. Using interest rate agreements to hedge may increase short-term earnings volatility, particularly since we employ mark-to-market accounting for all our hedges. Reductions in market values of interest rate agreements may not be offset by increases in market values of the assets or liabilities being hedged. Changes in market values of interest rate agreement hedges may require us to pledge collateral or cash.

Maintaining REIT status may reduce our flexibility.

To maintain REIT status, we must follow rules and meet certain tests. In doing so, our flexibility to manage our operations may be reduced. Frequent asset sales (acting as a "dealer") may be inconsistent with REIT regulations.

Certain types of hedging may produce income that is limited under the REIT rules. Our ability to own non-real estate related assets and earn non-real estate related income is limited. Meeting minimum REIT dividend distribution requirements may reduce our liquidity. Because we distribute much of our earnings as dividends, we may need to raise new equity capital in order to grow operations at a rapid pace. Stock ownership tests may limit our ability to raise significant amounts of equity capital from one source. Failure to meet REIT requirements may subject us to taxation, penalties, and / or loss of REIT status. REIT laws and taxation could change in a manner adverse to our operations. To pursue our business plan as a REIT, we generally need to avoid becoming a Registered Investment Company (RIC). To avoid RIC restrictions, we generally need to maintain at least 55% of our assets in whole loan form or in other related forms of assets that qualify for this test. Meeting this test may restrict our flexibility. Failure to meet this test would limit our ability to leverage and would impose other restrictions on our operations. Our ability to operate a taxable subsidiary is limited under the REIT rules. Our REIT status affords us certain protections against take-over attempts; these take-over restrictions may not always work to the advantage of stockholders.

Our cash balances and cash flows may become limited relative to our cash needs.

We need cash to meet our working capital needs, preferred stock dividend, and minimum REIT dividend distribution requirements. Cash could be required to pay down our borrowings in the event that the market values of our assets that collateralize our debt decline, the terms of short-term debt become less attractive, or for other reasons. Cash flows from principal repayments could be reduced should prepayments slow or credit quality trends deteriorate (for certain of our assets, credit tests must be met for us to receive cash flows). For some of our assets, cash flows are "locked-out" and we receive less than our pro-rata share of principal payment cash flows in the early years of the investment. Operating cash flow generation could be reduced if earnings are reduced, if discount amortization income significantly exceeds premium amortization expense, or for other reasons. Our minimum dividend distribution requirements could become large relative to our cash flow if our income as calculated for tax purposes significantly exceeds our cash flow from operations. Generally, our cash flow has materially exceeded our cash requirements. We generally maintain what we believe are ample cash balances and access to borrowings to meet projected cash needs. In the event, however, that our liquidity needs exceed our access to liquidity, we may need to sell assets at an inopportune time, thus reducing our earnings. In a serious situation, our REIT status or our solvency could be threatened.

Increased competition could reduce our acquisition opportunities or affect our operations in a negative manner.

We believe that our principal competitors in our business of real estate finance are depositories such as banks and thrifts, mortgage and bond insurance companies, other mortgage REITs, hedge funds and private investment partnerships, life insurance companies, government entities such as Fannie Mae, Freddie Mac, Ginnie Mae, and the Federal Home Loan Banks, mutual funds, pension funds, mortgage originators, and other financial institutions. We anticipate that we will be able to compete effectively due to our relatively low level of operating costs, relative freedom to securitize our assets, our ability to utilize leverage, freedom from certain forms of regulation, focus on our core business, and the tax advantages of our REIT status. Nevertheless, most of our competitors have greater operating and financial resources than we do. Competition from these entities, or new entrants, could raise mortgage prices, reduce our acquisition opportunities, or otherwise materially effect our operations in a negative manner.

Mortgage assets may not be available at attractive prices, thus limiting our growth and / or earnings.

In order to reinvest proceeds from mortgage principal repayments, or to deploy new equity capital that we may raise in the future, we need to acquire new mortgage assets. If pricing of mortgage assets is unattractive, or if the availability of mortgage assets is much reduced, we may not be able to acquire new assets at attractive prices. Our new assets may generate lower returns than the assets that we have on our balance sheet. Generally, unattractive pricing and availability of mortgage assets is a function of reduced supply and / or increased demand. Supply can be reduced if originations of a particular product are reduced, or if there are few sales in the secondary market of seasoned product from existing portfolios. The supply of securitized mortgages appropriate for our balance sheet could be reduced if the economics of securitization become unattractive or if a form of securitization that is not favorable for our balance sheet predominates. Also, assets with a favorable risk/reward ratio may not be available

if the risks of owning mortgages increase substantially relative to market pricing levels. Increased competition could raise prices to unattractive levels.

Accounting conventions can change, thus affecting our reported results and operations.

Accounting rules for the various aspects of our business change from year to year. While we believe we use conservative accounting methods, changes in accounting rules can nevertheless affect our reported income and stockholders' equity.

Our policies, procedures, practices, product lines, risks, and internal risk-adjusted capital guidelines are subject to change.

Our company is operated by its management and Board of Directors. In general, we are free to alter our policies, procedures, practices, product lines, leverage, risks, internal risk-adjusted capital guidelines, and other aspects of our business. We can enter new businesses, or pursue acquisitions of other companies. In most cases, we

do not need to seek stockholder approval to make such changes. We will not necessarily notify stockholders of such changes.

We depend on key personnel for successful operations.

We depend significantly on the contributions of our executive officers and staff. Many of our officers and employees would be difficult to replace. The loss of any key personnel could materially affect our results.

Investors in our common stock may experience losses, volatility, and poor liquidity.

Our earnings, cash flow, book value, and dividends can be volatile and difficult to predict. Investors should not rely on predictions. Fluctuations in our current and prospective earnings, cash flow, and dividends, as well as many other factors such as perceptions, economic conditions, stock market conditions, and the like, can affect our stock price. Investors may experience volatile returns and material losses. In addition, liquidity in the trading of our stock may be insufficient to allow investors to sell their stock in a timely manner or at a reasonable price.

RWT HOLDINGS, INC BUSINESS AND STRATEGY

RWT Holdings, Inc. ("Holdings") was formed in 1998 to originate and sell commercial mortgages. Holdings also engaged in other mortgage finance businesses that were closed in 1999. On January 1, 2001, the common stockholders of Holdings sold their stock to Redwood, thus giving Redwood the 1% economic interest in Holdings that it did not already own. Starting in 2001, Redwood will operate Holdings as a 100%-owned subsidiary and will consolidate Holdings' financial statements with its own financial statements. See Redwood's Business and Strategy: Commercial Retained Portfolio, Risk Factors, and Management's Discussion and Analysis: Results of Operations: Commercial Retained Portfolio as well as Holdings' Management's Discussion and Analysis for more information.

CERTAIN FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain Federal income tax considerations to Redwood Trust and its stockholders. This discussion is based on existing Federal income tax law, which is subject to change, possibly retroactively. This discussion does not address all aspects of Federal income taxation that may be relevant to a particular stockholder in light of its personal investment circumstances or to certain types of investors subject to special treatment under the Federal income tax laws (including financial institutions, insurance companies, broker-dealers and, except to the extent discussed below, tax-exempt entities and foreign taxpayers) and it does not discuss any aspects of state, local or foreign tax law. This discussion assumes that stockholders will hold their Common Stock as a "capital asset" (generally, property held for investment) under the Code. Stockholders are advised to

consult their tax advisors as to the specific tax consequences to them of purchasing, holding and disposing of the Common Stock, including the application and effect of Federal, state, local and foreign income and other tax laws.

GENERAL

Redwood Trust has elected to become subject to tax as a REIT, for Federal income tax purposes, commencing with the taxable year ending December 31, 1994. Management currently expects that Redwood Trust will continue to operate in a manner that will permit Redwood Trust to maintain its qualifications as a REIT. This treatment will permit Redwood Trust to deduct dividend distributions to its stockholders for Federal income tax purposes, thus effectively eliminating the "double taxation" that generally results when a corporation earns income and distributes that income to its stockholders.

There can be no assurance that Redwood Trust will continue to qualify as a REIT in any particular taxable year, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations and the possibility of future changes in the circumstances of Redwood Trust. If Redwood Trust failed to qualify as a REIT in any particular year, it would be subject to Federal income tax as a regular, domestic corporation, and its stockholders would be subject to tax in the same manner as stockholders of such corporation. In this event, Redwood Trust could be subject to potentially substantial

income tax liability in respect of each taxable year that it fails to qualify as a REIT and the amount of earnings and cash available for distribution to its stockholders could be significantly reduced or eliminated.

The following is a brief summary of certain technical requirements that Redwood Trust must meet on an ongoing basis in order to qualify, and remain qualified, as a REIT under the Code.

STOCK OWNERSHIP TESTS

The capital stock of Redwood Trust must be held by at least 100 persons and no more than 50% of the value of such capital stock may be owned, directly or indirectly, by five or fewer individuals at all times during the last half of the taxable year. Under the Code, most tax-exempt entities including employee benefit trusts and charitable trusts (but excluding trusts described in 401(a) and exempt under 501(a)) are generally treated as individuals for these purposes. Redwood Trust must satisfy these stock ownership requirements each taxable year. Redwood Trust must solicit information from certain of its stockholders to verify ownership levels and its Articles of Incorporation provide restrictions regarding the transfer of Redwood Trust's shares in order to aid in meeting the stock ownership requirements. If Redwood Trust were to fail either of the stock ownership tests, it would generally be disqualified from REIT status, unless, in the case of the "five or fewer" requirement, the "good faith" exemption is available.

ASSET TESTS

For tax years beginning before December 31, 2000, Redwood Trust must generally meet the following asset tests (the "REIT Asset Tests") at the close of each quarter of each taxable year:

(a) at least 75% of the value of Redwood Trust's total assets must consist of Qualified REIT Real Estate Assets, government securities, cash, and cash items (the "75% Asset Test"); and

(b) the value of securities held by Redwood Trust but not taken into account for purposes of the 75% Asset Test must not exceed either (i) 5% of the value of Redwood Trust's total assets in the case of securities of any one non-government issuer, or (ii) 10% of the outstanding voting securities of any such issuer.

For tax years beginning after December 31, 2000, Redwood Trust must generally meet the following REIT Asset Tests at the close of each quarter of each taxable year:

(a) the 75% Asset Test;

(b) not more than 25% of the value of Redwood Trust's total assets is represented by securities (other than those includible under the 75% Asset Test);

(c) not more than 20% of the value of Redwood Trust's total assets is represented by securities of one or more taxable REIT subsidiary; and

(d) the value of securities held by Redwood Trust, other than those of a taxable REIT subsidiary or taken into account for purposes of the 75% Asset Test, must not exceed either (i) 5% of the value of Redwood Trust's total assets in the case of securities of any one non-government issuer, or (ii) 10% of the outstanding vote or value of any such issuer's securities.

Redwood Trust expects that substantially all of its assets will be Qualified REIT Real Estate Assets. In addition, Redwood Trust does not expect that the value of any non-qualifying security of any one entity, including interests in taxable affiliates, would ever exceed 5% of Redwood Trust's total assets, and Redwood Trust does not expect to own more than 10% of the vote or value of any one issuer's securities.

Redwood Trust intends to monitor closely the purchase, holding and disposition of its assets in order to comply with the REIT Asset Tests. In particular, Redwood Trust intends to limit and diversify its ownership of any assets not qualifying as Qualified REIT Real Estate Assets to less than 25% of the value of Redwood Trust's assets, to less than 5%, by value, of any single issuer and to less than 20%, by value, of any taxable REIT subsidiaries. If it is anticipated that these limits would be exceeded, Redwood Trust intends to take appropriate measures, including the disposition of non-qualifying assets, to avoid exceeding such limits.

GROSS INCOME TESTS

Redwood Trust must generally meet the following gross income tests (the "REIT Gross Income Tests") for each taxable year:

(a) at least 75% of Redwood Trust's gross income must be derived from certain specified real estate sources including interest income and gain from the disposition of Qualified REIT Real Estate Assets or "qualified temporary investment income" (i.e., income derived from "new capital" within one year of the receipt of such capital) (the "75% Gross Income Test"); and,

(b) at least 95% of Redwood Trust's gross income for each taxable year must be derived from sources of income qualifying for the 75% Gross Income Test, or from dividends, interest, and gains from the sale of stock or other securities (including certain interest rate swap and cap agreements, options, futures and forward contracts entered into to hedge variable rate debt incurred to acquire Qualified REIT Real Estate Assets) not held for sale in the ordinary course of business (the "95% Gross Income Test").

Redwood Trust intends to maintain its REIT status by carefully monitoring its income, including income from hedging transactions and sales of mortgage assets, to comply with the REIT Gross Income Tests. In accordance with the code, Redwood Trust will treat income generated by its interest rate caps and other hedging instruments as qualifying income for purposes of the 95% Gross Income Tests to the extent the interest rate cap or other hedging instrument was acquired to reduce the interest rate risks with respect to any indebtedness incurred or to be incurred by Redwood Trust to acquire or carry real estate assets. In addition, Redwood Trust will treat income generated by other hedging instruments as qualifying or non-qualifying income for purposes of the 95% Gross Income Test depending on whether the income constitutes gains from the sale of securities as defined by the Investment Company Act of 1940. Under certain circumstances, for example, (i) the sale of a substantial amount of mortgage assets to repay borrowings in the event that other credit is unavailable or (ii) unanticipated decrease in the qualifying income of Redwood Trust which may result in the non-qualifying income exceeding 5% of gross income, Redwood Trust may be unable to comply with certain of the REIT Gross Income Tests. See " - Taxation of Redwood Trust" below for a discussion of the tax consequences of failure to comply with the REIT Provisions of the Code.

DISTRIBUTION REQUIREMENT

For tax years before 2001, Redwood Trust must generally distribute to its stockholders an amount equal to at least 95% of Redwood Trust's REIT taxable income before deductions of dividends paid and excluding net capital gain. Beginning with the 2001 tax year, this REIT distribution requirement is reduced to 90%.

The IRS has ruled that if a REIT's dividend reinvestment plan allows stockholders of the REIT to elect to have cash distributions reinvested in shares of the REIT at a purchase price equal to at least 95% of the fair market value of such shares on the distribution date, then such distributions qualify under the distribution requirement.

Redwood Trust maintains a Dividend Reinvestment and Stock Purchase Plan ("DRP") and intends that the terms of its DRP will comply with this ruling.

QUALIFIED REIT SUBSIDIARIES

Redwood Trust currently holds some of its assets through Sequoia Mortgage Funding Corporation, a wholly-owned subsidiary, which is treated as a "Qualified REIT Subsidiary". As such its assets, liabilities and income are generally treated as assets, liabilities and income of Redwood Trust for purposes of each of the above REIT qualification tests.

TAXABLE REIT SUBSIDIARIES

Effective January 1, 2001, RWT Holdings, Inc. ("Holdings") and Redwood Trust elected to treat Holdings as a "taxable REIT subsidiary" of Redwood Trust. As a "taxable REIT subsidiary", Holdings is not subject to the asset, income and distribution requirements of Redwood Trust nor are its assets, liabilities or income treated as assets, liabilities or income of Redwood Trust for purposes of each of the above REIT qualification tests. "Taxable REIT subsidiaries" are prohibited from, directly or indirectly, operating or managing a lodging or healthcare facility or providing to any person, under franchise, license or

otherwise, rights to any lodging or healthcare facility brand name. In addition, Redwood Trust will be subject to a 100% penalty tax on any rent or other charges that it imposes on any taxable REIT subsidiary in excess or an arm's length price for comparable services. Redwood Trust expects that any rents and charges imposed on Holdings or any taxable REIT subsidiary will be at arm's length prices.

TAXATION OF REDWOOD TRUST

In any year in which Redwood Trust qualifies as a REIT, Redwood Trust will generally not be subject to Federal income tax on that portion of its REIT taxable income or capital gain that is distributed to its stockholders. Redwood Trust will, however, be subject to Federal income tax at normal corporate income tax rates upon any undistributed taxable income or capital gain.

Notwithstanding its qualification as a REIT, Redwood Trust may also be subject to tax in certain other circumstances. If Redwood Trust fails to satisfy either the 75% or the 95% Gross Income Test, but nonetheless maintains its qualification as a REIT because certain other requirements are met, it will generally be subject to a 100% tax on the greater of the amount by which Redwood Trust fails either the 75% or the 95% Gross Income Test. Redwood Trust will also be subject to a tax of 100% on net income derived from any "prohibited transaction" (which includes dispositions of property classified as "dealer" property) and if Redwood Trust has (i) net income from the sale or other disposition of "foreclosure property" which is held primarily for sale to customers in the ordinary course of business or (ii) other non-qualifying income from foreclosure property, it will be subject to Federal income tax on such income at the highest corporate income tax rate. In addition, if Redwood Trust fails to distribute during each calendar year at least the sum of (i) 85% of its REIT ordinary income for such year and (ii) 95% of its REIT capital gain net income for such year, Redwood Trust would be subject to a 4% Federal excise tax on the excess of such required distribution over the amounts actually distributed during the taxable year, plus any undistributed amount of ordinary and capital gain net income from the preceding taxable year. Redwood Trust may also be subject to the corporate alternative minimum tax, as well as other taxes in certain situations not presently contemplated.

If Redwood Trust fails to qualify as a REIT in any taxable year and certain relief provisions of the Code do not apply, Redwood Trust would be subject to Federal income tax (including any applicable alternative minimum tax) on its taxable income at the regular corporate income tax rates. Distributions to stockholders in any year in which Redwood Trust fails to qualify as a REIT would not be deductible by Redwood Trust, nor would they generally be required to be made under the Code. Further, unless entitled to relief under certain other provisions of the Code, Redwood Trust would also be disqualified from re-electing REIT status for the four taxable years following the year in which it became disqualified.

Redwood Trust intends to monitor on an ongoing basis its compliance with the REIT requirements described above. In order to maintain its REIT status, Redwood Trust will be required to limit the types of assets that Redwood Trust might otherwise acquire, or hold certain assets at times when Redwood Trust might otherwise have determined that the sale or other disposition of such assets would have been more prudent.

TAXABLE AFFILIATES

Redwood Trust intends to undertake certain hedging activities, the creation of mortgage securities through securitization, and may originate, sell and manage residential and commercial mortgage loans and other assets through its taxable affiliates. Redwood Trust has not elected to treat these taxable affiliates as "taxable REIT subsidiaries." In order to ensure that Redwood Trust does not violate the more than 10% stock of a single issuer limitation described above, Redwood Trust owns (or will own) only 10% or less of the vote or value of such taxable affiliate's stock and the other persons own (or will own) all of the remaining stock of such taxable affiliates. The value of Redwood Trust's investment in such taxable affiliates must also be limited to less than 5% of the value of Redwood Trust's total assets at the end of each calendar quarter so that Redwood Trust can also comply with the 5% of value, single issuer asset limitation described above under " - General - Asset Tests." The taxable affiliates do not elect REIT status and distribute only net after-tax profits to their stockholders, including Redwood Trust. Before Redwood Trust engages in any hedging or securitization activities or uses any such taxable affiliates, Redwood Trust will obtain an opinion of counsel to the effect that such activities or the formation and contemplated method of operation of such corporation will not cause Redwood Trust to fail to

satisfy the REIT Asset and REIT Gross Income Tests.

TAXATION OF STOCKHOLDERS

Distributions (including constructive distributions) made to holders of Common Stock other than tax-exempt entities (and not designated as capital gain dividends) will generally be subject to tax as ordinary income to the extent of Redwood Trust's current and accumulated earnings and profits as determined for Federal income tax purposes. If the amount distributed exceeds a stockholder's allocable share of such earnings and profits, the excess will be treated as a return of capital to the extent of the stockholder's adjusted basis in the Common Stock, which will not be subject to tax, and thereafter as a taxable gain from the sale or exchange of a capital asset.

Distributions designated by Redwood Trust as capital gain dividends will generally be subject to tax as long-term capital gain to stockholders, to the extent that the distribution does not exceed Redwood Trust's actual net capital gain for the taxable year. Distributions by Redwood Trust, whether characterized as ordinary income or as capital gain, are not eligible for the corporate dividends received deduction. In the event that Redwood Trust realizes a loss for the taxable year, stockholders will not be permitted to deduct any share of that loss. Further, if Redwood Trust (or a portion of its assets) were to be treated as a taxable mortgage pool, any "excess inclusion income" that is allocated to a stockholder would not be allowed to be offset by a net operating loss of such stockholder.

Dividends declared during the last quarter of a taxable year and actually paid during January of the following taxable year are generally treated as if received by the stockholder on the record date of the dividend payment and not on the date actually received. In addition, Redwood Trust may elect to treat certain other dividends distributed after the close of the taxable year as having been paid during such taxable year, but stockholders will be treated as having received such dividend in the taxable year in which the distribution is made.

Generally, a dividend distribution of earnings from a REIT is considered for estimated tax purposes only when the dividend is made. However, recently enacted legislation, effective December 15, 1999, requires any person owning at least 10% of the vote or value of a closely-held REIT to accelerate recognition of year-end dividends received from the REIT in computing estimated tax payments.

Upon a sale or other disposition of the Common Stock, a stockholder will generally recognize a capital gain or loss in an amount equal to the difference between the amount realized and the stockholder's adjusted basis in such stock, which gain or loss generally will be long-term if the stock was held for more than twelve months. Any loss on the sale or exchange of Common Stock held by a stockholder for six months or less will generally be treated as a long-term capital loss to the extent of designated capital gain dividends received by such stockholder.

DRP participants will generally be treated as having received a dividend distribution, subject to tax as ordinary income, in an amount equal to the fair value of the Common Stock purchased with the reinvested dividends generally on the date Redwood Trust credits such Common Stock to the DRP participant's account.

Redwood Trust is required under Treasury Department regulations to demand annual written statements from the record holders of designated percentages of its Capital Stock disclosing the actual and constructive ownership of such stock and to maintain permanent records showing the information it has received as to the actual and constructive ownership of such stock and a list of those persons failing or refusing to comply with such demand.

In any year in which Redwood Trust does not qualify as a REIT, distributions made to its stockholders would be taxable in the same manner discussed above, except that no distributions could be designated as capital gain dividends, distributions would be eligible for the corporate dividends received deduction, the excess inclusion income rules would not apply, and stockholders would not receive any share of Redwood Trust's tax preference items. In such event, however, Redwood Trust would be subject to potentially substantial Federal income tax liability, and the amount of earnings and cash available for distribution to its stockholders could be significantly reduced or eliminated.

TAXATION OF TAX-EXEMPT ENTITIES

Subject to the discussion below regarding a "pension-held REIT," a

tax-exempt stockholder is generally not subject to tax on distributions from Redwood Trust or gain realized on the sale of the Securities, provided that such stockholder has not incurred indebtedness to purchase or hold its Securities, that its shares are not otherwise used in an unrelated trade or business of such stockholder, and that Redwood Trust, consistent with its present intent, does not hold a residual interest in a REMIC that gives rise to "excess inclusion" income as defined under section 860E of the Code. However, if Redwood Trust was to hold residual interests in a REMIC, or if a pool of its assets were to be treated as a "taxable mortgage pool," a portion of the dividends paid to a tax-exempt stockholder may be subject to tax as unrelated business taxable income ("UBTI"). Although Redwood Trust does not believe that Redwood Trust, or any portion of its assets, will be treated as a taxable mortgage pool, no assurance can be given that the IRS might not successfully maintain that such a taxable mortgage pool exists.

If a qualified pension trust (i.e., any pension or other retirement trust that qualifies under Section 401 (a) of the Code) holds more than 10% by value of the interests in a "pension-held REIT" at any time during a taxable year, a substantial portion of the dividends paid to the qualified pension trust by such REIT may constitute UBTI. For these purposes, a "pension-held REIT" is a REIT (i) that would not have qualified as a REIT but for the provisions of the Code which look through qualified pension trust stockholders in determining ownership of stock of the REIT and (ii) in which at least one qualified pension trust holds more than 25% by value of the interest of such REIT or one or more qualified pension trusts (each owning more than a 10% interest by value in the REIT) hold in the aggregate more than 50% by value of the interests in such REIT. Assuming compliance with the Ownership Limit provisions in Redwood Trust's Articles of Incorporation it is unlikely that pension plans will accumulate sufficient stock to cause Redwood Trust to be treated as a pension-held REIT.

Distributions to certain types of tax-exempt stockholders exempt from Federal income taxation under Sections 501 (c)(7), (c)(9), (c)(17), and (c)(20) of the Code may also constitute UBTI, and such prospective investors should consult their tax advisors concerning the applicable "set aside" and reserve requirements.

STATE AND LOCAL TAXES

Redwood Trust and its stockholders may be subject to state or local taxation in various jurisdictions, including those in which it or they transact business or reside. The state and local tax treatment of Redwood Trust and its stockholders may not conform to the Federal income tax consequences discussed above. Consequently, prospective stockholders should consult their own tax advisors regarding the effect of state and local tax laws on an investment in the Common Stock.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS APPLICABLE TO FOREIGN HOLDERS

The following discussion summarizes certain United States Federal tax consequences of the acquisition, ownership and disposition of Common Stock or Preferred Stock by an initial purchaser that, for United States Federal income tax purposes, is a "Non-United States Holder". Non-United States Holder means: not a citizen or resident of the United States; not a corporation, partnership, or other entity created or organized in the United States or under the laws of the United States or of any political subdivision thereof; or not an estate or trust whose income is includible in gross income for United States Federal income tax purposes regardless of its source. This discussion does not consider any specific facts or circumstances that may apply to particular non-United States Federal tax consequences of acquiring, holding and disposing of Common Stock or Preferred Stock, as well as any tax consequences that may arise under the laws of any foreign, state, local or other taxing jurisdiction.

DIVIDENDS

Dividends paid by Redwood Trust out of earnings and profits, as determined for United States Federal income tax purposes, to a Non-United States Holder will generally be subject to withholding of United States Federal income tax at the rate of 30%, unless reduced or eliminated by an applicable tax treaty or unless such dividends are treated as effectively connected with a United States trade or business. Distributions paid by Redwood Trust in excess of its earnings and profits will be treated as a tax-free return of capital to the extent of the holder's adjusted basis in his shares, and thereafter as gain from the sale or exchange of a capital asset as described below. If it cannot be determined at the time a distribution is made whether such distribution will exceed the earnings and profits of Redwood Trust, the

distribution will be subject to withholding at the same rate as dividends. Amounts so withheld, however, will be refundable or creditable against the Non-United States Holder's United States Federal tax liability if it is subsequently determined that such distribution was, in fact, in excess of the earnings and profits of Redwood Trust. If the receipt of the dividend is treated as being effectively connected with the conduct of a trade or business within the United States by a Non-United States Holder, the dividend received by such holder will be subject to the United States Federal income tax on net income that applies to United States persons generally (and, with respect to corporate holders and under certain circumstances, the branch profits tax).

For any year in which Redwood Trust qualifies as a REIT, distributions to a Non-United States Holder that are attributable to gain from the sales or exchanges by Redwood Trust of "United States real property interests" will be treated as if such gain were effectively connected with a United States business and will thus be subject to tax at the normal capital gain rates applicable to United States stockholders (subject to applicable alternative minimum tax) under the provisions of the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA"). Also, distributions subject to FIRPTA may be subject to a 30% branch profits tax in the hands of a foreign corporate stockholder not entitled to a treaty exemption. Redwood Trust is required to withhold 35% of any distribution that could be designated by Redwood Trust as a capital gains dividend. This amount may be credited against the Non-United States Holder's FIRPTA tax liability. It should be noted that mortgage loans without substantial equity or shared appreciation features generally would not be classified as "United States real property interests."

GAIN ON DISPOSITION

A Non-United States Holder will generally not be subject to United States Federal income tax on gain recognized on a sale or other disposition of its shares of either Common or Preferred Stock unless (i) the gain is effectively connected with the conduct of a trade or business within the United States by the Non-United States Holder, (ii) in the case of a Non-United States Holder who is a nonresident alien individual and holds such shares as a capital asset, such holder is present in the United States for 183 or more days in the taxable year and certain other requirements are met, or (iii) the Non-United States Holder is subject to tax under the FIRPTA rules discussed below. Gain that is effectively connected with the conduct of a United States Holder will be subject to the United States Federal income tax on net income that applies to United States persons generally (and, with respect to corporate holders and under certain circumstances, the branch profits tax) but will not be subject to withholding. Non-United States Holders should consult applicable treaties, which may provide for different rules.

Gain recognized by a Non-United States Holder upon a sale of either Common Stock or Preferred Stock will generally not be subject to tax under FIRPTA if Redwood Trust is a "domestically-controlled REIT," which is defined generally as a REIT in which at all times during a specified testing period less than 50% in value of its shares were held directly or indirectly by non-United States persons. Because only a minority of Redwood Trust's

stockholders are expected to be Non-United States Holders, Redwood Trust anticipates that it will qualify as a "domestically-controlled REIT." Accordingly, a Non-United States Holder should not be subject to United States Federal income tax from gains recognized upon disposition of its shares.

INFORMATION REPORTING AND BACKUP WITHHOLDING

Redwood Trust will report to its U.S. stockholders and the Internal Revenue Service the amount of distributions paid during each calendar year, and the amount of tax withheld, if any. Under the backup withholding rules, a stockholder may be subject to backup withholding at the rate of 31% with respect to distributions paid unless such holder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates that fact; or (b) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. A stockholder that does not provide Redwood Trust with its correct taxpayer identification number may also be subject to penalties imposed by the Internal Revenue Service. Any amount paid as backup withholding will be creditable against the stockholder's income tax liability. In addition, Redwood Trust may be required to withhold a portion of dividends and capital gain distributions to any

stockholders that do not certify under penalties of perjury their non-foreign status to Redwood Trust.

EMPLOYEES

As of March 27, 2001, we employed twenty-four people at Redwood and its subsidiaries.

ITEM 2. PROPERTIES

Redwood Trust and Holdings lease space for their executive and administrative offices at 591 Redwood Highway, Suites 3100, and 3280, Mill Valley, California 94941, telephone (415) 389-7373.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2000, there were no pending legal proceedings to which Redwood Trust was a party or of which any of its property was subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of Redwood Trust's stockholders during the fourth quarter of 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Effective January 28, 1998, Redwood Trust's Common Stock was listed and traded on the New York Stock Exchange under the symbol RWT. Prior to that date, Redwood Trust's Common Stock was traded on the over-the-counter market and was quoted on the NASDAQ National Market under the symbol RWTI. Redwood Trust's Common Stock was held by approximately 330 holders of record on March 27, 2001 and the total number of beneficial stockholders holding stock through depository companies was approximately 2,800. The high and low closing sales prices of shares of the Common Stock as reported on the New York Stock Exchange or the NASDAQ National Market composite tape and the cash dividends declared on the Common Stock for the periods indicated below were as follows:

<TABLE>
<CAPTION>

	Stock Prices		Common Dividends Declared		
	High	Low	Record Date	Payable Date	Per Share
<S>	<C>	<C>	<C>	<C>	<C>
Year Ended December 31, 2001					
First Quarter (through March 27, 2001)	$20.44	$16.81	3/30/01	4/23/01	$0.50
Year Ended December 31, 2000					
Fourth Quarter	$17.94	$15.06	12/29/00	1/22/01	$0.44
Third Quarter	$15.94	$13.63	9/29/00	10/23/00	$0.42
Second Quarter	$14.94	$13.50	6/30/00	7/21/00	$0.40
First Quarter	$14.81	$11.94	3/31/00	4/21/00	$0.35
Year Ended December 31, 1999					
Fourth Quarter	$13 1/4	$11 5/16	12/31/99	1/21/00	$0.25
Third Quarter	$17 1/2	$12 3/4	11/8/99	11/22/99	$0.15
Second Quarter	$17 9/16	$14 1/2	--	--	-
First Quarter	$17 3/8	$13 1/2	--	--	-
Year Ended December 31, 1998					

Fourth Quarter	$16 1/16	$11 1/16	--	--	--
Third Quarter	$17 5/8	$12 3/4	--	--	--
Second Quarter	$25 5/8	$17 9/16	8/6/98	8/21/98	$0.01
First Quarter	$23 1/2	$18 5/8	5/7/98	5/21/98	$0.27

</TABLE>

Redwood Trust intends to pay quarterly dividends so long as the minimum REIT distribution rules require it. Redwood Trust intends to make distributions to its stockholders of all or substantially all of its taxable income each year (subject to certain adjustments) so as to qualify for the tax benefits accorded to a REIT under the Code. All distributions will be made by Redwood Trust at the discretion of the Board of Directors and will depend on the taxable earnings of Redwood Trust, financial condition of Redwood Trust, maintenance of REIT status and such other factors as the Board of Directors may deem relevant from time to time. No dividends may be paid on the Common Stock unless full cumulative dividends have been paid on the Preferred Stock. As of December 31, 2000, the full cumulative dividends have been paid on the Preferred Stock.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is for the years ended December 31, 2000, 1999, 1998, 1997 and 1996. It is qualified in its entirety by, and should be read in conjunction with the more detailed information contained in the Consolidated Financial Statements and Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K.

<TABLE>
<CAPTION>
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEARS ENDED DECEMBER 31,				
	2000	1999	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Interest income after provisions for credit losses	$ 169,261	$ 145,964	$ 221,684	$ 195,674	$ 65,588
Interest expense and interest rate agreement expense	(138,603)	(119,227)	(199,638)	(164,018)	(50,349)
Net interest income after provision for credit losses	30,658	26,737	22,046	31,656	15,239
Equity in earnings (losses) of RWT Holdings, Inc.	(1,676)	(21,633)	(4,676)	--	--
Operating expenses	(7,850)	(3,835)	(5,876)	(4,658)	(2,554)
Other income	98	175	139	--	--
Net unrealized/realized market value gains (losses)	(2,296)	284	(38,943)	563	--
Dividends on Class B preferred stock	(2,724)	(2,741)	(2,747)	(2,815)	(1,148)
Change in accounting principle	--	--	(10,061)	--	--
Net income (loss) available to common stockholders	$ 16,210	$ (1,013)	$ (40,118)	$ 24,746	$ 11,537
Core earnings: ongoing operations before mark-to market and non recurring expenses	$ 18,585	$ 16,622	$ 12,666	$ 24,746	$ 11,537
Average common shares - "diluted"	8,902,069	9,768,345	13,199,819	13,680,410	8,744,184
Diluted net income (loss) per share	$ 1.82	$ (0.10)	$ (3.04)	$ 1.81	$ 1.32
Core earnings per share	$ 2.08	$ 1.71	$ 0.96	$ 1.81	$

					1.32
Dividends declared per Class B preferred share	$ 3.02	$ 3.02	$ 3.02	$ 3.02	$ 1.14
Dividends declared per common share	$ 1.61	$ 0.40	$ 0.28	$ 2.15	$ 1.67
BALANCE SHEET DATA: END OF PERIOD					
Mortgage assets	$ 2,033,705	$ 2,362,806	$ 2,658,428	$ 3,354,510	$ 2,138,364
Total assets	$ 2,082,115	$ 2,419,928	$ 2,832,448	$ 3,444,197	$ 2,184,197
Short-term debt	$ 756,222	$ 1,253,565	$ 1,257,570	$ 1,914,525	$ 1,953,103
Long-term debt	$ 1,095,835	$ 945,270	$ 1,305,560	$ 1,172,801	--
Total liabilities	$ 1,866,451	$ 2,209,993	$ 2,577,658	$ 3,109,660	$ 1,973,192
Total stockholders' equity	$ 215,664	$ 209,935	$ 254,790	$ 334,537	$ 211,005
Number of Class B preferred shares outstanding	902,068	902,068	909,518	909,518	1,006,250
Number of common shares outstanding	8,809,500	8,783,341	11,251,556	14,284,657	10,996,572
Book value per common share	$ 21.47	$ 20.88	$ 20.27	$ 21.55	$ 16.50
OTHER DATA:					
Average assets	$ 2,296,641	$ 2,293,238	$ 3,571,889	$ 3,036,725	$ 999,762
Average borrowings	$ 2,070,943	$ 2,046,132	$ 3,250,914	$ 2,709,208	$ 861,316
Average equity	$ 213,938	$ 237,858	$ 307,076	$ 307,029	$ 131,315
Interest rate spread after provision for credit losses	0.86%	0.79%	0.28%	0.59%	0.90%
Net interest margin after provision for credit losses	1.33%	1.17%	0.62%	1.04%	1.52%

</TABLE>

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes.

SAFE HARBOR STATEMENT

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Certain matters discussed in this 2000 annual report Form 10-K may constitute forward-looking statements within the meaning of the federal securities laws that inherently include certain risks and uncertainties. Actual results and the timing of certain events could differ materially from those projected in or contemplated by the forward-looking statements due to a number of factors, including, among other things, credit results for our mortgage assets, our cash flows and liquidity, changes in interest rates and market values on our mortgage assets and borrowings, changes in prepayment rates on our mortgage assets, general economic conditions, particularly as they affect the price of mortgage assets and the credit status of borrowers, and the level of liquidity in the capital markets, as it affects our ability to finance our mortgage asset portfolio, and other risk factors outlined in this Form 10-K (see Risk Factors above.) Other factors not presently identified may also cause actual results to differ. We continuously update and revise our estimates based on actual conditions experienced. It is not practicable to publish all such revisions and, as a result, no one should assume that results projected in or contemplated by the forward-looking statements included above will continue to be accurate in the future.

Throughout this Form 10-K and other company documents, the words "believe", "expect", "anticipate", "intend", "aim", "will", and similar words identify "forward-looking" statements.

RESULTS OF OPERATIONS

EARNINGS SUMMARY

Core earnings were $0.62 per share for the fourth quarter of 2000 and $2.08 per share for fiscal year 2000, in each case a new record for Redwood. Increases in core earnings per share were 29% for the fourth quarter and 22% for the full year of 2000 as compared to the same periods in 1999. Core earnings are earnings from ongoing operations before mark-to-market adjustments and non-recurring items.

Reported earnings per share were $0.55 for the fourth quarter 2000 and $1.82 for the year 2000. We paid $1.61 per common share in dividends in year 2000. Book value rose from $20.88 to $21.47 per share during 2000.

REVENUES SUMMARY

Most of our revenue comes from the monthly mortgage payments that homeowners make on their mortgage loans. To a lesser degree, we also earn revenues from commercial mortgage loans.

Total revenues increased from $146 million in 1999 to $169 million in 2000. Our average balance of earning assets remained constant at $2.2 billion, while our average asset yield increased from 6.62% to 7.55%. Asset yields increased because we shifted our asset mix towards higher yielding products, coupon rates on our adjustable rate mortgages rose in conjunction with increases in short-term interest rates, premium amortization expenses declined as mortgage prepayment rates slowed, and credit provision expenses declined due to strong portfolio credit performance.

From 1998 to 1999, revenues declined from $222 million to $146 million. Asset yields increased from 6.42% to 6.62%, but average earning assets declined from $3.5 billion to $2.2 billion as we utilized a significant portion of our capital to repurchase our common stock. Asset yields rose, despite a decrease in mortgage coupon rates, due to a significant decline in premium amortization expenses. Premium amortization expenses declined as a result of significantly reduced premium balances and slower mortgage prepayment rates.

In 2001, we expect that revenues may decline from the $169 million that we earned in 2000, although we currently expect that interest expenses may decline faster than revenues and that our net interest income may benefit in the short-term. We expect revenues to decline as asset yields decline along with falling short-term interest rates and as premium amortization expenses increase along with faster mortgage prepayment rates.

Our average earning assets could decline, leading to reduced revenues, should we acquire additional credit-enhancement interests or other assets that require a greater amount of capital per dollar of revenue generated. Declining revenues from such a change in asset mix would not necessarily imply a decline in net interest income, for liabilities would decline under such a strategy as well.

If we raise additional equity capital in 2001, we plan to acquire additional assets, and revenues would likely increase.

TABLE 1
TOTAL INTEREST INCOME AND YIELDS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AVERAGE EARNING ASSETS	COUPON INCOME	NET PREMIUM AMORTIZATION EXPENSE	CREDIT PROVISION EXPENSE	TOTAL INTEREST INCOME REVENUES	EARNING ASSET YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 1999	$2,551,046	$44,006	$(2,274)	$(345)	$41,387	6.49%
Q2: 1999	2,208,554	37,722	(1,632)	(371)	35,719	6.47%
Q3: 1999	2,054,558	35,337	(782)	(416)	34,139	6.65%
Q4: 1999	2,011,107	35,407	(474)	(214)	34,719	6.91%
Q1: 2000	2,368,090	43,461	(522)	(119)	42,820	7.23%

Q2: 2000	2,287,179	43,091	45	(128)	43,008	7.52%
Q3: 2000	2,192,390	42,959	(1,040)	(240)	41,679	7.60%
Q4: 2000	2,123,648	42,816	(818)	(244)	41,754	7.86%
1998	$3,451,611	$250,597	$(27,793)	$(1,120)	$221,684	6.42%
1999	2,204,421	152,472	(5,162)	(1,346)	145,964	6.62%
2000	2,242,363	172,327	(2,335)	(731)	169,261	7.55%

</TABLE>

We operate in the single business segment of real estate finance, with common staff and management, commingled financing arrangements, and flexible capital commitments. We allocate our staff and capital resources in a fluid manner to our real estate finance product lines as we seek the highest risk-adjusted returns.

To provide a greater level of detail on our revenue trends, we discuss revenue and portfolio characteristics by product line below. The following discussion of our assets contains statistics that in some cases have been obtained from or compiled from information made available by servicing entities and information service providers.

RESIDENTIAL CREDIT-ENHANCEMENT PORTFOLIO

We actively added to our residential credit-enhancement portfolio during 2000, increasing our commitments by over 200%. Pricing in this market was attractive due to reduced competition. We were able to structure a number of attractive transactions involving seasoned loans (which generally have less credit risk than newly originated loans). In many of our transactions, with both new and seasoned loans, we were able to work with sellers to underwrite loans prior to securitization and to remove the more risky loans from the loan pools that we agreed to finance. Substantially all of the $23 billion of loans that we added to our credit-enhancement portfolio in 1999 and 2000 were "A" quality loans.

Credit-enhancement revenues were $3.0 million in 1998, $4.2 million in 1999, and $8.5 million in 2000. Much of this revenue goes directly to net interest income, as we utilize a relatively high percentage of equity to fund this portfolio. Increases in revenues were largely a result of increases in our credit-enhancement portfolio. Our credit-enhancement portfolio increased from under $1 billion at the end of 1998 to $6 billion at the end of 1999 and $23 billion at the end of 2000. The principal value of our credit-enhancement interests increased from $17 million to $49 million to $125 million, and our net basis in these assets increased from $8 million to $28 million to $81 million at the end of 1998, 1999, and 2000, respectively.

The yield on our net credit-enhancement assets decreased from 26% in 1998 to 23% in 1999 to 14% in 2000. Given favorable credit results, yields on credit-enhancement assets should increase over time. Our yields on the credit-enhancement interests that we acquired from 1994 to 1997 have been growing. Our returns on these assets were further increased when we resecuritized these assets in December 1997. Our average yield for all of our credit-enhancement assets has decreased over time as we have acquired new credit-enhancement interests and booked them at relatively low initial yields. In addition, we have increased the percentage of second and third loss positions in our mix of credit-enhancement assets; these assets have less risk but also lower yields. Given favorable credit results, we would expect to be able to increase the yields of our newer assets over time. After a few years, we may be able to resecuritize these interests, thus further increasing their yields.

TABLE 2
CREDIT ENHANCEMENT PORTFOLIO INTEREST INCOME AND YIELDS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AVERAGE PRINCIPAL VALUE	AVERAGE CREDIT RESERVE	AVERAGE NET DISCOUNT BALANCE	AVERAGE BASIS	COUPON INCOME	NET DISCOUNT AMORTIZATION INCOME	TOTAL INTEREST INCOME	YIELD

----	-----							
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 1999	$21,096	$(6,096)	$(1,887)	$13,113	$334	$469	$803	24.51%
Q2: 1999	21,624	(6,107)	(2,023)	13,494	341	518	859	25.46%
Q3: 1999	27,020	(5,774)	(1,931)	19,315	478	583	1,061	21.97%
Q4: 1999	41,946	(9,263)	(5,693)	26,989	747	732	1,479	21.92%
Q1: 2000	56,439	(11,567)	(6,758)	38,114	1,048	567	1,615	16.95%
Q2: 2000	77,173	(16,361)	(7,654)	53,158	1,412	723	2,135	16.07%
Q3: 2000	100,857	(21,484)	(11,956)	67,417	1,928	356	2,284	13.55%
Q4: 2000	113,370	(24,596)	(12,514)	76,260	2,144	346	2,490	13.06%
1998	$22,077	$(7,275)	$(3,265)	$11,537	$1,627	$1,336	$2,963	25.68%
1999	27,976	(7,068)	(2,639)	18,269	1,900	2,302	4,202	23.00%
2000	87,070	(18,527)	(9,734)	58,809	6,532	1,992	8,524	14.49%

</TABLE>

Credit losses in this portfolio (reductions in principal value of our interests) were $3.3 million in 1998, $1.1 million in 1999, and $0.8 million in 2000. To date, credit losses on our credit-enhancement interests acquired from 1994 to 1997 have been slightly higher than we originally anticipated; credit losses on credit-enhancement interests acquired from 1998 through the present have been lower than we originally anticipated.

We charged these losses against our credit reserve for these assets. We designate a portion of the purchase discount that we book upon acquisition as credit reserve to provide for estimated future credit losses. This effectively reduces our discount balances, and thus reduces discount amortization income and the yields that we recognize on these assets. Our designated credit reserve for our credit-enhancement portfolio was $6 million at the end of 1998, $11 million at the end of 1999, and $27 million at the end of 2000.

Some of our credit-enhancement assets are themselves credit-enhanced by securitized interests held by others (often the originator) that are junior to us, i.e., we do not always hold a first loss position. The first loss positions held by others are a form of credit reserve for us with respect to loan losses within our credit-enhancement portfolio. The principal value of interests junior to our positions at December 31, 2000 was $87 million. Together with our credit reserve of $27 million, our effective protection against credit losses in our credit-enhancement portfolio at December 31, 2000 was $114 million, or 50 basis points (0.50%) of the current balance of the loans at that time, on average. Reserves, credit-protection, and risks vary by asset, so we are still subject to loss on certain assets even with this high level of average overall credit protection.

If future credit losses exceed our expectations, we will increase our credit reserve on a specific asset basis. We can do this by lowering the yield that we recognize on the asset (by designating more of the purchase discount as reserve) or, under new EITF 99-20 accounting rules to be adopted in 2001, by reducing our basis in an asset by marking it to market through the income statement.

Serious delinquencies in our credit enhancement portfolio were $26 million at the end of 1998, $48 million at the end of 1999, and $52 million at the end of 2000. Serious delinquencies were 0.23% of the current balance of credit-enhanced loans at December 31, 2000.

TABLE 3
CREDIT ENHANCEMENT PORTFOLIO -- CREDIT RESULTS
(AT PERIOD END, ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	UNDERLYING MORTGAGE	SERIOUS DELINQUENCIES	SERIOUS DELINQUENCIES	TOTAL CREDIT	REDWOOD'S CREDIT	ADDITIONS TO CREDIT	ENDING CREDIT

	LOANS	%	$	LOSSES	LOSSES	RESERVE	RESERVE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 1999	$467,114	4.74%	$22,141	$(1,762)	$(518)	$(289)	$5,952
Q2: 1999	1,427,355	1.36%	19,475	(656)	(166)	310	6,262
Q3: 1999	3,794,055	0.42%	15,785	(377)	(365)	1,024	7,286
Q4: 1999	6,376,571	0.71%	45,451	(346)	(97)	3,955	11,241
Q1: 2000	8,539,491	0.58%	49,731	(813)	(270)	652	11,893
Q2: 2000	20,925,931	0.22%	45,999	(1,537)	(187)	8,936	20,829
Q3: 2000	21,609,785	0.27%	58,102	(590)	(245)	1,310	22,139
Q4: 2000	22,633,860	0.23%	51,709	(1,568)	(56)	4,913	27,052
1998	$542,558	4.86%	$26,350	$(10,773)	$(3,318)	$(1,869)	$6,241
1999	6,376,571	0.71%	45,451	(3,141)	(1,146)	5,000	11,241
2000	22,633,860	0.23%	51,709	(4,508)	(758)	15,811	27,052

</TABLE>

At December 31, 2000, we credit-enhanced 63,675 loans with a total principal value of $23 billion. Of these, 58% were fixed-rate loans, 7% were hybrid loans (loans that become adjustable after a 3 to 10 year fixed rate period), and 35% were adjustable-rate loans. The average size of the loans that we credit-enhanced was $355,500. We credit-enhanced 983 loans with principal balances in excess of $1 million; these loans had an average size of $1.4 million and a total loan balance of $1.4 billion. Loans over $1 million were 2% of the total number of loans and 6% of the total balance of loans that we credit-enhanced at year-end.

The geographic dispersion of our credit-enhancement portfolio closely mirrors that of the jumbo residential market as a whole. At December 31, 2000, our loans were most concentrated in the following states: California 50%, New York 6%, New Jersey 4%, Texas 3%, and Massachusetts 3%. No other state had more than 3%.

Most of the loans that we credit-enhance are seasoned. Generally, the credit risk for these loans is reduced as property values have appreciated and the loan balances have amortized. In effect, the current loan-to-value ratio for seasoned loans is often much reduced from the loan-to-value ratio at origination. Only 16% of the loans we financed at December 31, 2000 were originated in year 2000. Of our California-based loans, 12% were originated in 2000.

Loans with loan-to-value ratios ("LTV") at origination in excess of 80% made up 10% of loan balances; we benefit from primary mortgage insurance ("PMI") on 99% of these loans. With this insurance, our effective LTV on these loans is substantially reduced. Our average effective LTV at origination (including the effect of PMI, pledged collateral, and other credit-enhancements) was 70%. Given housing appreciation and loan amortization, we estimate the average current effective LTV for the loans that we credit-enhance is less than 61%.

TABLE 4
CREDIT ENHANCEMENT PORTFOLIO -- UNDERLYING COLLATERAL CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	DECEMBER 1998	DECEMBER 1999	DECEMBER 2000
<S>	<C>	<C>	<C>
CREDIT-ENHANCEMENT PORTFOLIO	$542,558	$6,376,571	$22,633,860
CREDIT-ENHANCED LOANS	2,576	19,318	63,675
ADJUSTABLE %	100%	11%	35%
HYBRID %	0%	14%	7%
FIXED %	0%	75%	58%
FIRST LOSS POSITION, FACE VALUE	$17,281	$20,546	$34,959
SECOND LOSS POSITION, FACE VALUE	0	5,840	30,703

THIRD LOSS POSITION, FACE VALUE	0	22,241	59,216
NET FACE VALUE: CREDIT-ENHANCEMENT INTERESTS	17,281	48,627	124,878
FIRST LOSS POSITION, REPORTED VALUE	$7,707	$8,279	$12,080
SECOND LOSS POSITION, REPORTED VALUE	0	3,418	21,109
THIRD LOSS POSITION, REPORTED VALUE	0	16,436	47,576
NET INVESTMENT: CREDIT-ENHANCEMENT INTERESTS	7,707	28,133	80,764
CALIFORNIA %	61%	43%	50%
NEW YORK	3%	1%	6%
NEW JERSEY	3%	2%	4%
MASSACHUSETTS	3%	2%	3%
TEXAS	2%	6%	3%
OTHER STATES	28%	47%	34%

</TABLE>

RESIDENTIAL RETAINED LOAN PORTFOLIO

We have not added to our residential retained loan portfolio since we acquired a $390 million portfolio in December 1999. Several transactions that we worked on in 2000 that started as whole loan acquisition opportunities for our retained portfolio ended up becoming opportunities for our credit-enhancement portfolio. Instead of buying the whole loans, we credit-enhanced the loans by acquiring credit-enhancement interests from the seller after the seller securitized the loans.

TABLE 5
RESIDENTIAL RETAINED PORTFOLIO INTEREST INCOME AND YIELDS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AVERAGE PRINCIPAL BALANCE	NET PREMIUM BALANCE	ANNUAL MORTGAGE PREPAYMENT RATE (CPR)	COUPON INCOME	NET PREMIUM AMORTIZATION EXPENSE	CREDIT PROVISION EXPENSE	TOTAL INTEREST INCOME	YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 1999	$1,268,383	$15,604	32%	$22,049	$(1,477)	$(345)	$20,227	6.30%
Q2: 1999	1,145,096	14,903	29%	19,091	(1,119)	(371)	17,601	6.07%
Q3: 1999	1,067,716	12,121	21%	18,431	(614)	(416)	17,401	6.45%
Q4: 1999	985,932	13,000	16%	17,494	(705)	(214)	16,575	6.64%
Q1: 2000	1,337,428	16,061	14%	24,378	(640)	(119)	23,619	6.98%
Q2: 2000	1,276,340	15,372	16%	23,648	(515)	(128)	23,005	7.12%
Q3: 2000	1,202,056	14,760	22%	23,118	(829)	(240)	22,049	7.25%
Q4: 2000	1,141,624	14,141	16%	22,316	(611)	(244)	21,461	7.43%
1998	$1,806,167	$28,596	26%	$131,519	$(10,272)	$(1,120)	$120,127	6.55%
1999	1,115,874	13,895	25%	77,065	(3,915)	(1,346)	71,804	6.36%
2000	1,238,993	15,080	17%	93,460	(2,595)	(731)	90,134	7.19%

</TABLE>

Revenues from our residential retained portfolio increased from $72 million in 1999 to $90 million in 2000 on a higher average balance ($1.3 billion versus $1.1 billion) and an increased yield (7.19% versus 6.36%). Yields increased due to increases in short-term interest rates, reduced premium amortization expenses as prepayment rates slowed, and reduced credit provision expenses.

From 1998 to 1999, revenue decreased from $120 million to $72 million. Average balances declined from $1.8 billion to $1.1 billion due to loan sales and principal repayments. Yields dropped from 6.55% to 6.36% due to declining interest rates and changes in portfolio characteristics resulting from purchase and sale activity.

Annual realized credit losses in this portfolio have been less than one basis point (.007%) of the current balance of the portfolio per year on

average during 1998, 1999, and 2000. Realized credit losses in 2000 were $42,000. Cumulative losses during the time we have owned these loan pools equal $0.3 million, or 1.3 basis points (.013%) of the original balance of the loans.

During the three years of 1998 to 2000, seriously delinquent loans in this portfolio ranged from $4 million to $7 million, yet total realized losses for the three years were $0.2 million. Many of our seriously delinquent loans cure without going into foreclosure. When these loans do default, we do not necessarily incur a credit loss, as we often have realized substantial value from the sale of the underlying property or from the result of other loss mitigation efforts. For defaults where we did incur a credit loss, our average loss severity (credit loss as a percentage of loan balance) during these three years was 9%.

We took credit provisions of $0.7 million during 2000 for our residential retained loan portfolio, equaling 6 basis points (0.06%) of our average loan balance during the year. We ended the year with a credit reserve for this portfolio of $4.8 million. The year-end reserve equals 43 basis points (.43%) of our year-end loan balances. The

reserve is based upon our assessment of various factors affecting our mortgage loans, including current and projected economic conditions, delinquency status, and credit protection. We are cautious about credit in the current economic environment, but we are comforted by the quality and seasoning of our portfolio and the size of our reserves. We currently expect realized credit losses to increase somewhat in the future, based on current delinquency levels, the natural seasoning of the portfolios (losses are more likely to occur in years two through five), and the weakening economic environment. Losses on our assets have historically been substantially lower than our original expectations. If losses increase substantially, we would, if necessary, increase our credit-provisioning rate.

TABLE 6
RESIDENTIAL RETAINED PORTFOLIO - CREDIT RESULTS
(AT PERIOD END, ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	SERIOUSLY DELINQUENT LOANS	GROSS DEFAULTS	LOSS SEVERITY	REALIZED CREDIT LOSSES	CREDIT PROVISION EXPENSE	ENDING CREDIT RESERVE
Q1: 1999	$5,961	$0	0.0%	$0	$(345)	$3,129
Q2: 1999	6,728	0	0.0%	0	(371)	3,500
Q3: 1999	3,832	145	3.8%	(5)	(416)	3,911
Q4: 1999	4,635	0	0.0%	0	(214)	4,125
Q1: 2000	5,338	0	0.0%	0	(119)	4,244
Q2: 2000	4,968	450	9.3%	(42)	(128)	4,330
Q3: 2000	4,330	0	0.0%	0	(240)	4,570
Q4: 2000	5,667	0	0.0%	0	(244)	4,814
1998	$3,926	$1,913	10.0%	$(191)	$(1,120)	$2,784
1999	4,635	145	3.8%	(5)	(1,346)	4,125
2000	5,667	450	9.3%	(42)	(731)	4,814

</TABLE>

At December 31, 2000, we owned 3,633 residential loans with a total value of $1.1 billion. These were all "A" quality or "prime" quality loans at origination. Of these, 71% were adjustable rate loans and 29% were hybrid loans. Our hybrid loans have fixed rate coupons until December 2002, on average, and then will become adjustable rate loans. The average loan size was $311,000. We owned 81 loans with a loan balance over $1 million; the average size of these loans was $1.5

million. Loans with balances over $1 million made up 2% of the loans and 11% of the balances of our total retained loan portfolio. California loans were 25% of the total. All of the loans were originated in 1999 or earlier. Loans where the original loan balance exceeded 80% of the value of the house and other pledged collateral (loan to value, or "LTV", over 80%) made up 7% of loan balances; we benefit from primary mortgage insurance ("PMI") on 99% of these loans (serving to substantially lower our effective LTVs). Average effective LTV at origination for our residential retained portfolio (including the effect of PMI, pledged collateral, and other credit-enhancements) was 71%. Given housing appreciation and loan amortization, we estimate the current effective LTV of our retained loan portfolio is less than 63%.

Serious delinquencies remained at low levels at $5.7 million, or 0.50% of the current balance of the loans and 0.24% of the original balance of the loans. Included in this amount are five real estate owned ("REO") properties with an estimated value of $0.5 million.

TABLE 7
RETAINED RESIDENTIAL PORTFOLIO - LOAN CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

	DECEMBER 1998	DECEMBER 1999	DECEMBER 2000
BOOK VALUE	$1,397,213	$1,385,589	$1,130,997
NUMBER OF LOANS	4,760	4,348	3,633
AVERAGE LOAN SIZE	$ 294	$ 319	$ 311
ADJUSTABLE %	58.1%	70.1%	71.3%
HYBRID %	41.9%	29.3%	28.7%
FIXED %	0.0%	0.6%	0.0%
FUNDED WITH SHORT-TERM DEBT	19%	30%	1%
FUNDED WITH LONG-TERM DEBT	81%	70%	99%
LONG-TERM DEBT	$1,035,560	$ 945,270	$1,095,835
NET INVESTMENT IN SEQUOIA	$ 40,253	$ 36,618	$ 37,166
CALIFORNIA %	32%	26%	25%
FLORIDA	8%	9%	9%
NEW YORK	6%	8%	8%
NEW JERSEY	5%	5%	5%
TEXAS	4%	5%	5%
GEORGIA	4%	5%	5%
OTHER STATES	41%	42%	43%
YEAR 2000 ORIGINATION	n/a	n/a	0%
YEAR 1999 ORIGINATION	n/a	19%	19%
YEAR 1998 ORIGINATION	33%	32%	32%
YEAR 1997 ORIGINATION	48%	37%	37%
YEAR 1996 OR EARLIER ORIGINATION	19%	12%	12%

For 2001, we are actively seeking high-quality jumbo residential loan acquisition opportunities that are priced attractively relative to our long-term debt issuance costs. We are seeking to acquire loans both on a bulk basis and a flow basis. As we evaluate and structure a portfolio acquisition transaction, we may prefer to acquire the loans as whole loans and issue long-term debt to fund the acquisition (thus adding to our residential retained loan portfolio). Or, we may prefer to have the seller securitize the loans and sell us the credit-enhancement interest (thus adding to our credit-enhancement portfolio).

INVESTMENT PORTFOLIO

Our investment portfolio revenues increased from $66 million in 1999 to $67 million in 2000. Our asset yields increased from 6.56% to 7.53%. Yields increased as coupon rates rose with short-term interest rates and as premium amortization expenses were reduced with slower mortgage prepayments. Average investment portfolio assets declined from $1.0 billion during 1999 to $0.9 billion during 2000. Although opportunities for growth in our investment portfolio were attractive in 2000, we allocated an increased amount of our capital to our residential credit-enhancement business.

Investment portfolio revenues declined from $96 million in 1998 to $66 million in 1999. Our average investment portfolio balance dropped from $1.5 billion to $1.0 billion as we allocated capital to other portfolios

and reduced our capital base through our common stock repurchase program. Our investment portfolio yields increased from

6.15% in 1998 to 6.56% in 1999, in spite of falling interest rates, due to reductions in premium amortization expenses as a result of significantly reduced premium balances and slower mortgage prepayment rates.

TABLE 8
INVESTMENT PORTFOLIO INTEREST INCOME AND YIELDS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AVERAGE EARNING ASSETS	AVERAGE NET PREMIUM BALANCE	MORTGAGE PREPAYMENT RATES (CPR)	COUPON INCOME	NET PREMIUM AMORTIZATION EXPENSE	TOTAL INTEREST INCOME	YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 1999	$1,179,689	$ 9,961	33%	$ 20,773	$ (1,266)	$ 19,507	6.56%
Q2: 1999	979,909	10,431	28%	17,500	(1,031)	16,469	6.65%
Q3: 1999	900,339	7,878	28%	15,265	(751)	14,514	6.39%
Q4: 1999	943,641	8,467	21%	16,231	(502)	15,729	6.61%
Q1: 2000	944,301	8,118	19%	17,510	(450)	17,060	7.16%
Q2: 2000	902,265	7,225	20%	17,362	(163)	17,199	7.56%
Q3: 2000	868,159	8,946	20%	17,278	(572)	16,706	7.62%
Q4: 2000	822,452	9,595	19%	16,832	(591)	16,241	7.81%
1998	$1,534,270	$ 32,437	34%	$ 115,270	$ (18,858)	$ 96,412	6.15%
1999	999,972	9,177	27%	69,769	(3,550)	66,219	6.56%
2000	884,081	8,475	20%	68,982	(1,776)	67,206	7.53%

</TABLE>

At December 31, 2000, we owned $765 million of mortgage securities, almost all of which were rated AAA or AA. The majority of our investments were residential adjustable-rate or floating rate securities.

TABLE 9
INVESTMENT PORTFOLIO CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	RATING	DECEMBER 1998	DECEMBER 1999	DECEMBER 2000
<S>	<C>	<C>	<C>	<C>
AGENCY ADJUSTABLE	"AAA"	$ 600,803	$ 574,711	$ 532,578
AGENCY CMO FLOATERS	"AAA"	16,621	6,248	0
JUMBO ADJUSTABLE	AAA or AA	550,990	290,658	191,047
JUMBO SHORT FIXED CMOS	AAA or AA	19,254	15,554	0
HOME EQUITY FLOATERS	AAA or AA	53,972	47,111	23,015
HOME EQUITY FIXED	AAA to BBB	15,668	11,889	17,044
INTEREST-ONLY (IO)	AAA or AA	347	126	113
US TREASURIES FIXED	AAA	48,009	0	0
CBO EQUITY	B or NR	0	0	978
TOTAL INVESTMENT PORTFOLIO		$1,305,664	$ 946,247	$ 764,775
REALIZED CREDIT LOSES		0	0	0

</TABLE>

We added assets to our investment portfolio in the first quarter of 2001. Although opportunities for this portfolio currently appear attractive, it is possible that we might reduce the size of this portfolio later in the year to fund investments in our residential credit-enhancement and residential retained loan portfolios. If we raise additional equity capital during 2001, we would likely add assets and

capital to this portfolio, at least initially.

COMMERCIAL RETAINED LOAN PORTFOLIO

In conjunction with our affiliate, Holdings, we originated or acquired commercial mortgage loans totaling $8 million in 1998, $42 million in 1999, and $73 million in 2000. After loan sales and pay offs, we owned a total of $76 million of commercial loans at December 31, 2000. Of these, $57 million were owned by Redwood and $19 million were owned by Holdings.

Commercial revenues at Redwood increased from $0.1 million in 1998 to $1.0 million in 1999 to $2.0 million in 2000 as the number of loans held at Redwood increased and the average yield of our commercial loans increased from 8.83% in 1998 to 9.70% in 1999 to 10.61% in 2000. The increases in yields were primarily the result of an improved mix of commercial mortgage loans in the portfolio.

TABLE 10
COMMERCIAL PORTFOLIO INTEREST INCOME AND YIELDS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AVERAGE PRINCIPAL VALUE	AVERAGE NET DISCOUNT BALANCE	COUPON INCOME	DISCOUNT AMORTIZATION INCOME	CREDIT PROVISION EXPENSE	TOTAL INTEREST INCOME	YIELD
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Q1: 1999	$ 3,154	$ (13)	$ 76	$ 0	$ 0	$ 76	9.67%
Q2: 1999	13,100	0	293	0	0	293	8.94%
Q3: 1999	17,953	0	453	0	0	453	10.09%
Q4: 1999	10,245	(1)	259	0	0	259	10.11%
Q1: 2000	8,710	(13)	211	0	0	211	9.70%
Q2: 2000	15,418	(30)	393	0	0	393	10.21%
Q3: 2000	13,982	(265)	367	5	0	372	10.85%
Q4: 2000	38,020	(477)	987	39	0	1,026	10.93%
1998	$ 1,161	$ (6)	$ 102	$ 0	$ 0	$ 102	8.83%
1999	11,151	(3)	1,081	0	0	1,081	9.70%
2000	19,071	(197)	1,958	44	0	2,002	10.61%

</TABLE>

To date, we have not experienced any delinquencies or credit losses in our commercial loan portfolio, nor do we anticipate any credit problems at this time. We have not established a general credit reserve for commercial loans. The slowing economy, and factors particular to each loan, could cause credit issues in the future. If so, we would provide for future losses and create a specific credit reserve on an asset by asset basis.

TABLE 11
COMMERCIAL PORTFOLIO LOAN CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	DECEMBER 1998	DECEMBER 1999	DECEMBER 2000
<S>	<C>	<C>	<C>
HELD AT REDWOOD	$ 8,287	$ 8,437	$57,153
HELD AT HOLDINGS	0	29,309	18,936
TOTAL COMMERCIAL $	8,287	37,746	76,089
NUMBER OF LOANS	8	13	19
AVERAGE LOAN SIZE	$ 1,036	$ 2,904	$ 4,005
SERIOUS DELINQUENCY $	0	0	0
SERIOUS DELINQUENCY %	0%	0%	0%
SERIOUS DELINQUENCY %	0%	0%	0%
REALIZED CREDIT LOSSES	0	0	0
CALIFORNIA %	84%	74%	73%

</TABLE>

Our primary focus in 2001 is improving our financing of these loans through extending the maturities of our committed bank lines and through

selling senior participations. We are not actively originating new loans, although we may do so later in the year. We believe our commercial operations have a good chance of being highly profitable in 2001. Our current intention is to seek profitable ways to expand our ownership of commercial mortgage assets (loans and securities) over time.

INTEREST EXPENSE

Interest and hedging expenses increased from $119 million in 1999 to $139 million in 2000. Average borrowings increased slightly, from $2.0 billion to $2.1 billion, and our cost of funds increased from 5.83% to 6.69% as interest rates rose. Net hedging costs decreased as interest rates increased and we earned hedge income to offset expenses.

Interest and hedging expenses decreased from $200 million in 1998 to $119 million in 1999 as a result of a decline in average borrowings ($3.3 billion to $2.0 billion) and a decline in our cost of funds (6.14% to 5.83%).

TABLE 12
INTEREST EXPENSE
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AVERAGE LONG TERM DEBT	LONG TERM DEBT INTEREST EXPENSE	LONG TERM DEBT COST OF FUNDS	AVERAGE SHORT TERM DEBT	SHORT TERM DEBT INTEREST EXPENSE	SHORT TERM DEBT COST OF FUNDS	COST OF HEDGING	TOTAL INTEREST EXPENSE AND HEDGING	TOTAL COST OF FUNDS AND HEDGING
Q1: 1999	$1,243,474	$18,740	6.03%	$1,152,635	$14,751	5.12%	0.06%	$33,824	5.65%
Q2: 1999	1,117,790	16,657	5.96%	937,942	11,880	5.07%	0.14%	29,273	5.70%
Q3: 1999	1,031,629	15,503	6.01%	859,429	11,887	5.53%	0.10%	27,848	5.89%
Q4: 1999	971,707	14,885	6.13%	877,634	12,859	5.86%	0.12%	28,282	6.12%
Q1: 2000	972,338	15,359	6.32%	1,225,562	19,163	6.25%	0.07%	34,931	6.36%
Q2: 2000	1,258,859	20,928	6.65%	865,068	13,987	6.47%	0.04%	35,133	6.62%
Q3: 2000	1,191,730	20,448	6.86%	827,114	14,053	6.80%	0.04%	34,694	6.87%
Q4: 2000	1,125,898	19,559	6.95%	819,160	14,152	6.91%	0.03%	33,845	6.96%
1998	$1,275,048	$81,361	6.38%	$1,975,866	$114,763	5.81%	0.11%	$199,638	6.14%
1999	1,090,242	65,785	6.03%	955,890	51,377	5.37%	0.10%	119,227	5.83%
2000	1,137,324	76,294	6.71%	933,619	61,355	6.57%	0.05%	138,603	6.69%

</TABLE>

Our mix of funding remained steady, with long-term debt representing 53% to 55% of our borrowings from 1999 to 2000. While long-term debt is more expensive than short-term debt, it provides us a higher level of stability and attractive liquidity characteristics. Through using long-term debt, we can utilize a greater degree of leverage in a prudent manner.

TABLE 13
LONG-TERM DEBT CHARACTERISTICS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>
LONG
INTEREST
TERM ORIGINAL ESTIMATED
OUTSTANDING RATE AT

DEBT ISSUE	DEBT RATING	ISSUE DATE	ISSUE AMOUNT	INDEX	STATED MATURITY	CALLABLE DATE	AT YEAR-END 2000	DECEMBER 31, 2000
SEQUOIA 1 A1	AAA	7/29/97	$334,347	1m LIBOR	2/15/28	Called	$0	n/a
SEQUOIA 1 A2	AAA	7/29/97	200,000	Fed Funds	2/15/28	Called	0	n/a
SEQUOIA 2 A1	AAA	11/6/97	592,560	1y Treasury	3/30/29	2004	289,996	7.21%
SEQUOIA 2 A2	AAA	11/6/97	156,600	1m LIBOR	3/30/29	2004	76,639	6.99%
SEQUOIA 3 A1	AAA	6/26/98	225,459	Fixed	5/31/28	Retired	$0	n/a
SEQUOIA 3 A2	AAA	6/26/98	95,000	Fixed	5/31/28	Retired	$0	n/a
SEQUOIA 3 A3	AAA	6/26/98	164,200	Fixed	5/31/28	2002	161,268	6.35%
SEQUOIA 3 A4	AAA	6/26/98	121,923	Fixed	5/31/28	2002	121,923	6.25%
SEQUOIA 3 M1	AA	6/26/98	16,127	Fixed	5/31/28	2002	16,127	6.80%
SEQUOIA 3 M2	A	6/26/98	7,741	Fixed	5/31/28	2002	7,741	6.80%
SEQUOIA 3 M3	BBB	6/26/98	4,838	Fixed	5/31/28	2002	4,838	6.80%
SEQUOIA 1A A1	AAA	5/4/99	157,266	1m LIBOR	2/15/28	2003	92,085	7.20%
SEQUOIA 4 A	AAA	3/21/00	377,119	1m LIBOR	8/31/24	2008	325,292	7.02%

</TABLE>

Should the trend towards lower short-term interest rates continue, we currently expect that our overall cost of funds will decline in 2001.

NET INTEREST INCOME AFTER CREDIT EXPENSES

Net interest income after credit expenses increased from $22 million in 1998 to $27 million in 1999 to $31 million in 2000. For these same years, our net interest spread after credit expenses increased from 0.28% to 0.79% to 0.86%. This measure shows the profitability of the leveraged portion of our balance sheet; it equals the yield on our assets less our cost of funds and hedging. Our net interest margin after credit expenses increased from 0.62% to 1.17% to 1.33% in 1998, 1999 and 2000, respectively. This measure is net interest income divided by assets; it is higher than our spread as it includes income generated from equity-funded assets.

Our spreads and margins increased in 2000, despite a rapid increase in short-term interest rates, due to our interest rate management activities and beneficial changes in asset mix. Total net interest income also benefited from an increased net investment in our portfolios, made possible by the retention and reinvestment of the free cash flow that we generated in excess of our dividend.

TABLE 14
NET INTEREST INCOME
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	TOTAL INTEREST INCOME REVENUES	COST OF FUNDS PLUS HEDGING	NET INTEREST INCOME AFTER CREDIT PROVISIONS	EARNING ASSET YIELD	COST OF FUNDS PLUS HEDGING	INTEREST RATE SPREAD AFTER CREDIT PROVISIONS	INTEREST RATE MARGIN AFTER CREDIT PROVISIONS	RETURN ON TOTAL CAPITAL BEFORE OVERHEAD
Q1: 1999	$41,387	$(33,824)	$7,563	6.49%	5.65%	0.84%	1.14%	

								12.09%
Q2: 1999	35,719	(29,273)	6,446	6.47%	5.70%	0.77%	1.12%	10.54%
Q3: 1999	34,139	(27,848)	6,291	6.65%	5.89%	0.76%	1.18%	10.73%
Q4: 1999	34,719	(28,282)	6,437	6.91%	6.12%	0.79%	1.24%	11.58%
Q1: 2000	42,820	(34,931)	7,889	7.23%	6.36%	0.87%	1.30%	14.76%
Q2: 2000	43,008	(35,133)	7,875	7.52%	6.62%	0.90%	1.34%	14.78%
Q3: 2000	41,679	(34,694)	6,985	7.60%	6.87%	0.73%	1.25%	13.10%
Q4: 2000	41,754	(33,845)	7,909	7.86%	6.96%	0.90%	1.46%	14.68%
1998	$221,684	$(199,638)	$22,046	6.42%	6.14%	0.28%	0.62%	7.16%
1999	145,964	(119,227)	26,737	6.62%	5.83%	0.79%	1.17%	11.24%
2000	169,261	(138,603)	30,658	7.55%	6.69%	0.86%	1.33%	14.33%

</TABLE>

We expect that the decreases in short-term interest rates that occurred in early 2001, and any additional decreases in short-term interest rates, will tend to boost our net interest income, interest rate spread, and interest rate margin on a near term basis. As short-term interest rates drop, our cost of funds should generally decline more quickly than our asset yield.

While decreases in short-term interest rates should be beneficial for earnings in 2001, our primary focus is on increasing our normalized rate of income generation through growth in our high-quality jumbo residential credit-enhancement and retained loan portfolios and through retention of free cash flow in excess of our dividend requirements.

Our average return on capital employed before overhead expenses was 14.33% in 2000; this measure equals net interest income divided by total capital. Returns have improved as we reduced our capital at Holdings, improved our capital utilization rate, reduced our premium amortization expenses, and increased our residential credit-enhancement and retained portfolios relative to our investment portfolio. The competitive environment also has improved markedly since 1997 and 1998 as other financial institutions pulled back from the residential real estate finance market. This allowed us to expand our activities through acquisition and credit-enhancement of loans at attractive pricing levels. We believe that our current marginal return on new capital employed may equal or exceed the average return on capital employed of 14.68% that we earned in the fourth quarter of 2000.

EQUITY IN EARNINGS OF RWT HOLDINGS

For the year 2000, a portion of our commercial loan origination and portfolio finance activities were conducted at Holdings, our 99%-owned, unconsolidated affiliate. Most of our commercial loan revenues were earned by Redwood. Redwood's share of Holdings' loss for the year was $1.7 million. See Management's Discussion and Analysis for Holdings below.

For year 2001 and beyond, Holdings will be consolidated into Redwood for accounting purposes as a result of Redwood's acquisition of the remainder of Holdings it did not already own. This consolidation will reduce expenses.

OPERATING EXPENSES

We incur operating expenses at Redwood and at our unconsolidated affiliate, Holdings. A significant portion of these operating expenses in prior years were associated with business units that have since been closed. Combined operating expenses rose from 1998 to 1999 as we started new residential mortgage, finance and commercial mortgage loan origination operations at Holdings. Some of these operations were restructured in 1999, and the operating expenses incurred in 1999 include costs associated with the closing of these operations. Total combined operating expenses declined from $26 million in 1999 to $10 million in 2000. Expenses associated with ongoing operations rose from $8.5 million in 1999 to $10 million in 2000 as we expanded our loan-based activities and paid higher performance-based compensation as earnings and dividends increased.

TABLE 15

OPERATING EXPENSES
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	REDWOOD	HOLDINGS	COMBINED	ONGOING	CLOSED BUSINESS UNITS
Q1: 1999	$714	$3,264	$3,978	$1,600	$2,378
Q2: 1999	939	4,204	5,143	2,242	2,901
Q3: 1999	964	6,256	7,220	2,727	4,493
Q4: 1999	1,218	8,543	9,761	1,917	7,844
Q1: 2000	2,146	865	3,011	2,814	197
Q2: 2000	2,238	590	2,828	2,828	0
Q3: 2000	2,066	536	2,602	2,602	0
Q4: 2000	1,400	400	1,800	1,800	0
1998	$5,876	$5,235	$11,111	$7,215	$3,896
1999	3,835	22,267	26,102	8,486	17,616
2000	7,850	2,391	10,241	10,044	197

</TABLE>

We focused during 2000 on reducing fixed costs, and we expect to benefit from these cost reductions going forward. A large portion of our expenses are variable compensation expenses (that depend on earnings per share and dividends per share) and stock option expenses (that depend on our stock price). Despite a reduction in fixed costs, our total ongoing combined operating expenses will likely increase in 2001 if our performance is strong.

We believe that we currently have the staff and systems that we will need to manage a much larger company. Thus, we believe that we are likely to benefit from substantial operating leverage in the event that we can raise additional equity capital in 2001. With growth in our portfolios and capital employed following an equity offering, we believe revenue growth will exceed growth in operating expenses. This could would result in an increase in earnings per share and dividends per share.

CORE EARNINGS

Core earnings are earnings from ongoing operations before mark-to-market adjustments and non-recurring items.

From 1998 to 2000, annual core earnings increased from $13 million to $17 million to $19 million. Core earnings increased from $0.96 per share in 1998 to $1.71 per share in 1999 to $2.08 per share in 2000.

The table below reconciles core earnings to reported GAAP earnings, showing Holdings and Redwood using the 2001 format for presentation (i.e., as if Holdings had been consolidated with Redwood for the periods shown).

TABLE 16
CORE EARNINGS AND GAAP EARNINGS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	COMBINED INCOME BEFORE OVERHEAD	COMBINED OVERHEAD ONGOING OPERATIONS	PREFERRED DIVIDENDS	CORE EARNINGS	COMBINED MARKET VALUE CHANGES	CLOSED BUSINESS UNITS	REPORTED GAAP EARNINGS
Q1: 1999	$7,780	$(1,600)	$(687)	$5,493	$2,170	$(1,808)	$5,855
Q2: 1999	6,622	(2,242)	(687)	3,693	1,412	(2,597)	2,508
Q3: 1999	6,595	(2,727)	(686)	3,182	(2,075)	(4,845)	(3,738)
Q4: 1999	6,852	(1,917)	(681)	4,254	(1,469)	(8,423)	(5,638)
Q1: 2000	8,028	(2,814)	(681)	4,533	(1,164)	(89)	3,280
Q2: 2000	8,014	(2,828)	(681)	4,505	(1,452)	43	3,096
Q3: 2000	7,229	(2,602)	(681)	3,946	927	0	4,873
Q4: 2000	8,082	(1,800)	(681)	5,601	(640)	0	4,961
1998	$22,628	$(7,215)	$(2,747)	$12,666	$(49,004)	$(3,781)	$(40,118)
1999	27,849	(8,486)	(2,741)	16,622	38	(17,673)	(1,013)
2000	31,353	(10,044)	(2,724)	18,585	(2,329)	(46)	16,210

</TABLE>

The table below reconciles core earnings per share to reported GAAP earnings per share.

TABLE 17
CORE EARNINGS AND GAAP EARNINGS
(DOLLARS PER SHARE)

	AVERAGE DILUTED SHARES	CORE EARNINGS	MARKET VALUE CHANGES	CLOSED BUSINESS UNITS	REPORTED GAAP EARNINGS
Q1: 1999	10,861,774	$ 0.51	$ 0.20	$ (0.17)	$ 0.54
Q2: 1999	10,172,960	0.36	0.14	(0.26)	0.25
Q3: 1999	9,570,933	0.33	(0.22)	(0.51)	(0.39)
Q4: 1999	8,810,348	0.48	(0.17)	(0.96)	(0.64)
Q1: 2000	8,848,966	0.51	(0.13)	(0.01)	0.37
Q2: 2000	8,883,652	0.51	(0.16)	0.00	0.35
Q3: 2000	8,908,399	0.44	0.10	0.00	0.55
Q4: 2000	8,962,950	0.62	(0.07)	0.00	0.55
1998	$13,199,819	$ 0.96	$ (3.71)	$ (0.29)	$ (3.04)
1999	9,768,345	1.71	$ 0.00	(1.81)	(0.10)
2000	8,902,069	2.08	(0.26)	(0.00)	1.82

MARKET VALUE CHANGES

In 2000, net mark-to-market adjustments recorded in our financial statements were a positive $1.0 million. Assets and liabilities that were marked-to-market through the balance sheet accounts (including stockholders' equity) in 2000 appreciated by $3.3 million. Assets and liabilities that were marked-to-market through our income statement declined in value by $2.3 million. The net result of mark-to-market adjustments for 2000 was a decrease in our reported earnings of $0.26 per share but an increase in our book value of $0.11 per share.

During the year ended December 31, 1999, our portfolio of assets that were marked-to-market for income statement purposes increased in estimated market value by $0.3 million. Assets and liabilities that were marked-to-market through the balance sheet declined in value by $3.0 million. Net mark-to-market adjustments to our financial statements of negative $2.7 million resulted in an increase in reported earnings per share of $0.03 and a decrease in book value per share of $0.28.

We adopted SFAS No. 133 and other mark-to-market accounting principles in the third quarter of 1998. Shifting to mark-to-market accounting resulted in earnings charges relating to cumulative market value changes to that point of $50 million ($3.81 per share) in the third quarter of 1998. For the year 1998 as a whole, income statement mark-to-market adjustments were negative $49 million and balance sheet mark-to-market adjustments were positive $10 million. The result was to lower reported earnings by $3.71 per share and to increase book value (exclusive of the effect of reported earnings) by $0.73 per share. The net result was a decrease in book value of $2.98 per share from these changes in accounting principles.

TABLE 18
MARKET VALUE CHANGES
(ALL DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	NET INCOME STATEMENT MARKET ADJUST	PER SHARE	NET BALANCE SHEET MARKET ADJUST	PER SHARE	TOTAL MARKET ADJUSTMENTS	PER SHARE
Q1: 1999	$ 2,153	$ 0.20	$ (412)	$ (0.04)	$ 1,741	$ 0.16
Q2: 1999	1,412	0.14	(1,136)	(0.11)	276	0.03
Q3: 1999	(2,069)	(0.22)	66	0.01	(2,003)	(0.21)
Q4: 1999	(1,212)	(0.14)	(1,496)	(0.17)	(2,708)	(0.31)
Q1: 2000	(1,225)	(0.14)	(487)	(0.06)	(1,712)	(0.19)
Q2: 2000	(1,359)	(0.15)	(886)	(0.10)	(2,245)	(0.25)
Q3: 2000	927	0.10	720	0.08	1,647	0.18
Q4: 2000	(639)	(0.07)	3,912	0.44	3,273	0.37

1998	$(49,004)	$ (3.71)	$ 9,701	$ 0.73	$(39,303)	$ (2.98)
1999	284	0.03	(2,978)	(0.30)	(2,694)	(0.28)
2000	(2,296)	(0.26)	3,259	0.37	963	0.11

</TABLE>

We currently intend to adopt EITF 99-20 in the first quarter of 2001. Under these new accounting rules, in certain circumstances we will make mark-to-market adjustments through our income statement on our credit-enhancement and certain other assets that formerly were only marked-to-market through our balance sheet. We will mark these through the income statement if the discounted present value of current cash flows deteriorates relative to our original assumptions. Only negative income statement mark-to-market adjustments are allowed under EITF 99-20. Any initial mark-to-market adjustments that we take upon adoption of EITF 99-20 will be recorded as a cumulative effect of a change in accounting principle; any subsequent EITF 99-20 adjustments will be included in our income statement under "Net realized and unrealized gains and losses" with our other mark-to-market adjustments. For each of our credit-enhancement interests and other assets subject to EITF 99-20 (with the

exception of one set of assets described below), we currently believe that projected cash flows have improved relative to our original assumptions, and, in most cases, market values have increased.

We have been marking to market, through our balance sheet, the assets that we retained from our resecuritization of the credit-enhancement interests that we acquired from 1994 to 1997. The market values for these assets that we have been using for our balance sheet estimates are lower than our basis. They reflect what we believe is an estimate of realizable sale value that is conservative and takes into consideration the unique and complex nature of the assets and their illiquidity. We currently project that credit losses for these assets will be somewhat higher than we had originally projected. Accordingly, upon adoption of EITF 99-20, we will mark these assets, through our income statement, to the estimated market values that we use for our balance sheet. We currently estimate that this mark-to-market adjustment would be approximately $2.4 million if we make the adjustment in the first quarter of 2001. This adjustment will lower earnings in the quarter that we adopt EITF 99-20 and will increase the asset yield and cumulative future earnings that we will recognize over the remaining life of these assets (relative to what they would have been without the adjustment). Since we have already been marking these assets to market on our balance sheet, book value per share will be unaffected by this change in accounting principle.

With falling interest rates in the first half of 2001, we would generally expect that the net market values of our asset and liabilities could increase as spread earnings opportunities increase. Net market values may decline later in the year should interest rates stabilize and spreads return to normalized levels.

SHAREHOLDER WEALTH

In the 6.25 years since the founding of Redwood, cumulative shareholder wealth, as described below, has grown at a compound rate of 18% per year. We define shareholder wealth as growth in tangible book value per share, plus dividends received, plus reinvestment earnings on dividends. In calculating shareholder wealth, we assume that dividends are reinvested through the purchase of additional shares of Redwood at book value. With this assumption, shareholder wealth creation at Redwood can be compared to book value per share growth at a non-REIT company that retains its earnings and compounds book value within the company. This is a measure of management value-added, not a measure of shareholder returns.

Book value per share was $11.67 in September 1994 when Redwood commenced operations. We increased book value to $21.47 per share by December 31, 2000 through the retention of cash by keeping dividends lower than cash flow, changes in market values of assets, issuance of stock at prices above book value, and repurchases of stock below book value. Since we mark-to-market most of our assets through our balance sheet, reported book value is a good approximation of real intrinsic value in the company. Cumulative dividends paid during this period were $7.32 per share, and reinvestment earnings on those dividends were $4.11 per share. Thus, cumulatively, shareholder wealth has increased from $11.67 per share to $32.90 per share during this 6.25-year period. A company that earned an 18% after-tax return on equity and retained all its earnings would have shown a similar amount of shareholder wealth growth during this period.

TABLE 19
SHAREHOLDER WEALTH
(DOLLARS PER SHARE)

<TABLE>
<CAPTION>

	BOOK VALUE PER SHARE	ANNUAL DIVIDENDS	CUMULATIVE DIVIDENDS	CUMULATIVE REINVESTMENT EARNINGS ON DIVIDENDS	CUMULATIVE SHAREHOLDER WEALTH
<S>	<C>	<C>	<C>	<C>	<C>
SEP-94	$11.67	$ 0.00	$ 0.00	$ 0.00	$11.67
DEC-94	10.82	0.25	0.25	0.00	11.07
DEC-95	12.38	0.96	1.21	0.09	13.68
DEC-96	16.50	1.67	2.88	1.07	20.45
DEC-97	21.55	2.15	5.03	3.07	29.65
DEC-98	20.27	0.28	5.31	2.67	28.25
DEC-99	20.88	0.40	5.71	3.07	29.66
DEC-00	21.47	1.61	7.32	4.11	32.90

</TABLE>

DIVIDENDS

The dividends that we paid out cumulatively through the end of 2000 were close to the minimum amount that we needed to pay under the REIT distribution rules. If taxable income increases in 2001, we will need to raise our dividend rate. We paid $1.61 per share in common stock dividends in 2000, all of which was ordinary income. We declared a $0.50 per share common dividend for the first quarter of 2001.

We do not plan to acquire, create, or retain any Real Estate Mortgage Investment Conduit ("REMIC") or Collateralized Mortgage Obligation ("CMO") residual interests that would cause the distribution of excess inclusion income or unrelated business taxable income to investors. As a result, we qualify as an eligible investment for tax exempt investors, such as pension plans, profit sharing plans, 401(k) plans, Keogh plans, and Individual Retirement Accounts. See "Certain Federal Income Tax Considerations - Taxation of Tax-Exempt Entities."

FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Our cash flow from operations generally exceeds our earnings. Cash flow from operations was $25 million in 2000, consisting of earnings of $16 million plus non-cash depreciation and amortization of $5 million plus non-cash mark-to-market adjustments of $4 million. Our free cash flow, after investment in working capital, property, plant, equipment, and other non-earning assets, was $21 million. In addition, we received $7 million from our investment in Holdings and we issued $0.4 million in new common stock. We used the available cash from these sources to fund our common stock dividend of $12 million and to increase our investment in our portfolio activities by $16 million.

Cash flow from operations was $28 million in 1999. Free cash flow was $44 million as we reduced our working capital requirements. We decreased our investment in our portfolio operations by $5 million, paid $1 million in common stock dividends, invested $10 million in Holdings, and repurchased $37 million of common stock.

Cash flow from operations was $47 million in 1998. Free cash flow was $61 million. We decreased our investment in our portfolio operations by $20 million, paid $10 million in common stock dividends, invested $27 million in Holdings, and repurchased $45 million of common stock.

TABLE 20
CASH FLOW
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	CASH FLOW FROM OPERATIONS	(INVESTMENT) IN WORKING CAPITAL AND OTHER ASSETS	FREE CASH FLOW	(INVESTMENT) IN HOLDINGS	COMMON DIVIDENDS	(PURCHASE)/ SALE OF STOCK	FUNDS AVAILABLE FOR PORTFOLIO INVESTING
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>

Q1: 1999	$ 9,036	$ (3,087)	$ 5,949	$ (6,897)	$ 0	$(16,034)	$(16,982)
Q2: 1999	7,092	9,321	16,413	1,733	0	(3,997)	14,149
Q3: 1999	6,308	3,785	10,093	(17,496)	0	(15,004)	(22,407)
Q4: 1999	6,019	5,162	11,181	12,733	(1,323)	(2,299)	20,292
Q1: 2000	6,325	71	6,396	4,999	(2,196)	45	9,244
Q2: 2000	5,562	1,435	6,997	1,973	(3,076)	0	5,894
Q3: 2000	5,957	(2,315)	3,642	0	(3,516)	381	507
Q4: 2000	7,239	(3,113)	4,126	0	(3,700)	2	428
							0
1998	$ 46,728	$ 13,903	$ 60,631	$(26,745)	$ (8,946)	$(45,384)	$(20,444)
1999	28,455	15,181	43,636	(9,927)	(1,323)	(37,334)	(4,948)
2000	25,083	(3,922)	21,161	6,972	(12,488)	428	16,073

</TABLE>

For 2001, we generally expect that the cash flows that we generate from operations are likely to exceed our minimum dividend requirement under the REIT tax rules and our other cash needs. As a result, we currently expect to be able to make an additional net investment in our portfolio operations and/or to be able to pay a dividend in excess of our minimum dividend requirements in the next year.

At December 31, 2000, we had over a dozen uncommitted facilities for short-term collateralized debt, with credit approval for over $4 billion of borrowings. We had no difficulty securing short term borrowings on favorable terms during 2000. Outstanding borrowings under these agreements were $0.7 billion at year-end 2000 and $1.2 billion at year end 1999.

We had three committed borrowing facilities for residential assets totaling $80 million and two borrowing facilities for commercial assets totaling $100 million. There are certain restrictions regarding the collateral for which these committed facilities can be used, but they generally allow us to fund either our commercial mortgage loans or our residential credit-enhancement interests. We had no difficulty during 2000 in meeting the debt covenant tests required by our committed bank credit facility agreements, or in extending these facilities or negotiating new lines. Outstanding borrowings under these committed agreements, including borrowings by Holdings, were $88 million at year end 2000 and $19 million at year end 1999.

Under our internal risk-adjusted capital system, we maintain liquidity reserves in the form of cash and unpledged liquid assets. These liquidity reserves may be needed in the event of a decline in the market value or in the acceptability to lenders of the collateral we pledge to secure short-term borrowings, or for other liquidity needs. We maintained liquidity reserves at or in excess of our policy levels during 2000. At December 31, 2000, we had $54 million of unrestricted cash and highly liquid (unpledged) assets available to meet potential liquidity needs. Total available liquidity equaled 7% of our short-term debt balances. At December 31, 1999, we had $71 million of liquid assets, equaling 6% of our short-term debt balances.

At this time, we see no material negative trends that would affect our access to short-term borrowings or bank credit lines, that would suggest that our liquidity reserves would be called upon, or that would be likely to cause us to be in danger of a covenant default. However many factors, including ones external to us, may affect our liquidity in the future.

The $1.1 billion of long-term debt on our December 31, 2000 balance sheet is non-recourse debt. The holders of our long-term debt can look only to the cash flow from the mortgages specifically collateralizing this debt for repayment. By using this source of financing, our liquidity risks are limited. Our special purpose financing subsidiaries that issue this debt have no call on our general liquidity reserves, and there is no debt rollover risk as the loans are financed to maturity. The market for AAA rated long-term debt of the type that we issue is a large, global market that has been relatively stable for many years. At this time, we know of no reason why we would not be able to issue more of this debt on reasonable terms in 2001 if we should choose to do so.

Excluding short and long term collateralized debt, we are capitalized entirely by common and preferred equity capital. Our equity base increased from $210 million to $216 million during 2000 as a result of internal operations and stock issuance of $0.4 million. We do plan to raise new equity capital in the future when opportunities to expand our business are attractive and when such issuance is likely to benefit earnings and dividends per share.

We have not, to date, issued unsecured corporate debt. In the future, we may consider issuing longer-term unsecured corporate debt to supplement our capital base and improve the efficiency of our capital structure.

The amount of portfolio assets that can be supported with a given capital base is limited by our internal risk-adjusted capital policies. Our risk-adjusted capital policy guideline amounts are expressed in terms of an equity-to-assets ratio and vary with market conditions and asset characteristics. At December 31, 2000, our minimum capital amounts were: 62% of residential credit-enhancement portfolio interests; 100% of net retained interests in residential retained loan portfolio after long-term debt issuance; 15% of short-term debt funded residential whole loans; 9% of investment portfolio securities; and 36% of commercial retained loan portfolio. Our total risk-adjusted capital guideline amount for assets on our balance sheet was $186 million (9% of asset balances) at December 31, 2000. Capital required for commitments for asset purchases settling in 2001 was $13 million. Total capital was $216 million; our capital exceeded our internal risk-adjusted capital policy guideline minimum amount by $17 million at December 31, 2000.

At December 31, 2000, our capital base of $216 million supported at-risk assets (excluding long-term funded residential loans owned by financing trusts) of $983 million funded with short-term debt of $756 million. Excluding non-recourse debt and related assets, our equity-to-assets ratio was 22% and our debt to equity ratio was 3.5 times at year end 2000. At year end 1999, our equity-to-assets ratio was 14% and our debt to equity ratio was 6.0 times.

TABLE 21
RECOURSE ASSETS
(ALL DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

	AT RISK ASSETS	RECOURSE DEBT	EQUITY	EQUITY TO AT-RISK ASSETS	RECOURSE DEBT TO EQUITY
Q1: 1999	$1,288,485	$1,033,643	$ 244,198	18.95%	4.2
Q2: 1999	1,169,880	922,745	241,574	20.65%	3.8
Q3: 1999	1,100,480	854,465	222,898	20.25%	3.8
Q4: 1999	1,471,570	1,253,565	209,935	14.27%	6.0
Q1: 2000	1,141,241	922,405	209,700	18.37%	4.4
Q2: 2000	1,026,281	806,643	208,384	20.30%	3.9
Q3: 2000	1,055,032	822,389	210,664	19.97%	3.9
Q4: 2000	983,097	756,222	215,663	21.94%	3.5
1998	$1,523,280	$1,257,570	$ 254,789	16.73%	4.9
1999	1,471,570	1,253,565	209,935	14.27%	6.0
2000	983,097	756,222	215,663	21.94%	3.5

</TABLE>

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

RWT Holdings, Inc. ("Holdings") was incorporated in Delaware in February 1998 and commenced operations on April 1, 1998. Holdings' start-up operations have been funded primarily by Redwood Trust, which has a significant investment in Holdings. Prior to January 1, 2001, Redwood owned all of Holdings' non-voting preferred stock. Redwood Trust's senior management owned all of Holdings' voting common stock. We refer you to "Note 1. The Company" in the Notes to the Consolidated Financial Statements of RWT Holdings, Inc. and taxable subsidiaries for additional information on Holdings' initial capitalization. On January 1, 2001, Redwood acquired the common stock of Holdings and intends to operate Holdings in the future as a wholly-owned taxable subsidiary with consolidated financial statements.

Holdings originated commercial mortgage loans for sale to institutional investors through its Redwood Commercial Funding, Inc. ("RCF") subsidiary. RCF originated $73 million of commercial mortgage loans in 2000, $42 million in 1999, and $8 million in 1998. After loan sales and payoffs, remaining commercial mortgage loans originated by RCF totaled $76 million at December 31, 2000, of which $57 million were owned by Redwood and $19 million were owned by Holdings.

In 2000, Holdings sold $44 million of commercial loans, some of them to Redwood. In addition, Holdings sold the remaining residential loans that its wholly-owned residential mortgage finance subsidiaries had previously acquired. Net gains on sales recognized by Holdings in 2000

totaled $0.4 million which were offset by unrealized losses on assets of $0.2 million.

Holdings had two other operating businesses, Redwood Financial Services, Inc. ("RFS") and Redwood Residential Funding ("RRF"). Due to a variety of start-up difficulties with these units, operations were closed at RFS in the third quarter of 1999 and at RRF in the fourth quarter of 1999. These closures resulted in restructuring charges of $8 million during the year ended December 31, 1999, and a significant reduction in the headcount and ongoing operating expenses at Holdings. This contributed to Holdings recording a net loss of $22 million in 1999. In 1998, the initial start up expenses associated with these operations resulted in a net loss of $5 million.

Holdings recorded a net loss of $1.5 million in 2000. This was based on net interest income of $0.7 million, net gains on sales of $0.2 million and operating expenses of $2.4 million. Most of the commercial loans originated by RCF were owned by Redwood for most of the year, so Holdings did not benefit from the net interest income on these loans.

At December 31, 2000, Holdings had net operating loss carryforwards of approximately $25 million for federal tax purposes and $11 million for state income tax purposes. The federal loss carryforwards and a portion of the state loss carryforwards expire between 2018 and 2020, while the largest portion of the state carryforwards expire between 2003 and 2005.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We seek to manage the risks inherent in all financial institutions -- interest rate, market value, liquidity, prepayment, and credit risks -- in a prudent manner designed to insure our longevity. At the same time, we endeavor to provide our shareholders an opportunity to realize an attractive total rate of return through stock ownership in our company. We seek, to the best of our ability, to only assume risks that can be quantified from historical experience, to actively manage such risks, to earn sufficient compensation to justify the taking of such risks, and to maintain capital levels consistent with the risks we do undertake.

MARKET VALUE RISK

At December 31, 2000, we owned mortgage securities and loans totaling $0.8 billion that we account for on a mark-to-market basis (in the case of mortgage loans, on a lower-of-cost-or-market basis) for purposes of determining reported earnings. Of these assets, 98% had adjustable-rate coupons and 2% had fixed-rate coupons. All of our $2.0 billion in notional amounts of interest rate agreements are marked-to-market for income statement purposes. Market value fluctuations of these assets and interest rate agreements not only affect our earnings, but also can affect our liquidity, especially to the extent they are funded with short-term borrowings.

At December 31, 2000, we owned $86 million of assets that are marked-to-market on our balance sheet. Market value fluctuations of these assets can affect the reported value of our stockholders' equity base

INTEREST RATE RISK

At December 31, 2000, we owned $2.1 billion of assets and had $1.9 billion of liabilities. The majority of the assets were adjustable-rate, as were a majority of the liabilities.

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

At December 31, 2000, we owned hybrid mortgage assets (with fixed-rate coupons for 3 to 7 years and adjustable-rate coupons thereafter) totaling $0.3 billion. We had debt with interest rate reset characteristics matched to the hybrid mortgages totaling $0.3 billion.

At December 31, 2000, we owned $0.5 billion of adjustable-rate mortgage assets with coupons that adjust monthly as a function of one-month LIBOR interest rates, funded with equity and with debt that also adjusts monthly as a function of one-month LIBOR interest rates. The spread

between the coupon rates on these assets and the cost of funds of our liabilities has been stable.

For other parts of our balance sheet, our net income may fluctuate as the yield curve between one-month interest rates and six- and twelve-month interest rates varies, and as the differences between U.S. Treasury rates, the 11th District cost of funds rate (COFI), and LIBOR rates vary. At December 31, 2000, we owned $0.5 billion of adjustable-rate mortgage assets with interest rates that adjust every six months as a function of six-month LIBOR

interest rates funded with equity and with debt that had an interest rate that adjusts monthly as a function of one-month LIBOR interest rates. Adjustable-rate assets with earnings rates dependent on one-year U.S. Treasury rates with annual adjustments totaled $0.6 billion at December 31, 2000. These Treasury-based assets were effectively funded with equity and with $0.3 billion of liabilities with a cost of funds dependent on one-year U.S. Treasury rates with annual adjustments. The remainder of the liabilities associated with these assets had a cost of funds dependent on one-month LIBOR rates or the daily Fed Funds rate.

At December 31, 2000, we owned a total of $81 million of fixed rate assets funded, in part, with short-term variable rate debt which is only partially hedged. Holding these positions should mitigate earnings declines caused by lower yields on equity-funded assets as interest rates fall. As interest rates rise, net earnings on these assets should fall, but this would likely be offset, in part, by the beneficial effect of higher yields on equity-funded assets.

Interest rates and related factors can affect our spread income and our mark to market results. Changes in interest rates also affect prepayment rates (see below) and influence other factors that may affect our results.

LIQUIDITY RISK

Our primary liquidity risk arises from financing long-maturity mortgage assets with short-term debt. Even if the interest rate adjustments of these assets and liabilities are well matched, maturities may not be matched. In addition, trends in the liquidity of the U.S. capital markets in general may affect our ability to rollover short-term debt. At December 31, 2000, we had $0.8 billion of short-term debt.

PREPAYMENT RISK

At December 31, 2000, mortgage premium balances were $22 million. Most of this premium, $14 million, was associated with our residential retained loan portfolio, and the rest, $8 million, with our investment portfolio. Total mortgage discount balances were $44 million, primarily all of which was associated with our credit-enhancement portfolio. Of this total discount amount, we are currently amortizing $17 million into income over time in a manner dependent on mortgage prepayment rates. The remainder, $27 million, we have designated as a credit reserve to provide for future losses. We will realize this portion of our discount as income only if future credit losses are less than projected. Our net premium balance for our whole balance sheet, after removing the designated credit reserve, was $5 million.

CREDIT RISK

Our principal credit risk comes from residential mortgage loans in our retained portfolio and credit-enhancement portfolio and from our commercial mortgage loan portfolio. A small amount of our investment portfolio is currently exposed to credit risk; the bulk of this portfolio has very high credit ratings and would not normally be expected to incur credit losses. We have credit risk with counter-parties with whom we do business.

It should be noted that the establishment of a credit reserve for GAAP purposes for our residential retained portfolio or a designated credit reserve under the effective yield method for our credit-enhancement portfolio does not reduce our taxable income or our dividend payment obligations as a REIT. For taxable income, many of our credit expenses will be recognized only as incurred. Thus, the timing of recognition of credit losses for GAAP and tax, and for our earnings and our dividends, may differ.

The method that we use to account for future credit losses depends upon the type of asset that we own. For our credit enhancement portfolio, we effectively are provided with a credit reserve upon the acquisition of such assets. We designate a portion of our discount as a credit reserve. In addition, first loss and other credit-enhancement interests that are

junior to our positions that we do not own act as a form of credit reserve for us on a specific asset basis. For our retained residential mortgage loan portfolio, we establish a credit reserve based on anticipation of losses. For our investment portfolio, most of the assets do not have material credit risk, and no credit reserves are generally established. When we acquire any assets for this portfolio where credit risk exists, we will establish the appropriate reserve as necessary. For our commercial retained portfolio, we take credit reserves on a specific asset basis when specific circumstances may warrant such a charge for a particular loan. Management constantly monitors the performance of all of its assets and takes appropriate actions to mitigate potential losses to the extent

possible. Regardless of how we account for future credit loss expectations, there can be no assurance that our estimates will be prove to be correct, and thus we may need to adjust the amounts of credit reserves we have established.

CAPITAL RISK

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

Through our risk-adjusted capital policy, we assign a guideline capital adequacy amount, expressed as a guideline equity-to-assets ratio, to each of our mortgage assets. For short-term funded assets, this ratio will fluctuate over time, based on changes in that asset's credit quality, liquidity characteristics, potential for market value fluctuation, interest rate risk, prepayment risk, and the over-collateralization requirements for that asset set by our collateralized short-term lenders. Capital requirements for residential mortgage securities rated below AA, residential credit-enhancement interests, retained interests from our Sequoia securitizations of our residential retained portfolio assets, and commercial mortgage whole loans are generally higher than for higher-rated residential securities and residential whole loans. Capital requirements for these less-liquid assets depend chiefly on our access to secure funding for these assets, the number of sources of such funding, the funding terms, and on the amount of extra capital we decide to hold on hand to protect against possible liquidity events with these assets. Capital requirements for most of our retained interests in Sequoia generally equal our net investment. The sum of the capital adequacy amounts for all of our mortgage assets is our aggregate capital adequacy guideline amount.

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

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

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

INFLATION RISK

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

Our financial statements are prepared in accordance with GAAP and our dividends must equal at least 95% (90% for years 2001 and after) of our net income as calculated for tax purposes. In each case, our activities and balance sheet are measured with reference to historical cost or fair market value without considering inflation.

QUANTITATIVE INFORMATION ABOUT MARKET RISK

The information presented in the table on the following pages includes all of our interest rate sensitive assets and liabilities. We acquire interest-rate sensitive assets, fund them with interest-rate sensitive liabilities and also utilize

interest-rate sensitive derivative financial instruments. We designate some of these assets as "trading." The designation of an asset as "trading" does not necessarily imply that we have a short-term intended holding period for that asset.

The table below includes information about the possible future repayments and interest rates of our assets and liabilities and constitutes a "forward-looking statement." There are many assumptions used to generate this information and there can be no assurance that assumed events will occur as assumed. Other events will occur and will affect the outcomes. Furthermore, future sales, acquisitions, calls, and restructurings could materially change our interest rate risk profile.

For interest-rate sensitive assets, the table presents principal cash flows and related average interest rates by year of maturity. The forward curve (future interest rates as implied by the yield structure of debt markets) as of December 31, 2000 was used to project the average interest rates for each year, based on the existing characteristics of the portfolio. The maturity of cash flows includes assumptions on the prepayment speeds of these assets based on their recent prepayment performance; actual prepayment speeds will vary.

QUANTITATIVE INFORMATION ON MARKET RISK
(ALL DOLLARS IN THOUSANDS)
INTEREST RATE SENSITIVE ASSETS

<TABLE>
<CAPTION>

		PRINCIPAL AMOUNTS MATURING AND EFFECTIVE RATES DURING PERIOD					
		2001	2002	2003	2004	2005	THEREAFTER
RESIDENTIAL CREDIT ENHANCEMENT INTERESTS	Principal	441	502	528	589	1,984	36,152
ADJUSTABLE RATE	Interest Rate	8.48%	8.20%	8.41%	8.53%	8.53%	9.00%
	Principal	226	243	262	957	2,063	10,045
HYBRID	Interest Rate	7.25%	7.25%	7.25%	7.20%	7.14%	7.61%
	Principal	854	916	983	1,054	1,130	65,948
FIXED RATE	Interest Rate	7.02%	7.02%	7.02%	7.02%	7.02%	7.02%
RETAINED RESIDENTIAL LOAN PORTFOLIO	Principal Value	247,598	172,757	120,197	82,381	56,510	122,741
ADJUSTABLE RATE RESIDENTIAL MORTGAGE LOANS	Interest Rate	7.51%	7.23%	7.46%	7.59%	7.59%	7.80%
	Principal Value	157,183	93,581	31,690	17,216	9,337	10,979

HYBRID RESIDENTIAL MORTGAGE LOANS	Interest Rate	6.79%	6.82%	7.49%	7.37%	7.29%	7.72%
INVESTMENT PORTFOLIO	Principal Value	252,420	162,532	105,159	68,649	45,152	89,383
ADJUSTABLE RATE MORTGAGE SECURITIES	Interest Rate	7.67%	7.07%	7.18%	7.20%	7.12%	7.45%
	Principal Value	2,062	5,656	6,668	7,305	4,794	7,168
FIXED RATE MORTGAGE SECURITIES	Interest Rate	7.38%	7.42%	7.43%	7.43%	7.41%	7.37%
COMMERCIAL RETAINED LOAN PORTFOLIO	Principal Value	13,226	16,243	22,675	0	0	0
ADJUSTABLE RATE MORTGAGE LOANS	Interest Rate	10.63%	9.49%	9.50%	n/a	n/a	n/a
	Principal Value	74	82	883	84	92	4,340
HYBRID MORTGAGE LOANS	Interest Rate	9.50%	9.50%	9.50%	9.51%	9.56%	9.92%
INTEREST-RATE SENSITIVE LIABILITIES							
SHORT-TERM DEBT	Principal	756,222	0	0	0	0	0
REVERSE REPURCHASE AGREEMENTS	Interest Rate	6.85%	n/a	n/a	n/a	n/a	n/a
AND BANK WAREHOUSE FACILITIES							
LONG-TERM DEBT	Principal	244,165	171,058	119,359	81,968	56,306	111,156
VARIABLE RATE	Interest Rate	6.39%	5.97%	6.15%	6.24%	6.21%	6.45%
	Principal	157,183	93,581	31,690	17,216	9,337	2,890
HYBRID (FIXED TO DECEMBER 2002)	Interest Rate	6.35%	6.40%	6.60%	7.16%	7.36%	7.51%

</TABLE>

<TABLE>
<CAPTION>

		AT DECEMBER 31, 2000		
		PRINCIPAL VALUE	REPORTED VALUE	EST. MARKET VALUE
<S>	<C>	<C>	<C>	<C>
RESIDENTIAL CREDIT ENHANCEMENT INTERESTS	Principal	40,196	28,206	28,206
ADJUSTABLE RATE	Interest Rate		70.17%	70.17%
	Principal	13,797	7,419	7,419
HYBRID	Interest Rate		53.77%	53.77%
	Principal	70,885	45,140	45,140
FIXED RATE	Interest Rate		63.68%	63.68%
RETAINED RESIDENTIAL LOAN PORTFOLIO	Principal Value	802,183	811,927	801,605
ADJUSTABLE RATE RESIDENTIAL MORTGAGE LOANS	Interest Rate		101.21%	99.93%
	Principal Value	319,986	319,069	318,442
HYBRID RESIDENTIAL MORTGAGE LOANS	Interest Rate		99.71%	99.52%
INVESTMENT PORTFOLIO	Principal Value	723,295	731,529	731,529
ADJUSTABLE RATE MORTGAGE SECURITIES	Interest Rate		101.14%	101.14%
	Principal Value	33,654	33,246	33,246
FIXED RATE MORTGAGE SECURITIES	Interest Rate		98.79%	98.79%

COMMERCIAL RETAINED LOAN PORTFOLIO ADJUSTABLE RATE MORTGAGE LOANS	Principal Value	52,144	51,992	51,992
	Interest Rate		99.71%	99.71%
HYBRID MORTGAGE LOANS	Principal Value	5,556	5,177	5,177
	Interest Rate		93.19%	93.19%
INTEREST-RATE SENSITIVE LIABILITIES				
SHORT-TERM DEBT REVERSE REPURCHASE AGREEMENTS AND BANK WAREHOUSE FACILITIES	Principal	756,222	756,222	756,222
	Interest Rate		100.00%	100.00%
LONG-TERM DEBT VARIABLE RATE	Principal	784,012	784,462	777,624
	Interest Rate		100.06%	99.19%
HYBRID (FIXED TO DECEMBER 2002)	Principal	311,897	311,373	307,843
	Interest Rate		99.83%	98.70%

</TABLE>

QUANTITATIVE INFORMATION ON MARKET RISK
(ALL DOLLARS IN THOUSANDS)
(CONTINUED)
INTEREST RATE AGREEMENTS
(INTEREST RATE AGREEMENTS WHICH REPRESENT MIRRORING TRANSACTIONS ARE NOT INCLUDED IN THIS TABLE.)

<TABLE>
<CAPTION>

		NOTIONAL AMOUNTS MATURING AND EFFECTIVE RATES DURING PERIOD					
		2001	2002	2003	2004	2005	THEREAFTER
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
INTEREST RATE CAPS - (SEE BELOW FOR DETAILS)	Notional	851,000	309,900	5,800	59,600	84,000	12,000
(PURCHASED)	Strike Rate	8.81%	10.31%	7.14%	6.49%	8.23%	7.35%
FLOORS	Notional	0	5,000	2,000	1,000	5,000	5,000
(PURCHASED)	Strike Rate	n/a	5.33%	5.33%	5.33%	5.62%	6.00%
EURODOLLAR FUTURES	Notional	101,000	61,000	56,000	56,000	22,000	10,000
(SOLD)	Sale Price	93.20%	93.36%	93.20%	92.86%	92.95%	92.35%
5 YEAR TREASURY NOTE FUTURES	Notional	600	0	0	0	0	0
(SOLD)	Sale Price	101.88%	n/a	n/a	n/a	n/a	n/a
PUT OPTIONS ON EURODOLLAR FUTURES	Notional	125,000	0	0	0	0	0
(PURCHASED)	Strike Price	93.06%	n/a	n/a	n/a	n/a	n/a
CALL OPTIONS ON EURODOLLAR FUTURES	Notional	25,000	0	0	0	0	0
(PURCHASED)	Strike Price	93.00%	n/a	n/a	n/a	n/a	n/a
FORWARD RATE AGREEMENT	Notional	200,000	0	0	0	0	0
(SOLD)	Strike Rate	7.00%	n/a	n/a	n/a	n/a	n/a
INTEREST RATE SWAPS	Notional	0	0	0	0	0	5,000
(PURCHASED)	Strike Rate	n/a	n/a	n/a	n/a	n/a	6.29%

DETAIL OF INTEREST RATE CAPS (TOTALED ABOVE)							
with Strike Rates < 6%	Notional	0	0	0	0	0	0
	Strike Rate	n/a	n/a	n/a	n/a	n/a	n/a
with Strike Rates of 6% to 7%	Notional	80,000	4,000	0	54,000	0	2,000
	Strike Rate	6.69%	6.25%	n/a	6.32%	n/a	6.63%
with Strike Rates of 7% to 8%	Notional	270,000	0	5,000	0	18,000	10,000
	Strike Rate	7.59%	n/a	7.00%	n/a	7.40%	7.50%
with Strike Rates of 8% to 9%	Notional	0	5,000	0	5,000	54,000	0
	Strike Rate	n/a	8.60%	n/a	8.00%	8.34%	n/a
with Strike Rates of 9% to 10%	Notional	201,000	900	800	600	12,000	0
	Strike Rate	9.53%	9.00%	9.00%	9.00%	9.00%	n/a
with Strike Rates of 10% to 11%	Notional	300,000	200,000	0	0	0	0
	Strike Rate	10.00%	10.10%	n/a	n/a	n/a	n/a
with Strike Rates > 11%	Notional	0	100,000	0	0	0	0
	Strike Rate	n/a	11.00%	n/a	n/a	n/a	n/a

</TABLE>

<TABLE>
<CAPTION>

		AT DECEMBER 31, 2000		
		NOTIONAL VALUE	REPORTED VALUE	EST. MARKET VALUE
<S>	<C>	<C>	<C>	<C>
INTEREST RATE CAPS - (SEE BELOW FOR DETAILS)	Notional	1,322,300	591	591
(PURCHASED)	Strike Rate		0.04%	0.04%
FLOORS	Notional	18,000	272	272
(PURCHASED)	Strike Rate		1.51%	1.51%
EURODOLLAR FUTURES	Notional	306,000	(775)	(775)
(SOLD)	Sale Price		-0.25%	-0.25%
5 YEAR TREASURY NOTE FUTURES	Notional	600	(10)	(10)
(SOLD)	Sale Price		-1.69%	-1.69%
PUT OPTIONS ON EURODOLLAR FUTURES	Notional	125,000	2	2
(PURCHASED)	Strike Price		0.00%	0.00%
CALL OPTIONS ON EURODOLLAR FUTURES	Notional	25,000	69	69
(PURCHASED)	Strike Price		0.28%	0.28%
FORWARD RATE AGREEMENT	Notional	200,000	0	0
(SOLD)	Strike Rate		0.00%	0.00%
INTEREST RATE SWAPS	Notional	5,000	(83)	(83)
(PURCHASED)	Strike Rate		-1.65%	-1.65%
DETAIL OF INTEREST RATE CAPS (TOTALED ABOVE)				
with Strike Rates < 6%	Notional	0	0	0
	Strike Rate		n/a	n/a
with Strike Rates of 6% to 7%	Notional	140,000	282	282
	Strike Rate		0.20%	0.20%
with Strike Rates of 7% to 8%	Notional	303,000	185	185
	Strike Rate		0.06%	0.06%
with Strike Rates of 8% to 9%	Notional	64,000	108	108

	Strike Rate		0.17%	0.17%
with Strike Rates of 9% to 10%	Notional	215,300	17	17
	Strike Rate		0.01%	0.01%
with Strike Rates of 10% to 11%	Notional	500,000	0	0
	Strike Rate		0.00%	0.00%
with Strike Rates > 11%	Notional	100,000	0	0
	Strike Rate		0.00%	0.00%

</TABLE>

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of the Company and Holdings and the related Notes, together with the Reports of Independent Accountants thereon, are set forth on pages F-1 through F-42 of this Form 10-K and incorporated herein by reference.

ITEM 9. CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 as to directors and executive officers of the Company is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A under the headings "Election of Directors" and "Management of the Company."

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A under the heading "Executive Compensation."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A under the heading "Security Ownership of Certain Beneficial Owners and Management."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A under the heading "Executive Compensation -- Certain Relationships and Related Transactions."

PART IV

ITEM 14. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENTS SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

(1) Consolidated Financial Statements

(2) Schedules to Consolidated Financial Statements: All Consolidated Financial Statements schedules not included have been omitted because they are either inapplicable or the information required is provided in the Company's Consolidated Financial Statements and Notes thereto, included in Part II, Item 8, of this Annual Report on Form 10-K.

(3) Exhibits:

<TABLE>
<CAPTION>

Exhibit Number	Exhibit
<S>	<C>
3.1	Articles of Amendment and Restatement of the Registrant (a)

3.1.1	Certified Certificate of Amendment of the Charter of Registrant (l)
3.2	Articles Supplementary of the Registrant (a)
3.3	Amended and Restated Bylaws of the Registrant (b)
3.3.1	Amended and Restated Bylaws, amended December 13, 1996 (g)
3.3.2	Amended and Restated Bylaws, amended March 15, 2001
3.4	Articles Supplementary of the Registrant, dated August 14, 1995 (d)
3.4.1	Articles Supplementary of the Registrant relating to the Class B 9.74% Cumulative Convertible Preferred Stock, filed August 9, 1996 (f)
4.2	Specimen Common Stock Certificate (a)
4.3	Specimen Class B 9.74% Cumulative Convertible Preferred Stock Certificate (f)
4.4	In May 1999, the Bonds issued pursuant to the Indenture, dated as of June 1, 1997, between Sequoia Mortgage Trust 1 and First Union National Bank, as Trustee, were redeemed, restructured, and contributed to Sequoia Mortgage Trust 1A, interests in which were then privately placed with investors (i)
4.4.1	Indenture dated as of October 1, 1997 between Sequoia Mortgage Trust 2 (a wholly-owned, consolidated subsidiary of the Registrant) and Norwest Bank Minnesota, N.A., as Trustee (j)
4.4.2	Sequoia Mortgage Trust 1A Trust Agreement, dated as of May 4, 1999 between Sequoia Mortgage Trust 1 and First Union National Bank (m)
9.1	Voting Agreement, dated March 10, 2000
10.1	Purchase Terms Agreement, dated August 18, 1994, between the Registrant and Montgomery Securities (a)
10.2	Registration Rights Agreement, dated August 19, 1994, between the Registrant and Montgomery Securities (a)
10.3	[Reserved]
10.4	Founders Rights Agreement, dated August 19, 1994, between the Registrant and the original holders of Common Stock of the Registrant (a)
10.5	Form of Reverse Repurchase Agreement for use with Agency Certificates, Privately-Issued Certificates and Privately-Issued CMOs (a)
10.5.1	Form of Reverse Repurchase Agreement for use with Mortgage Loans (d)
10.6.1	[Reserved]
10.7	[Reserved]
10.8	Forms of Interest Rate Cap Agreements (a)
10.9	[Reserved]
10.9.2	[Reserved]
10.9.3	Custodian Agreement (U.S. Custody), dated December 1, 2000, between the Registrant and Bankers Trust Company
10.10	Employment Agreement, dated August 19, 1994, between the Registrant and George E. Bull (a)
10.11	Employment Agreement, dated August 19, 1994, between the Registrant and Douglas B. Hansen (a)
10.12	[Reserved]
10.13	[Reserved]
10.13.1	Employment Agreement, dated March 13, 2000, between the Registrant and Harold F. Zagunis (o)
10.13.2	Employment Agreement, dated March 23, 2001, between the Registrant and Andrew I. Sirkis
10.13.3	Employment Agreement, dated April 20, 2000, between the Registrant

	and Brett D. Nicholas
10.14	1994 Amended and Restated Executive and Non-Employee Director Stock Option Plan (c)
10.14.1	1994 Amended and Restated Executive and Non-Employee Director Stock Option Plan, amended March 6, 1996 (d)

10.14.2	Amended and Restated 1994 Executive and Non-Employee Director Stock Option Plan, amended December 13, 1996 (h)
10.14.3	Amended and Restated Executive and Non-Employee Director Stock Option Plan, amended March 4, 1999 (p)
10.14.4	Amended and Restated Executive and Non-Employee Director Stock Option Plan, amended January 18, 2001
10.27	[Reserved]
10.29	[Reserved]
10.29.1	Form of Dividend Reinvestment and Stock Purchase Plan (g)
10.30	Office Building Lease (d)
10.30.1	Amendment to Office Building Lease (k)
10.31	RWT Holdings, Inc. Series A Preferred Stock Purchase Agreement, dated March 1, 1998 (n)
10.32	Administrative Personnel and Facilities Agreement dated as of April 1, 1998, between Redwood Trust, Inc. and RWT Holdings, Inc. (n)
10.32.1	First Amendment to Administrative Personnel and Facilities Agreement dated as of April 1, 1998, between Redwood Trust, Inc. and RWT Holdings, Inc. (n)
10.33	Lending and Credit Support Agreement dated as of April 1, 1998, between RWT Holdings, Inc., Redwood Residential Funding, Inc., Redwood Commercial Funding, Inc., and Redwood Financial Services, Inc., and Redwood Trust, Inc. (n)
10.34	Form of Master Forward Commitment Agreements for RWT Holdings, Inc., Residential Redwood Funding, Inc., Redwood Commercial Funding, Inc. and Redwood Financial Services, Inc. (n)
11.1	Statement re: Computation of Per Share Earnings
21	List of Subsidiaries
23	Consent of Accountants

- ----------------------

(a) Incorporated by reference to the correspondingly numbered exhibit to the Registration Statement on Form S-11 (33-92272) filed by the Registrant with the Securities and Exchange Commission on May 19, 1995.

(b) Incorporated by reference to the correspondingly numbered exhibit to the Registration Statement on Form S-11 (33-97946) filed by the Registrant with the Securities and Exchange Commission on October 10, 1995.

(c) Incorporated by reference to the correspondingly numbered exhibit to the Registration Statement on Form S-11 (33-94160) filed by the Registrant with the Securities and Exchange Commission on June 30, 1995.

(d) Incorporated by reference to the correspondingly numbered exhibit to the Registration Statement on Form S-11 (333-02962) filed by the Registrant with the Securities and Exchange Commission on March 26, 1996.

(e) [Reserved]

(f) Incorporated by reference to the correspondingly numbered

exhibit to the Registration Statement on Form S-11 (333-08363) filed by the Registrant with the Securities and Exchange Commission on July 18, 1996.

(g) Incorporated by reference to the Registration Statement on Form S-3 (333-18061) filed by the Registrant with the Securities and Exchange Commission on January 2, 1997.

(h) Incorporated by reference to the correspondingly numbered exhibit to Form 8-K (000-26436) filed by the Registrant with the Securities and Exchange Commission on January 7, 1997.

(i) Incorporated by reference to the Form 8-K filed by Sequoia Mortgage Funding Corporation with the Securities and Exchange Commission on August 12, 1997.

(j) Incorporated by reference to the Form 8-K filed by Sequoia Mortgage Funding Corporation with the Securities and Exchange Commission on November 18, 1997.

(k) Incorporated by reference to the Form 10-K (1-13759) filed by the Registrant with the Securities and Exchange Commission for the fiscal year ended December 31, 1997.

(l) Incorporated by reference to the Form 8-K (1-13759) filed by the Registrant with the Securities and Exchange Commission on July 20, 1998.

(m) Incorporated by reference to the Form 10-Q (0-26436) filed by the Registrant with the Securities and Exchange Commission for the fiscal quarter ended June 30, 1999.

(n) Incorporated by reference to the Form 10-K (1-13759) filed by the Registrant with the Securities and Exchange Commission for the fiscal year ended December 31, 1998.

(o) Incorporated by reference to the Form 10-Q (1-13759) filed by the Registrant with the Securities and Exchange Commission for the fiscal quarter ended March 31, 2000.

(p) Incorporated by reference to the Form 10-K (1-13759) filed by the Registrant with the Securities and Exchange Commission for the fiscal year ended December 31, 1999

(b) Reports on Form 8-K:

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REDWOOD TRUST, INC.

Dated: March 27, 2001 By: /s/ George E. Bull

George E. Bull
Chairman and Chief
Executive Officer

Pursuant to the requirements the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

Signature	Title	Date
<S>	<C>	<C>
/s/ George E. Bull	George E. Bull Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 27, 2001

/s/ Douglas B. Hansen	Douglas B. Hansen Director, President	March 27, 2001
/s/ Harold F. Zagunis	Harold F. Zagunis Chief Financial Officer, Secretary, Treasurer and Controller (Principal Financial and Accounting Officer)	March 27, 2001
/s/ Richard D. Baum	Richard D. Baum Director	March 27, 2001
/s/ Thomas C. Brown	Thomas C. Brown Director	March 27, 2001
/s/ Mariann Byerwalter	Mariann Byerwalter Director	March 27, 2001
/s/ Thomas F. Farb	Thomas F. Farb Director	March 27, 2001
/s/ Charles J. Toeniskoetter	Charles J. Toeniskoetter Director	March 27, 2001
/s/ David L. Tyler	David L. Tyler Director	March 27, 2001

</TABLE>

REDWOOD TRUST, INC.

CONSOLIDATED FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT ACCOUNTANTS

FOR INCLUSION IN FORM 10-K

ANNUAL REPORT FILED WITH

SECURITIES AND EXCHANGE COMMISSION

DECEMBER 31, 2000

REDWOOD TRUST, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

	Page
Consolidated Financial Statements - Redwood Trust, Inc.:	
Consolidated Balance Sheets at December 31, 2000 and 1999	F-3
Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998	F-4
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998	F-6
Notes to Consolidated Financial Statements	F-7
Report of Independent Accountants	F-28

</TABLE>

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

<TABLE>
<CAPTION>

<S>	December 31, 2000 <C>	December 31, 1999 <C>
ASSETS		
Net Investment In Residential Credit Enhancement Interests:		
Mortgage securities available-for-sale	$ 48,495	$ 23,237
Mortgage securities available-for-sale, pledged	32,269	3,762
	80,764	26,999
Residential Retained Loan Portfolio:		
Mortgage loans held-for-investment	1,124,339	969,709
Mortgage loans held-for-sale	531	7,639
Mortgage loans held-for-sale, pledged	6,127	408,241
	1,130,997	1,385,589
Investment Portfolio:		
Mortgage securities trading	57,450	60,878
Mortgage securities trading, pledged	702,162	880,903
Mortgage securities available-for-sale	5,163	--
	764,775	941,781
Commercial Retained Loan Portfolio:		
Mortgage loans held-for-investment	5,177	--
Mortgage loans held-for-investment, pledged	17,717	--
Mortgage loans held-for-sale	14,325	8,437
Mortgage loans held-for-sale, pledged	19,950	--
	57,169	8,437
Cash and cash equivalents	15,483	19,881
Restricted cash	5,240	5,384
Interest rate agreements	66	2,037
Accrued interest receivable	15,797	13,244
Principal receivable	7,986	4,599
Investment in RWT Holdings, Inc.	1,899	3,391
Loans to RWT Holdings, Inc.	--	6,500
Receivable from RWT Holdings, Inc.	--	472
Other assets	1,939	1,614
Total Assets	$ 2,082,115	$ 2,419,928
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Short-term debt	$ 756,222	$ 1,253,565
Long-term debt, net	1,095,835	945,270
Accrued interest payable	5,657	5,462
Accrued expenses and other liabilities	4,180	2,819
Dividends payable	4,557	2,877
Total Liabilities	1,866,451	2,209,993
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.01 per share; Class B 9.74% Cumulative Convertible 902,068 shares authorized, issued and outstanding ($28,645 aggregate liquidation preference)	26,517	26,517
Common stock, par value $0.01 per share; 49,097,932 shares authorized; 8,809,500 and 8,783,341 issued and outstanding	88	88
Additional paid-in capital	242,522	242,094
Accumulated other comprehensive income	(89)	(3,348)
Cumulative earnings	27,074	8,140
Cumulative distributions to stockholders	(80,448)	(63,556)
Total Stockholders' Equity	215,664	209,935
Total Liabilities and Stockholders' Equity	$ 2,082,115	$ 2,419,928

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share data)

	Years Ended December 31, 2000	1999	1998
INTEREST INCOME			
Net Investment In Residential Credit Enhancement Interests:			
Mortgage securities available-for-sale	$ 8,524	$ 4,202	$ 2,963
Residential Retained Loan Portfolio:			
Mortgage loans held-for-investment	83,815	65,930	112,242
Mortgage loans held-for-sale	7,050	7,220	9,005
	90,865	73,150	121,247
Investment Portfolio:			
Mortgage securities trading	67,055	65,300	46,162
Mortgage securities available-for-sale	151	--	49,675
U.S. Treasury securities trading	--	919	575
	67,206	66,219	96,412
Commercial Retained Loan Portfolio:			
Mortgage loans held-for-investment	520	--	--
Mortgage loans held-for-sale	1,482	1,081	102
	2,002	1,081	102
Cash and cash equivalents	1,395	2,658	2,080
Total interest income	169,992	147,310	222,804
INTEREST EXPENSE			
Short-term debt	(61,355)	(51,377)	(114,763)
Long-term debt	(76,294)	(65,785)	(81,361)
Total interest expense	(137,649)	(117,162)	(196,124)
Net interest rate agreements expense	(954)	(2,065)	(3,514)
Provision for credit losses on residential mortgage loans held-for-investment	(731)	(1,346)	(1,120)
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	30,658	26,737	22,046
Net unrealized and realized market value gains (losses)			
Loans and securities	1,060	(1,700)	(33,034)
Interest rate agreements	(3,356)	1,984	(5,909)
Total net unrealized and realized market value gains (losses)	(2,296)	284	(38,943)
Operating expenses	(7,850)	(3,835)	

			(5,876)
Other income	98	175	139
Equity in losses of RWT Holdings, Inc.	(1,676)	(21,633)	(4,676)
Net income (loss) before preferred dividend and change in accounting principle	18,934	1,728	(27,310)
Less dividends on Class B preferred stock	(2,724)	(2,741)	(2,747)
Net income (loss) before change in accounting principle	16,210	(1,013)	(30,057)
Cumulative transition effect of adopting SFAS No. 133 (See Note 2)	--	--	(10,061)
NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS	$ 16,210	$ (1,013)	$ (40,118)
Earnings (Loss) per Share:			
Basic Earnings (Loss) Per Share:			
Net income (loss) before change in accounting principle	$ 1.84	$ (0.10)	$ (2.28)
Cumulative transition effect of adopting SFAS No. 133	$ --	$ --	$ (0.76)
Net income (loss)	$ 1.84	$ (0.10)	$ (3.04)
Diluted Earnings (Loss) Per Share:			
Net income (loss) before change in accounting principle	$ 1.82	$ (0.10)	$ (2.28)
Cumulative transition effect of adopting SFAS No. 133	$ --	$ --	$ (0.76)
Net income (loss)	$ 1.82	$ (0.10)	$ (3.04)
Weighted average shares of common stock and common stock equivalents:			
Basic	8,793,487	9,768,345	13,199,819
Diluted	8,902,069	9,768,345	13,199,819

</TABLE>

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

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

<TABLE>
<CAPTION>

	Class B Preferred stock Shares	Class B Preferred stock Amount	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated other comprehensive income	Cumulative earnings	Cumulative distributions to stockholders	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, December 31, 1997	909,518	26,736	14,284,657	143	324,555	(10,071)	43,783	(50,609)	334,537
Comprehensive income:									
Net loss before preferred dividend and change in accounting principle	-	-	-	-	-	-	(27,310)	-	(27,310)
Reclassification adjustment due to adoption of									

SFAS No. 133	-	-	-	-	-	19,457	-	-	19,457
Net unrealized loss on assets available-for-sale	-	-	-	-	-	(9,756)	-	-	(9,756)
Total comprehensive income	-	-	-	-	-	-	-	-	(17,609)
Cumulative transition effect of adopting SFAS No. 133	-	-	-	-	-	-	(10,061)	-	(10,061)
Issuance of common stock	-	-	98,399	1	1,563	-	-	-	1,564
Repurchase of common stock	-	-	(3,131,500)	(31)	(46,917)	-	-	-	(46,948)
Dividends declared:									
Preferred	-	-	-	-	-	-	-	(2,747)	(2,747)
Common	-	-	-	-	-	-	-	(3,946)	(3,946)
Balance, December 31, 1998	909,518	26,736	11,251,556	113	279,201	(370)	6,412	(57,302)	254,790
Comprehensive income:									
Net income before preferred dividend	-	-	-	-	-	-	1,728	-	1,728
Net unrealized loss on assets available-for-sale	-	-	-	-	-	(2,978)	-	-	(2,978)
Total comprehensive loss	-	-	-	-	-	-	-	-	(1,250)
Repurchase of preferred stock	(7,450)	(219)	-	-	-	-	-	-	(219)
Issuance of common stock	-	-	15,285	-	22	-	-	-	22
Repurchase of common stock	-	-	(2,483,500)	(25)	(37,129)	-	-	-	(37,154)
Dividends declared:									
Preferred	-	-	-	-	-	-	-	(2,741)	(2,741)
Common	-	-	-	-	-	-	-	(3,513)	(3,513)
Balance, December 31, 1999	902,068	$ 26,517	8,783,341	$ 88	$242,094	$ (3,348)	$ 8,140	$ (63,556)	$209,935
Comprehensive income:									
Net income before preferred dividend	-	-	-	-	-	-	18,934	-	18,934
Net unrealized income on assets available-for-sale	-	-	-	-	-	3,259	-	-	3,259
Total comprehensive income	-	-	-	-	-	-	-	-	22,193
Issuance of common stock	-	-	26,159	-	428	-	-		

								-	428
Dividends declared:									
Preferred	-	-	-	-	-	-	-	(2,724)	(2,724)
Common	-	-	-	-	-	-	-	(14,168)	(14,168)
Balance, December 31, 2000	902,068	$ 26,517	8,809,500	$ 88	$242,522	$ (89)	$ 27,074	$ (80,448)	$ 215,664

</TABLE>

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

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

<TABLE>
<CAPTION>

	Years Ended December 31,		
	2000	1999	1998
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss) before preferred dividend and change in accounting principle	$ 18,934	$ 1,728	$ (27,310)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	4,170	6,773	32,046
Provision for credit losses	731	1,346	1,120
Equity in losses of RWT Holdings, Inc.	1,676	21,633	4,676
Net unrealized and realized market value losses (gains)	2,296	(284)	38,943
Purchases of mortgage loans held-for-sale	(92,532)	(516,408)	(8,296)
Proceeds from sales of mortgage loans held-for-sale	455,389	153,303	688,941
Principal payments on mortgage loans held-for-sale	20,598	59,782	202,965
Purchases of mortgage securities trading	(302,585)	(170,723)	(149,934)
Proceeds from sales of mortgage securities trading	205,472	7,668	--
Principal payments on mortgage securities trading	277,489	460,508	433,637
Purchases of U.S. Treasury securities trading	--	(45,844)	(49,704)
Proceeds from sales of U.S. Treasury securities trading	--	90,519	--
Net (purchases) sales of interest rate agreements	(2,810)	276	(11,604)
(Increase) decrease in accrued interest receivable	(2,553)	5,238	4,637
(Increase) decrease in principal receivable	(3,387)	7,836	(323)
(Increase) decrease in other assets	(365)	195	595
Increase (decrease) in accrued interest payable	195	(5,358)	(3,656)
Increase (decrease) in accrued expenses and other liabilities	1,361	(203)	850
Net cash provided by operating activities	584,079	77,985	1,157,583
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of mortgage loans held-for-investment	(407,204)	--	(1,596,673)
Proceeds from sales of mortgage loans held-for-investment	--	--	369,119
Principal payments on mortgage loans held-for-investment	226,179	310,892	475,905
Purchases of mortgage securities available-for-sale	(58,306)	(17,691)	(231,167)
Proceeds from sales of mortgage securities available-for-sale	2,897	--	9,296
Principal payments on mortgage securities available-for-sale	1,875	442	443,057
Net decrease in restricted cash	144	7,473	11,800
Investment in RWT Holdings, Inc., net of dividends received	--	(9,900)	(19,800)
Loans to RWT Holdings, Inc., net of repayments	6,500	--	(6,500)
Decrease (increase) in receivable from RWT Holdings, Inc.	472	(27)	(445)
Net cash (used in) provided by investing activities	(227,442)	291,189	(545,408)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net repayments on short-term debt	(497,343)	(4,005)	(656,955)
Proceeds (costs) from issuance of long-term debt	375,844	(337)	635,193
Repayments on long-term debt	(225,434)	(359,180)	(502,601)
Net proceeds from issuance of common stock	428	22	1,564
Repurchases of preferred stock	--	(202)	--
Repurchases of common stock	--	(37,154)	(46,948)
Dividends paid	(14,531)	(4,064)	(11,693)
Net cash used in financing activities	(361,036)	(404,920)	(581,440)

Net (decrease) increase in cash and cash equivalents	(4,398)	(35,746)	30,735
Cash and cash equivalents at beginning of period	19,881	55,627	24,892
Cash and cash equivalents at end of period	$ 15,483	$ 19,881	$ 55,627
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 137,454	$ 122,520	$ 199,762

</TABLE>

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

REDWOOD TRUST, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2000

NOTE 1. THE COMPANY

Redwood Trust, Inc. ("Redwood Trust") was incorporated in Maryland on April 11, 1994 and commenced operations on August 19, 1994. During 1997, Redwood Trust formed Sequoia Mortgage Funding Corporation ("Sequoia"), a special-purpose finance subsidiary. Redwood Trust acquired an equity interest in RWT Holdings, Inc. ("Holdings"), a taxable affiliate of Redwood Trust, during the first quarter of 1998. For financial reporting purposes, references to the "Company" mean Redwood Trust, Sequoia, and Redwood Trust's equity interest in Holdings. Redwood Trust, together with its affiliates, is a real estate finance company specializing in owning, financing, and credit enhancing high-quality jumbo residential mortgage loans nationwide. Redwood Trust also finances real estate through its investment portfolio (mortgage securities) and its commercial loan portfolio. Redwood Trust's primary source of revenue is monthly payments made by homeowners on their mortgages, and its primary expense is the cost of borrowed funds. As Redwood Trust is structured as a Real Estate Investment Trust ("REIT"), the majority of net earnings are distributed to shareholders as dividends.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Redwood Trust and Sequoia. Substantially all of the assets of Sequoia, consisting primarily of residential whole loans shown as part of the Residential Retained Loan Portfolio, are pledged or subordinated to support long-term debt in the form of collateralized mortgage bonds ("Long-Term Debt") and are not available for the satisfaction of general claims of the Company. The Company's exposure to loss on the assets pledged as collateral for Long-Term Debt is limited to its net equity investment in Sequoia, as the Long-Term Debt is non-recourse to the Company. All significant intercompany balances and transactions with Sequoia have been eliminated in the consolidation of the Company. Certain amounts for prior periods have been reclassified to conform to the 2000 presentation.

During March 1998, the Company acquired an equity interest in Holdings, which originates and sells commercial mortgage loans. The Company owns all of the preferred stock and has a non-voting, 99% economic interest in Holdings. The Company accounts for its investment in Holdings under the equity method. Under this method, original equity investments in Holdings were recorded at cost and adjusted by the Company's share of earnings or losses and decreased by dividends received. On January 1, 2001, the Company purchased the common stock of Holdings, and Holdings became a wholly-owned consolidated subsidiary of the Company (See Note 14).

USE OF ESTIMATES

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

Fair Value. Management estimates the fair value of its financial instruments using available market information and other appropriate valuation methodologies. The fair value of a financial instrument, as defined by Statement of Financial Accounting Standards ("SFAS") No. 107, Disclosures about Fair Value of Financial Instruments, is the amount at which the instrument could be

exchanged in a current transaction between willing parties, other than in a forced liquidation sale. Management's estimates are inherently subjective in nature and involve matters of uncertainty and judgement to interpret relevant market and other data. Accordingly, amounts realized in actual sales may differ from the fair valueS presented in Notes 3, 7 and 10.

Reserve for Credit Losses. A reserve for credit losses is maintained at a level deemed appropriate by management to provide for known losses, as well as potential losses inherent in its residential mortgage loan portfolio. The reserve is based upon management's assessment of various factors affecting its residential mortgage loans, including current and projected economic conditions, delinquency status, and credit protection. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The reserve is increased by provisions, which are charged to income from operations. When a loan or portions of a loan are determined to be uncollectible, the portion deemed uncollectible is charged against the reserve and subsequent recoveries, if any, are credited to the reserve. The Company's actual credit losses may differ from those estimates used to establish the reserve. Summary information regarding the Reserve for Credit Losses is presented in Note 4.

Individual mortgage loans are considered impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is impaired, impairment is measured based upon the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the underlying collateral. At December 31, 2000 and 1999, there were no impaired mortgage loans.

ADOPTION OF SFAS NO. 133

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

The Company, upon its adoption of SFAS No. 133, also reclassified $1.5 billion of mortgage securities from available-for-sale to trading. This reclassification resulted in an $11.9 million reclassification loss adjustment, which was transferred from other comprehensive income to current earnings effective July 1, 1998. Under the provisions of SFAS No. 133, such a reclassification does not call into question the Company's intent to hold current or future debt securities to their maturity. Upon the adoption of SFAS No. 133 and the reclassification, the Company elected to not seek hedge accounting for any of the Company's interest rate agreements.

MORTGAGE ASSETS

The Company's mortgage assets consist of mortgage loans and mortgage securities ("Mortgage Assets"). Mortgage loans and securities pledged as collateral under borrowing arrangements in which the secured party has the right by contract or custom to sell or repledge the collateral have been classified as "pledged" in the accompanying Consolidated Balance Sheets. Interest is recognized as revenue when earned according to the terms of the loans and securities and when, in the opinion of management, it is collectible. Discounts and premiums relating to Mortgage Assets are amortized into interest income over the lives of the Mortgage Assets using the effective yield method. Gains or losses on the sale of Mortgage Assets are based on the specific identification method.

Mortgage Loans: Held-for-Investment

Mortgage loans classified as held-for-investment are carried at their unpaid principal balance, adjusted for net unamortized premiums or discounts, and net of the related allowance for credit losses. All of the Sequoia assets that are pledged or subordinated to support the Long-Term Debt are classified as held-for-investment. Commercial loans that the Company has secured financing through the term of the loan or otherwise has the intent and the ability to hold to maturity, are classified as held-for-investment.

Mortgage Loans: Held-for-Sale

Mortgage loans held-for-sale are carried at the lower of original cost or aggregate market value ("LOCOM"). Realized and unrealized gains and losses on these loans are recognized in "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations. Real estate owned ("REO") assets of the Company are also presented as "Mortgage loans held-for-sale."

Some of the commercial mortgage loans held by the Company are committed for sale by the Company to Holdings, or a subsidiary of Holdings, under Master Forward Commitment Agreements at December 31, 2000 and 1999. As the forward commitment agreements were entered into on the same date that the Company committed to purchase the loans, the price under the forward commitment is the same as the price that the Company paid for the mortgage loans, as established by the external market. Fair value is therefore equal to the commitment price, which is the carrying value of the mortgage loans. Accordingly, no gain or loss is recognized on the subsequent sales of these mortgage loans to Holdings or subsidiaries of Holdings.

Mortgage Securities: Trading

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

Mortgage Securities: Available-for-Sale

Mortgage securities classified as available-for-sale are carried at their estimated fair value. Current period unrealized gains and losses are excluded from net income and reported as a component of Other Comprehensive Income in Stockholders' Equity with cumulative unrealized gains and losses classified as Accumulated Other Comprehensive Income in Stockholders' Equity.

Unrealized losses on mortgage securities classified as available-for-sale that are considered other-than-temporary, are recognized in income and the carrying value of the mortgage security is adjusted. Other-than-temporary unrealized losses are based on management's assessment of various factors affecting the expected cash flow from the mortgage securities, including an other-than-temporary deterioration of the credit quality of the underlying mortgages and/or the credit protection available to the related mortgage pool and a significant change in the prepayment characteristics of the underlying collateral.

Interest income on mortgage securities available-for-sale is calculated using the effective yield method based on projected cash flows over the life of the security. Yields on each security vary as a function of credit results, prepayment rates, and interest rates, and may also vary depending on the mix of first, second and third loss positions the Company holds. As the Company purchases these securities, a portion of the discount for each security is designated as a credit reserve, with the remaining portion of the discount designated to be amortized into income over the life of the security using the effective yield method. If future credit losses exceed the Company's original expectations, the Company may take a charge to write down the basis in the security, and may adjust the yield over the remaining life of the security.

U.S. TREASURY SECURITIES

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

CASH AND CASH EQUIVALENTS

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

RESTRICTED CASH

Restricted cash of the Company includes principal and interest payments on mortgage loans held as collateral for the Company's Long-Term Debt, cash pledged as collateral on certain interest rate agreements, and cash held back from borrowers until certain loan agreement requirements have been met. The corresponding liability for cash held back from borrowers is reflected as a component of "Accrued expenses and other liabilities" on the Consolidated Balance Sheets.

INTEREST RATE AGREEMENTS

The Company maintains an overall interest-rate risk-management strategy that may incorporate the use of derivative interest rate agreements for a variety of reasons, including minimizing significant fluctuations in earnings that may be

caused by interest-rate volatility. Interest rate agreements the Company may use as part of its interest-rate risk management strategy include interest rate options, swaps, options on swaps, futures contracts, options on futures contracts, forward sales of fixed-rate Agency mortgage securities ("MBS"), and options on forward purchases or sales of MBS (collectively "Interest Rate Agreements"). On the date an Interest Rate Agreement is entered into, the Company designates the interest rate agreement as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value" hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow" hedge), or (3) held for trading ("trading" instruments). Since the adoption of SFAS No. 133, the Company has elected to designate all of its Interest Rate Agreements as trading instruments. Accordingly, such instruments are recorded at their estimated fair market value with changes in their fair value reported in current-period earnings in "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

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

DEBT

Short-Term Debt and Long-Term Debt are carried at their unpaid principal balances, net of any unamortized discount or premium and any unamortized deferred bond issuance costs. The amortization of any discount or premium is recognized as an adjustment to interest expense using the effective interest method based on the maturity schedule of the related borrowings. Bond issuance costs incurred in connection with the issuance of Long-Term Debt are deferred and amortized over the estimated lives of the Long-Term Debt using the interest method adjusted for the effects of prepayments.

INCOME TAXES

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

Under the Code, a dividend declared by a REIT in October, November or December of a calendar year and payable to shareholders of record as of a specified date in such month, will be deemed to have been paid by the Company and received by the shareholders on the last day of that calendar year, provided the dividend is actually paid before February 1st of the following calendar year, and provided that the REIT has any remaining undistributed taxable income on the record date. Therefore, the dividends declared in December 2000 which were paid in January 2001 are considered taxable income to stockholders in 2000, the year declared. All 2000 dividends were ordinary income to the Company's preferred and common stockholders.

NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) available to common stockholders by the weighted average number of common shares and common equivalent shares outstanding during the period. The common equivalent shares are calculated using the treasury stock method, which assumes that all dilutive common stock equivalents are exercised and the funds generated by the exercise are used to buy back outstanding common stock at the average market price during the reporting period. Due to the net loss available to common stockholders for both the years ended December 31, 1999 and 1998, the addition of potential dilutive shares is anti-dilutive and therefore, the basic and diluted net loss per share are the same.

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

<TABLE>
<CAPTION>

(IN THOUSANDS, EXCEPT SHARE DATA)	YEARS ENDED DECEMBER 31, 2000	1999	1998
<S>	<C>	<C>	<C>

NUMERATOR:			
Numerator for basic and diluted earnings per share--			
Net income (loss) before preferred dividend and change in accounting principle	$ 18,934	$ 1,728	$ (27,310)
Cash dividends on Class B preferred stock	(2,724)	(2,741)	(2,747)
Net income (loss) before change in accounting principle	16,210	(1,013)	(30,057)
Cumulative transition effect of adopting SFAS No. 133	--	--	(10,061)
Basic and Diluted EPS - Net income (loss) available to common stockholders	$ 16,210	$ (1,013)	$ (40,118)
DENOMINATOR:			
Denominator for basic earnings (loss) per share--			
Weighted average number of common shares outstanding during the period	8,793,487	9,768,345	13,199,819
Net effect of dilutive stock options	108,582	--	--
Denominator for diluted earnings (loss) per share--	8,902,069	9,768,345	13,199,819
BASIC EARNINGS (LOSS) PER SHARE:			
Net income (loss) before change in accounting principle	$ 1.84	$ (0.10)	$ (2.28)
Cumulative transition effect of adopting SFAS No. 133	--	--	(0.76)
Net income (loss) per share	$ 1.84	$ (0.10)	$ (3.04)
DILUTED EARNINGS (LOSS) PER SHARE:			
Net income (loss) before change in accounting principle	$ 1.82	$ (0.10)	$ (2.28)
Cumulative transition effect of adopting SFAS No. 133	--	--	(0.76)
Net income (loss) per share	$ 1.82	$ (0.10)	$ (3.04)

</TABLE>

COMPREHENSIVE INCOME

Current period unrealized gains and losses on assets available-for-sale are reported as a component of Comprehensive Income on the Consolidated Statements of Stockholders' Equity with cumulative unrealized gains and losses classified as Accumulated Other Comprehensive Income in Stockholders' Equity. At December 31, 2000 and 1999, the only component of Accumulated Other Comprehensive Income was net unrealized gains and losses on assets available-for-sale.

RECENT ACCOUNTING PRONOUNCEMENTS

During March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation -- an interpretation of APB Opinion No. 25 ("FIN 44"). FIN 44 clarifies the application of APB Opinion No. 25 by expanding upon a number of issues not specifically addressed in APB Opinion No. 25, such as the definition of an employee and the accounting for modifications to a previously fixed stock option award. FIN 44 was effective July 1, 2000. There was no material impact on the operating results of the Company upon the adoption of FIN 44.

In September 2000, FASB issued Statement of Financial Accounting Standards ("FAS") No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguisments of Liabilities. FAS No. 140 replaces FAS No. 125, revises the standards for accounting for securitizations and other transfers of financial assets, and requires certain new disclosures, while carrying over most of FAS No. 125's provisions. FAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. The Company adopted the disclosure requirements of FAS No. 140 effective December 31, 2000.

During 1999, the Emerging Issues Task Force ("EITF") issued EITF 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets. EITF 99-20 establishes new income and impairment recognition standards for interests in certain securitized assets. Under the provisions of EITF 99-20, if the discounted value of probable future cash flows deteriorates from original assumptions, the securitized interest should be marked-to-market through the income statement. Only negative mark-to-market adjustments are allowed under EITF 99-20. As the Company's accounting for credit-enhancement interests and certain other assets will be affected by EITF 99-20, the Company is conducting an ongoing review of these assets with respect to the provisions of EITF 99-20. Upon adoption of EITF 99-20, the Company estimates that approximately $2.4 million of its market valuation adjustments on its credit-enhancement interests that have been recognized as a component of Accumulated Other Comprehensive Income in stockholders' equity, may need to be taken as a charge in the Statement of

Operations. Since this is a reclassification of declines in market values that have already been recognized in the Company's balance sheet and stockholders' equity accounts, there will be no change in book value upon adoption. The Company is considering adopting EITF 99-20 effective January 1, 2001; if it does so, first quarter 2001 results would be affected. Initial mark-to-market adjustments made at the time of adoption will be recognized as a cumulative effect of a change in accounting principle. Any subsequent income statement adjustments under the provisions of EITF 99-20 will be recognized as mark-to-market adjustments under "Realized and unrealized gain or loss on assets."

NOTE 3. MORTGAGE ASSETS

At December 31, 2000 and 1999, investments in Mortgage Assets consisted of interests in adjustable-rate, hybrid or fixed-rate mortgage loans on residential and commercial properties. The hybrid mortgages have an initial fixed coupon rate for three to ten years followed by annual adjustments. The original maturity of the majority of the Mortgage Assets is thirty years; the actual maturity is subject to change based on the prepayments of the underlying mortgage loans.

At December 31, 2000 and 1999, the annualized effective yield after taking into account the amortization expense due to prepayments on the Mortgage Assets was 8.01% and 7.00%, respectively, based on the reported cost of the assets. At December 31, 2000, 79% of the Mortgage Assets owned by the Company were adjustable-rate mortgages, 17% were hybrid mortgages, and 4% were fixed-rate mortgages. At December 31, 1999, 81% of the Mortgage Assets owned by the Company were adjustable-rate mortgages, 17% were hybrid mortgages, and 2% were fixed-rate mortgages. At December 31, 2000 and 1999, the coupons on 59% and 61% of the adjustable-rate Mortgage Assets were limited by periodic caps (generally interest rate adjustments are limited to no more than 1% every six months or 2% every year), respectively. The majority of the coupons on the adjustable-rate and hybrid Mortgage Assets owned by the Company are limited by lifetime caps. At December 31, 2000 and 1999, the weighted average lifetime cap on the adjustable-rate Mortgage Assets was 11.43% and 11.64%, respectively.

At December 31, 2000 and 1999, Mortgage Assets consisted of the following:

NET INVESTMENT IN RESIDENTIAL CREDIT ENHANCEMENT INTERESTS

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 2000 MORTGAGE SECURITIES AVAILABLE-FOR-SALE	DECEMBER 31, 1999 MORTGAGE SECURITIES AVAILABLE-FOR-SALE
Current Face	$ 124,878	$ 48,620
Unamortized Discount	(43,935)	(18,273)
Unamortized Premium	--	--
Amortized Cost	80,943	30,347
Gross Unrealized Gains	2,646	166
Gross Unrealized Losses	(2,825)	(3,514)
Carrying Value	$ 80,764	$ 26,999

</TABLE>

During the year ended December 31, 2000 and 1998, the Company sold mortgage securities classified as available-for-sale for proceeds of $2.9 million and $9.3 million, respectively, resulting in a net gain of $0.2 million in 2000, and no gain recognized in 1998. No such sales were made during 1999. No write-downs of available-for-sale mortgage securities occurred during the years ended December 31, 2000 and 1999. During the year ended December 31, 1998, the Company recognized a $0.7 million loss on the write-down of certain mortgage securities available-for-sale. The gains and losses on the sales and write-downs of mortgage securities available-for-sale are reflected as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

RESIDENTIAL RETAINED LOAN PORTFOLIO

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 2000			DECEMBER 31, 1999	
	HELD-FOR-SALE	HELD-FOR-INVESTMENT	TOTAL	HELD-FOR-SALE	HELD-FOR-INVESTMENT

						TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Current Face	$ 6,784	$ 1,115,386	$ 1,122,170	$ 412,456	$ 960,928	$ 1,373,384
Unamortized Discount	(126)	--	(126)	(305)	--	(305)
Unamortized Premium	--	13,767	13,767	3,729	12,906	16,635
Amortized Cost	6,658	1,129,153	1,135,811	415,880	973,834	1,389,714
Reserve for Credit Losses	--	(4,814)	(4,814)	--	(4,125)	(4,125)
Carrying Value	$ 6,658	$ 1,124,339	$ 1,130,997	$ 415,880	$ 969,709	$ 1,385,589

</TABLE>

The Company recognized losses of $0.1 million during the year ended December 31, 2000, gains of $0.3 million during the year ended December 31, 1999, and losses of $6.5 million during the year ended December 31, 1998 as a result of LOCOM adjustments on residential mortgage loans held-for-sale. Also during the years ended December 31, 2000, 1999, and 1998, the Company sold residential mortgage loans held-for-sale for proceeds of $397.6 million, $103.0 million, and $688.9 million, respectively. These sales resulted in no net gain or loss recognized in 2000, and net gains of $0.1 million, and $4.6 million in 1999 and 1998, respectively. The LOCOM adjustments and net gains on sales are reflected as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

There were no sales of residential mortgage loans held-for-investment for the years ended December 31, 2000 and 1999. During the year ended December 31, 1998, the Company sold held-for-investment residential mortgage loans with an amortized cost of $370.1 million for proceeds of $369.1 million. The net realized loss of $1 million is reflected as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

INVESTMENT PORTFOLIO

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 2000			DECEMBER 31, 1999		
	MORTGAGE SECURITIES TRADING	MORTGAGE SECURITIES AVAILABLE-FOR-SALE	TOTAL	MORTGAGE SECURITIES TRADING	MORTGAGE SECURITIES AVAILABLE-FOR-SALE	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Current Face	$ 751,449	$ 5,500	$ 756,949	$ 934,351	--	$ 934,351
Unamortized Discount	(388)	(427)	(815)	(3,548)	--	(3,548)
Unamortized Premium	8,551	--	8,551	10,978	--	10,978
Unamortized Cost	759,612	5,073	764,685	941,781	--	941,781
Gross Unrealized Gains	--	105	105	--	--	--
Gross Unrealized Losses	--	(15)	(15)	--	--	--
Carrying Value	$ 759,612	$ 5,163	$ 764,775	$ 941,781	--	$ 941,781
Agency	$ 521,204	--	$ 521,204	$ 576,980	--	$ 576,980
Non-Agency	238,408	5,163	243,571	364,801	--	364,801
Carrying Value	$ 759,612	$ 5,163	$ 764,775	$ 941,781	--	$ 941,781

</TABLE>

For both of the years ended December 31, 2000 and 1999, the Company recognized market value gains of $1.2 million on mortgage securities classified as trading. During the years ended December 31, 2000 and 1999, the Company sold mortgage securities classified as trading for proceeds of $205.5 million and $7.7 million, respectively. During the year ended December 31, 1998, the Company elected to reclassify a majority of its short-funded mortgage securities from available-for-sale to trading (see Note 2). As a result of this reclassification, the Company recognized a reclassification loss of $11.9 million, which was transferred from other comprehensive income to current

earnings, and a market value loss of $17.5 million on mortgage securities classified as trading. The market value adjustments are reflected as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

COMMERCIAL RETAINED LOAN PORTFOLIO

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 2000 HELD-FOR-SALE	DECEMBER 31, 2000 HELD-FOR-INVESTMENT	DECEMBER 31, 2000 TOTAL	DECEMBER 31, 1999 HELD-FOR-SALE	DECEMBER 31, 1999 HELD-FOR-INVESTMENT	DECEMBER 31, 1999 TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Current Face	$ 34,275	$ 23,425	$ 57,700	$ 8,450	$ --	$ 8,450
Unamortized Discount	--	(531)	(531)	(13)	--	(13)
Carrying Value	$ 34,275	$ 22,894	$ 57,169	$ 8,437	$ --	$ 8,437

</TABLE>

During the years ended December 31, 2000 and 1999, the Company sold commercial mortgage loans to Redwood Commercial Funding ("RCF"), a subsidiary of Holdings, for proceeds of $57.8 million and $50.3 million, respectively. Pursuant to Master Forward Commitment Agreements, all commercial mortgage loans purchased by the Company are sold to RCF at the same price for which the Company acquires the commercial mortgage loans (see Note 12). Accordingly, there were no LOCOM adjustments or gains on sales related to commercial mortgage loans during the years ended December 31, 2000 and 1999.

NOTE 4. RESERVE FOR CREDIT LOSSES

The Reserve for Credit Losses on Residential Mortgage Loans Held-For-Investment is reflected as a component of Mortgage Assets on the Consolidated Balance Sheets. The following table summarizes the Reserve for Credit Losses on Residential Mortgage Loans Held-For-Investment activity:

<TABLE>
<CAPTION>

(IN THOUSANDS)	YEARS ENDED DECEMBER 31, 2000	1999	1998
<S>	<C>	<C>	<C>
Balance at beginning of year	$ 4,125	$ 2,784	$ 1,855
Provision for credit losses	731	1,346	1,120
Charge-offs	(42)	(5)	(191)
Balance at end of year	$ 4,814	$ 4,125	$ 2,784

</TABLE>

NOTE 5. U.S. TREASURY SECURITIES

The Company did not hold any U.S. Treasury securities at December 31, 2000 or 1999. At December 31, 1998, the Company owned $45 million face value of U.S. Treasury securities at a carrying value of $48 million. The Company did not hold any U.S. Treasury securities during 2000. For the years ended December 31, 1999 and 1998, the Company recognized market value losses of $3.3 million and market value gains of $0.1 million on U.S. Treasury securities, respectively. During the year ended December 31, 1999, the Company sold U.S. Treasury securities for proceeds of $90.5 million. The market value adjustments are reflected as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

NOTE 6. COLLATERAL FOR LONG-TERM DEBT

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

The components of the Bond Collateral are summarized as follows:

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 2000	DECEMBER 31, 1999
<S>	<C>	<C>
Mortgage loans		
Residential: held-for-sale	$ 315	$ 174
Residential: held-for-investment, net	1,124,339	968,709
Restricted cash	3,729	4,783
Accrued interest receivable	7,010	5,633
	$1,135,393	$ 979,299

</TABLE>

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

NOTE 7. INTEREST RATE AGREEMENTS

At December 31, 2000 and 1999, all of the Company's Interest Rate Agreements were classified as trading, and therefore, reported at fair value.

During the years ended December 31, 2000 and 1999, the Company recognized net market value losses of $3.4 million and net market value gains of $2.0 million on Interest Rate Agreements classified as trading. The market value gains are reflected as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

During the year ended December 31, 1998, as a result of adopting SFAS No. 133, the Company recorded a net-of-tax cumulative-effect-type transition adjustment of $10.1 million loss in earnings to recognize at fair value the ineffective portion of Interest Rate Agreements that were previously designated as part of a hedging relationship (see Note 2). This loss is reflected on the Consolidated Statements of Operations as "Cumulative Transition Effect of Adopting SFAS No. 133." Approximately $7.6 million of this transition adjustment was transferred from other comprehensive income to current earnings. Additionally, during the year ended December 31, 1998, the Company recognized a net market value loss of $5.9 million on Interest Rate Agreements classified as trading. This loss is reflected as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

The following table summarizes the aggregate notional amounts of all of the Company's Interest Rate Agreements as well as the credit exposure related to these instruments. The credit exposure reflects the fair market value of all cash and collateral of the Company held by counterparties.

<TABLE>
<CAPTION>

	NOTIONAL AMOUNTS		CREDIT EXPOSURE	
(IN THOUSANDS)	DECEMBER 31, 2000	DECEMBER 31, 1999	DECEMBER 31, 2000	DECEMBER 31, 1999
<S>	<C>	<C>	<C>	<C>
Interest Rate Options Purchased	$1,490,300	$2,960,900	--	--
Interest Rate Swaps	5,000	250,000	$ 2,814	$ 2,632
Interest Rate Futures and Forwards	506,600	630,000	948	593
Total	$2,001,900	$3,840,900	$ 3,762	$ 3,225

</TABLE>

Interest Rate Options purchased (sold), which may include caps, floors, call and put corridors, options on futures, options on MBS forwards, and swaption collars (collectively, "Options"), are agreements which transfer, modify or reduce interest rate risk in exchange for the payment (receipt) of a premium when the contract is initiated. Purchased interest rate cap agreements provide cash flows to the Company to the extent that a specific interest rate index exceeds a fixed rate. Conversely, purchased interest rate floor agreements produce cash flows to the Company to the extent that the referenced interest rate index falls below the agreed upon fixed rate. Purchased call (put) corridors will cause the Company to incur a gain to the extent that the yield of the specified index is below (above) the strike rate at the time of the option expiration. The maximum gain or loss on a purchased call (put) corridor is equal to the up-front premium. Call (put) corridors that are sold will cause the Company to incur a loss to the extent that the yield of the specified index is below (above) the strike rate at the time of the option expiration. Such losses are partially

offset by the up front premium received. The maximum gain or loss on a call (put) corridor sold is determined at the time of the transaction by establishing a minimum (maximum) index rate. The Company will receive cash on the purchased options on futures/forwards if the futures/forward price exceeds (is below) the call (put) option strike price at the expiration of the option. For the written options on futures/forwards, the Company receives an up-front premium for selling the option, however, the Company will incur a loss on the written option if the futures/forward price exceeds (is below) the call (put) option strike price at the expiration of the option. Purchased receiver (payor) swaption collars will cause the Company to incur a gain (loss) should the index rate be below (above) the strike rate as of the expiration date. The maximum gain or loss on a receiver (payor) swaption is established at the time of the transaction by establishing a minimum (maximum) index rate. The Company's credit risk on the purchased Options is limited to the carrying value of the Options agreements. The credit risk on options on futures is limited due to the fact that the exchange and its members are required to satisfy the obligations of any member that fails to perform.

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

Interest Rate Futures and Forwards ("Futures and Forwards") are contracts for the purchase or sale of securities or cash in which the seller (buyer) agrees to deliver (purchase) on a specified future date, a specified instrument (or the cash equivalent), at a specified price or yield. Under these agreements, if the Company has sold (bought) the futures/forwards, the Company will generally receive additional cash flows if interest rates rise (fall). Conversely, the Company will generally pay additional cash flows if interest rates fall (rise). The credit risk inherent in futures and forwards arises from the potential inability of counterparties to meet the terms of their contracts, however, the credit risk on futures is limited by the requirement that the exchange and its members make good on obligations of any member that fails to perform.

In general, the Company incurs credit risk to the extent that the counterparties to the Interest Rate Agreements do not perform their obligations under the Interest Rate Agreements. If one of the counterparties does not perform, the Company would not receive the cash to which it would otherwise be entitled under the Interest Rate Agreement. In order to mitigate this risk, the Company has only entered into Interest Rate Agreements that are either a) transacted on a national exchange or b) transacted with counterparties that are either i) designated by the U.S. Department of the Treasury as a "primary government dealer", ii) affiliates of "primary government dealers", or iii) rated BBB or higher. Furthermore, the Company has entered into Interest Rate Agreements with several different counterparties in order to diversify the credit risk exposure.

NOTE 8. SHORT-TERM DEBT

The Company has entered into repurchase agreements, bank borrowings, and other forms of collateralized short-term borrowings (collectively, "Short-Term Debt") to finance acquisitions of a portion of its Mortgage Assets. This Short-Term Debt is collateralized by a portion of the Company's Mortgage Assets.

At December 31, 2000, the Company had $756 million of Short-Term Debt outstanding with a weighted-average borrowing rate of 6.85% and a weighted-average remaining maturity of 122 days. This debt was collateralized with $778 million of Mortgage Assets. At December 31, 1999, the Company had $1.3 billion of Short-Term Debt outstanding with a weighted-average borrowing rate of 6.22% and a weighted-average remaining maturity of 96 days. This debt was collateralized with $1.3 billion of Mortgage Assets.

At December 31, 2000 and 1999, the Short-Term Debt had the following remaining maturities:

(IN THOUSANDS)	DECEMBER 31, 2000	DECEMBER 31, 1999
Within 30 days	$ 100,885	$ 163,394
31 to 90 days	268,867	385,729
Over 90 days	386,470	704,442
Total Short-Term Debt	$ 756,222	$1,253,565

For the years ended December 31, 2000, 1999 and 1998, the average balance of Short-Term Debt was $0.9 billion, $1.0 billion and $2.0 billion with a weighted-average interest cost of 6.57%, 5.35%, and 5.81%, respectively. The maximum balance outstanding during both of the years ended December 31, 2000 and 1999, was $1.3 billion. The maximum balance outstanding during the year ended December 31, 1998 was $2.5 billion. The Company met all of it debt covenants for its short-term borrowing arrangements and credit facilities during the years ended December 31, 2000 and 1999.

In addition to the committed facilities listed below, the Company has uncommitted facilities with credit lines in excess of $4 billion at December 31, 2000. It is the intention of the Company's management to renew committed and uncommitted facilities, if and as needed.

In March 2000, the Company entered into a $50 million committed revolving mortgage warehousing credit facility. The facility is intended to finance newly originated commercial mortgage loans. Holdings may borrow under this facility as a co-borrower. In September 2000, this facility was extended through August 2001 and was increased to $70 million. At December 31, 2000, the Company and Holdings had borrowings under this facility of $16.5 million and $18.2 million, respectively. In addition, a portion of this facility allows for loans to be financed to the maturity of the loan, which may extend beyond the expiration date of the facility. Borrowings under this facility bear interest based on a specified margin over the London Interbank Offered Rate ("LIBOR"). At December 31, 2000, the weighted average borrowing rate under this facility was 8.57%. This committed facility expires in August 2001.

In July 2000, the Company renewed for one year, a $30 million committed master loan and security agreement with a Wall Street Firm. The facility is intended to finance newly originated commercial mortgage loans. In September 2000, this facility was increased to $50 million. Holdings may borrow under this facility as a co-borrower. At December 31, 2000, the Company had borrowings under this facility of $26.7 million. Holdings did not have borrowings under this facility at December 31, 2000. Borrowings under this facility bear interest based on a specified margin over LIBOR. At December 31, 2000, the weighted average borrowing rate under this facility was 8.23%. This committed facility expires in July 2001.

In September 2000, the Company entered into two separate $30 million committed master repurchase agreements with a bank and a Wall Street Firm. These facilities are intended to finance residential mortgage-backed securities with lower than investment grade ratings. At December 31, 2000, the Company had borrowings under these facilities of $22.7 million. Borrowings under these facilities bear interest based on a specified margin over LIBOR. At December 31, 2000, the weighted average borrowing rate under these facilities was 7.43%. These committed facilities expire in September 2001.

In October 2000, the Company entered into a $20 million committed master repurchase agreement with a Wall Street Firm. This facility is intended to finance residential mortgage-backed securities with lower than investment grade ratings. At December 31, 2000, the Company had borrowings under this facility of $3.6 million. Borrowings under this facility bear interest based on a specified margin over LIBOR. At December 31, 2000, the weighted average borrowing rate under this facility was 7.56%. This committed facility expires in October 2001.

In July 1999, the Company entered into a one-year, $90 million committed revolving mortgage warehousing credit facility with two banks. At the Company's request, this line was reduced to $20 million in December 1999. This facility expired in February 2000. The facility was primarily intended to finance newly originated residential mortgage loans. Holdings was a co-borrower under this facility. At December 31, 1999, the Company had borrowings under this facility of $6.4 million. Holdings did not have borrowings under this facility at December 31, 1999. Borrowings under this facility bore interest based on a specified margin over LIBOR. At December 31, 1999, the weighted-average borrowing rate under this facility was 6.87%.

In July 1999, the Company entered into a one-year, $350 million committed master loan and security agreement with a Wall Street firm. This facility expired in June 2000, but was renewed as a one-year, $30 million committed commercial loan facility in July 2000 as previously discussed above. The Company renewed a residential portion of this facility for one year in June 2000 on an uncommitted basis. The $350 million committed facility entered into in July 1999, was primarily intended to finance newly originated commercial and residential mortgage loans. Holdings was a co-borrower under this facility. At December 31, 1999, the Company and Holdings had borrowings under this facility of $119.9 million and $19.8 million, respectively. Borrowings under this facility bore interest based on a specified margin over LIBOR. At December 31, 1999, the weighted-average borrowing rate under this facility was 5.72%.

NOTE 9. LONG-TERM DEBT

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

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

During the second quarter of 1999, the Company exercised its right to call the Long-Term Debt of Sequoia Mortgage Trust 1 ("Sequoia 1"), a series of debt issued by Sequoia. This Long-Term Debt was called on May 4, 1999. In conjunction with this call, the Company restructured and contributed the Sequoia 1 debt to Sequoia Mortgage Trust 1A ("Sequoia 1A"), a newly formed trust, and Sequoia 1A issued Long-Term Debt collateralized by Sequoia 1 debt. As a result, the $154 million of Bond Collateral in the form of mortgage loans held-for-sale was reclassified to mortgage loans held-for-investment.

For the years ended December 31, 2000, 1999, and 1998, the average effective interest cost for Long-Term Debt, as adjusted for the amortization of bond premium, deferred bond issuance costs, and other related expenses, was 6.71%, 6.03%, and 6.38%, respectively. At December 31, 2000 and 1999, accrued interest payable on Long-Term Debt was $3.1 million and $3.0 million, respectively, and is reflected as a component of Accrued Interest Payable on the Consolidated Balance Sheets. For the years ended December 31, 2000, 1999, and 1998, the average balance of Long-Term Debt was $1.1 billion for both 2000 and 1999, and $1.3 billion for 1998.

The components of the Long-Term Debt at December 31, 2000 and 1999 along with selected other information are summarized below:

(IN THOUSANDS)	DECEMBER 31, 2000	DECEMBER 31, 1999
Long-Term Debt	$ 1,095,909	$ 944,225
Unamortized premium on Long-Term Debt	3,045	3,881
Deferred bond issuance costs	(3,119)	(2,836)
Total Long-Term Debt	$ 1,095,835	$ 945,270
Range of weighted-average interest rates, by series	6.35% to 7.20%	6.21% to 6.88%
Stated maturities	2017 - 2029	2017 - 2029
Number of series	4	3

NOTE 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying values and estimated fair values of the Company's financial instruments at December 31, 2000 and 1999.

(IN THOUSANDS)	DECEMBER 31, 2000		DECEMBER 31, 1999	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Mortgage Loans				
Residential: held-for-sale	$ 6,658	$ 6,658	$ 415,880	$ 415,880
Residential: held-for-investment	1,124,339	1,113,389	968,709	955,653
Commercial: held-for-sale	34,275	34,275	8,437	8,437
Commercial: held-for-investment	22,894	22,894	--	--
Mortgage Securities				
Residential: trading	759,612	759,612	941,781	946,373
Residential: available-for-sale	85,927	85,927	26,999	28,006
Interest Rate Agreements	66	66	2,037	2,037
Investment in RWT Holdings, Inc.	1,899	1,989	3,391	3,675

Liabilities				
Short-Term Debt	756,222	756,222	1,253,565	1,253,565
Long-Term Debt	1,095,835	1,085,368	945,270	928,449

</TABLE>

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

NOTE 11. STOCKHOLDERS' EQUITY

CLASS B 9.74% CUMULATIVE CONVERTIBLE PREFERRED STOCK

On August 8, 1996, the Company issued 1,006,250 shares of Class B Preferred Stock ("Preferred Stock"). Each share of the Preferred Stock is convertible at the option of the holder at any time into one share of Common Stock. Effective October 1, 1999, the Company can either redeem or, under certain circumstances, cause a conversion of the Preferred Stock. The Preferred Stock pays a dividend equal to the greater of (i) $0.755 per share, per quarter or (ii) an amount equal to the quarterly dividend declared on the number of shares of the Common Stock into which the Preferred Stock is convertible. The Preferred Stock ranks senior to the Company's Common Stock as to the payment of dividends and liquidation rights. The liquidation preference entitles the holders of the Preferred Stock to receive $31.00 per share plus any accrued dividends before any distribution is made on the Common Stock. As of December 31, 2000 and 1999, 96,732 shares of the Preferred Stock have been converted into 96,732 shares of the Company's Common Stock.

In March 1999, the Company's Board of Directors approved the repurchase of up to 150,000 shares of the Company's Preferred Stock. The Company did not repurchase any shares of Preferred Stock during 2000, and, pursuant to the repurchase program, repurchased 7,450 shares of its Preferred Stock for $0.2 million during 1999. At December 31, 2000, there remained 142,550 shares available under the authorization for repurchase.

STOCK OPTION PLAN

The Company has adopted a Stock Option Plan for executive officers, employees, and non-employee directors (the "Plan"). The Plan authorizes the Board of Directors (or a committee appointed by the Board of Directors) to grant "incentive stock options" as defined under Section 422 of the Code ("ISOs"), options not so qualified ("NQSOs"), deferred stock, restricted stock, performance shares, stock appreciation rights, limited stock appreciation rights ("Awards"), and dividend equivalent rights ("DERs") to such eligible recipients other than non-employee directors. Non-employee directors are automatically provided annual grants of NQSOs with DERs pursuant to a formula under the Plan.

The number of shares of Common Stock available under the Plan for options and Awards, subject to certain anti-dilution provisions, is 15% of the Company's total outstanding shares of Common Stock. The total outstanding shares are determined as the highest number of shares outstanding prior to any stock repurchases. Of these shares of Common Stock available for grant, no more than 500,000 shares of Common Stock shall be cumulatively available for grant as ISOs. At December 31, 2000 and 1999, 476,854 and 283,975 shares of Common Stock, respectively, were available for grant. At December 31, 2000 and 1999, 328,152 and 389,942 ISOs had been granted, respectively. The exercise price for ISOs granted under the Plan may not be less than the fair market value of shares of Common Stock at the time the ISO is granted. All stock options granted under the Plan vest no earlier than ratably over a four-year period from the date of grant and expire within ten years after the date of grant.

The Company has granted stock options that accrue and pay stock and cash DERs. This feature results in current operating expenses being incurred that relate to long-term incentive grants made in the past. To the extent the Company increases its common dividends, such operating expenses may increase. For the years ended December 31, 2000, 1999, and 1998, the Company accrued cash and stock DER expenses of $2.1 million, $0.5 million, and $0.2 million, respectively. Stock DERs represent shares of stock which are issuable to holders of stock options when the holders exercise the underlying stock options. The number of stock DER shares accrued is based on the level of the Company's common stock dividends and on the price of the common stock on the related dividend payment date. At December 31, 2000, there were 166,451 unexercised options with stock DERs under the Plan. Cash DERs are accrued and paid based on the level of the Company's common stock dividend. At December 31, 2000, there were 1,180,797 unexercised options with cash DERs under the Plan. At December 31, 2000, there were 147,550 outstanding stock options that did not have cash or stock DERs.

A summary of the status of the Company's Plan at year end and changes during the years ending on that date is presented below.

<TABLE>

<CAPTION>

(IN THOUSANDS, EXCEPT SHARE DATA)	DECEMBER 31, 2000 SHARES	DECEMBER 31, 2000 WEIGHTED AVERAGE EXERCISE PRICE	DECEMBER 31, 1999 SHARES	DECEMBER 31, 1999 WEIGHTED AVERAGE EXERCISE PRICE	DECEMBER 31, 1998 SHARES	DECEMBER 31, 1998 WEIGHTED AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding options at January 1	1,713,836	$21.97	1,739,787	$23.68	840,644	$29.79
Options granted	163,050	$16.90	371,950	$13.37	929,125	$16.73
Options exercised	(26,158)	$12.26	(15,285)	$ 0.68	(29,723)	$ 0.11
Options canceled	(372,070)	$18.11	(387,990)	$21.50	(2,699)	$29.81
Dividend equivalent rights earned	16,140	--	5,374	--	2,440	--
Outstanding options at December 31	1,494,798	$22.32	1,713,836	$21.97	1,739,787	$23.68
Options exercisable at year-end	644,098	$25.47	401,697	$26.89	336,121	$25.95
Weighted average fair value of options granted during the year	$1.64		$1.33		$1.63	

</TABLE>

The following table summarizes information about stock options outstanding at December 31, 2000.

<TABLE>
<CAPTION>

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING NUMBER OUTSTANDING	OPTIONS OUTSTANDING WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	OPTIONS OUTSTANDING WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE NUMBER EXERCISABLE	OPTIONS EXERCISABLE WEIGHTED-AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
$0 to $10	48,109	4.7	$ 0.57	48,109	$ 0.57
$10 to $20	712,903	8.2	$14.43	181,967	$16.39
$20 to $30	349,614	7.0	$22.37	171,311	$22.44
$30 to $40	283,200	6.0	$37.49	189,724	$37.57
$40 to $50	93,472	6.6	$45.03	47,363	$45.04
$50 to $53	7,500	6.5	$52.25	5,625	$52.25
$0 to $53	1,494,798	7.3	$22.32	644,099	$25.47

</TABLE>

At December 31, 2000, the Company had one Stock Option Plan, which is described above. The Company applies Accounting Principles Board ("APB") Opinion 25 and related interpretations in accounting for this plan. Had compensation cost for the Company's Plan been determined consistent with SFAS No. 123, Accounting for Stock-Based Compensation, the Company's net income (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

		YEAR ENDED DECEMBER 31, 2000	1999	1998
<S>	<C>	<C>	<C>	<C>
Net income (loss)	As reported	$16,210	$(1,013)	$(40,118)
(in thousands)	Pro Forma	$15,611	$(1,687)	$(40,674)
Basic net income (loss)	As reported	$1.84	$(0.10)	$(3.04)
per share	Pro Forma	$1.78	$(0.17)	$(3.08)
Diluted net income (loss)	As reported	$1.82	$(0.10)	$(3.04)
per share	Pro Forma	$1.75	$(0.17)	$(3.08)

</TABLE>

For purposes of determining option values for use in the above tables, the values are based on American valuation using the Black-Scholes option pricing model as of the various grant dates, using the following principal assumptions: expected stock price volatility 33%, risk free rates of return based on the 5 year treasury rate at the date of grant, and a dividend growth rate of 10%. The actual value, if any, that the option recipient will realize from these options will depend solely on the increase in the stock price over the option price when the options are exercised.

COMMON STOCK REPURCHASES

Since September 1997, the Company's Board of Directors has approved the repurchase of 7,455,000 shares of the Company's Common Stock. Pursuant to this repurchase program, the Company did not repurchase any shares of Common Stock during the year ended December 31, 2000, repurchased 2,483,500 shares for $37 million at an average price of $14.96 per share during the year ended December 31, 1999, and repurchased 3,131,500 shares of its Common Stock for $47 million at an average price of $14.99 per share during the year ended December 31, 1998. At December 31, 2000, there remained 1,000,000 shares available under the authorization for repurchase. The repurchased shares have been returned to the Company's authorized but unissued shares of Common Stock.

NOTE 12. RELATED PARTY TRANSACTIONS

PURCHASES AND SALES OF MORTGAGE LOANS

During the years ended December 31, 2000 and 1999, the Company sold $58 million and $50 million of commercial mortgage loans to Redwood Commercial Funding ("RCF"), respectively, pursuant to Master Forward Commitment Agreements. There were no such sales during the year ended December 31, 1998. The Company sold the mortgage loans to RCF at the same price for which the Company acquired the mortgage loans. At December 31, 2000 and 1999, under the terms of Master Forward Commitment Agreements, the Company had committed to sell $34 million and $8 million of commercial mortgage loans to RCF for settlement during the first quarter of 2001 and 2000, respectively.

During the year ended December 31, 2000, the Company purchased commercial mortgage loans from RCF aggregating $18 million, which were not subject to the terms of Master Forward Commitment Agreements. The Company made no such purchases from RCF during the years ended December 31, 1999 or 1998. The Company intends to hold these commercial loans through maturity. All such commercial mortgage loans purchased by the Company from RCF are purchased at the market price at the time of the sale. Accordingly, any inter-company gains or losses recorded on the sale of the commercial mortgage loans from RCF to the Company are eliminated against the basis of the commercial mortgage loan purchased by the Company. During the year ended December 31, 2000, Redwood's 99% interest of such gains recognized by Holdings was $0.2 million.

During the years ended December 31, 2000 and 1999, the Company sold $17 million and $61 million of residential mortgage loans to Redwood Residential Funding ("RRF"), a subsidiary of Holdings. There were no such sales during the year ended December 31, 1998. Pursuant to Master Forward Commitment Agreements, the Company sold the mortgage loans to RRF at the same price for which the Company acquired the mortgage loans. As RRF ceased operations in 1999, there were no remaining outstanding commitments at December 31, 2000. At December 31, 1999, RRF had committed to purchase $16 million or residential mortgage loans from the Company during the first and second quarters of 2000, pursuant to the terms of Master Forward Commitment Agreements.

During December 1999, Holdings purchased $390 million of residential mortgage loans and subsequently sold a participation agreement on the mortgage loans to the Company. Pursuant to the terms of the Mortgage Loan Participation Purchase Agreement, the Company purchased a 99% interest in the mortgage loans, and assumed all related risks of ownership. Holdings did not recognize any gain or loss on this transaction. During March 2000, the Company sold the participation agreement back to Holdings for proceeds of $380.5 million. Holdings simultaneously sold $384 million of residential mortgage loans to Sequoia for proceeds of $384 million. Sequoia pledged these loans as collateral for a new issue of Long-Term Debt.

OTHER

Under a revolving credit facility arrangement, the Company may loan funds to Holdings to finance certain mortgage loans owned by Holdings. These loans are typically unsecured and are repaid within six months. Such loans bear interest at a rate of 3.50% over the LIBOR interest rate. At December 31, 2000, the Company had no such loans to Holdings. At December 31, 1999, the Company had loaned $6.5 million to Holdings in accordance with the provisions of this arrangement. During the years ended December 31, 2000, 1999 and 1998, the Company earned $0.3 million, $1.1 million and $18,000, respectively, in interest on loans to Holdings.

The Company shares many of the operating expenses of Holdings, including personnel and related expenses, subject to full reimbursement by Holdings. During the years ended December 31, 2000, 1999 and 1998, $0.2 million, $3.0 million and $2.3 million, respectively, of Holdings' operating expenses were paid by the Company, and were subject to reimbursement by Holdings.

The Company may provide credit support to Holdings to facilitate Holdings' financings from third-party lenders and/or hedging arrangements with counterparties. As part of this arrangement, Holdings is authorized as a co-borrower under some of the Company's Short-Term Debt agreements subject to the Company continuing to remain jointly and severally liable for repayment.

Accordingly, Holdings pays the Company credit support fees on borrowings subject to this arrangement. At December 31, 2000 and 1999, the Company was providing credit support on $18.2 million and $22.4 million of Holdings' Short-Term Debt. During each year ended December 31, 2000, 1999 and 1998, the Company recognized $0.1 million in credit support fee income. Credit support fees are reflected as a component of "Other Income" on the Consolidated Statements of Operations.

Holdings may borrow under several of Redwood Trust's Short-Term Debt agreements as a co-borrower (see Note 4). At December 31, 2000 and 1999, Holdings had borrowings of $18.2 million and $22.4 million subject to these arrangements.

NOTE 13. COMMITMENTS AND CONTINGENCIES

At December 31, 2000, the Company had entered into commitments to purchase $100.4 million of residential mortgage securities for settlement during January and February 2001. At December 31, 2000, the Company had also entered into Master Forward Agreements to sell $34.3 million of commercial mortgage loans to RCF during the first quarter of 2001.

At December 31, 2000, the Company is obligated under non-cancelable operating leases with expiration dates through 2006. The total future minimum lease payments under these non-cancelable leases is $3.0 million and is expected to be recognized as follows: 2001 - $0.5 million; 2002 - $0.6 million; 2003 - $0.6 million; 2004 - $0.6 million; 2005 -- $0.5 million; 2006 - $0.2 million.

NOTE 14. SUBSEQUENT EVENTS

Effective December 15, 1999, the United States Congress enacted the Real Estate Investment Trust ("REIT") Modernization Act (RMA) which, among other things, permits REITs to own 100% of the outstanding voting securities of a taxable REIT subsidiary beginning after December 31, 2000. Accordingly, on January 1, 2001, Redwood Trust acquired 100% of the voting common stock of Holdings for $300,000 in cash consideration from two officers of Holdings. Redwood Trust's Audit Committee determined the purchase price based on an independent appraisal obtained by the Audit Committee and through negotiations with the two officers, taking into account projected cost savings to Redwood Trust from being able to consolidate Holdings into Redwood Trust's future financial statements and other potential benefits to Redwood Trust and its stockholders.

Following Redwood Trust's acquisition of the voting common stock of Holdings, Redwood Trust transferred its preferred stock interest in exchange for additional voting common stock in Holdings as part of the Holdings equity recapitalization. As a result of these transactions, Redwood Trust owns 100% of the voting common stock of Holdings and Holdings became a wholly-owned subsidiary of Redwood Trust on January 1, 2001. Subsequently, Holdings elected to become a taxable REIT subsidiary of Redwood Trust.

Prior to the Company's acquisition of 100% of the voting common stock of Holdings, Holdings was operated and managed independently of the Company, as the Company is subject to tax as a REIT and Holdings is not. Holdings' activities resulted in it being characterized as a taxable, non-qualified REIT subsidiary. To qualify as a REIT, the Company, among other things, was unable to own greater than 10% of the outstanding voting securities of any non-qualified REIT subsidiary.

The transaction has been accounted for using the purchase method of accounting. The assets and liabilities of Holdings have been recorded by the Company at their fair market value. The transaction did not have a material impact on the financial statements of the Company. Goodwill of $0.3 million was recorded by the Company as a result of this transaction and will be amortized on a straight-line basis over four years beginning in January 2001.

The following are the pro forma consolidated balance sheet and a statement of operations at December 31, 2000 and for the year ended December 31, 2000, respectively, as if the Company had owned 100% of Holdings.

REDWOOD TRUST, INC.
CONSOLIDATED BALANCE SHEET (UNAUDITED)

<TABLE>
<CAPTION>

(PRO FORMA) (IN THOUSANDS)	DECEMBER 31, 2000			
	REDWOOD TRUST	RWT HOLDINGS	CONSOLIDATION	REDWOOD TRUST CONSOLIDATED
<S>	<C>	<C>	<C>	<C>
ASSETS				

Residential Credit Enhancement Interests:				
Mortgage securities available-for-sale	$ 80,764	$ --	$ --	$ 80,764
Residential Retained Loan Portfolio:				
Mortgage loans held-for-investment	1,124,339	--	--	1,124,339
Mortgage loans available-for-sale	6,658	--	--	6,658
	1,130,997	--	--	1,130,997
Investment Portfolio:				
Mortgage securities trading	57,450	--	--	57,450
Mortgage securities available-for-sale	707,325	--	--	707,325
	764,775	--	--	764,775
Commercial retained loan portfolio:				
Mortgage loans held-for-investment	22,894	--	--	22,894
Mortgage loans held-for-sale	34,275	18,913	--	53,188
	57,169	18,913	--	76,082
Cash and cash equivalents	15,483	1,892	(300)	17,075
Restricted cash	5,240	1,119	--	6,359
Accrued interest receivable	15,797	169	--	15,966
Investment in RWT Holdings, Inc.	1,899	--	(1,899)	--
Goodwill	--	--	281	281
Other assets	9,991	38	--	10,029
Total Assets	$ 2,082,115	$ 22,131	$ (1,918)	$ 2,102,328
LIABILITIES AND STOCKHOLDERS' EQUITY				
LIABILITIES				
Short-term debt	$ 756,222	$ 18,200	$ --	$ 774,422
Long-term debt	1,095,835	--	--	1,095,835
Accrued interest payable	5,657	134	--	5,791
Accrued expenses and other liabilities	8,737	1,879	--	10,616
	1,866,451	20,213	--	1,886,664
STOCKHOLDERS' EQUITY				
Preferred stock	26,517	--	--	26,517
Series A preferred stock	--	29,700	(29,700)	--
Common stock	88	--	--	88
Additional paid-in-capital	242,522	300	(300)	242,522
Accumulated other comprehensive income	(89)	--	--	(89)
Cumulative earnings (deficit)	27,074	(28,082)	28,082	27,074
Cumulative distributions to stockholders	(80,448)	--	--	(80,448)
Total Stockholder's Equity	215,664	1,918	(1,918)	215,664
Total Liabilities and Stockholders' Equity	$ 2,082,115	$ 22,131	$ (1,918)	$ 2,102,328

</TABLE>

REDWOOD TRUST, INC.
CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)

<TABLE>
<CAPTION>

(PRO FORMA) (IN THOUSANDS)	YEAR ENDED DECEMBER 31, 2000			
	REDWOOD TRUST	RWT HOLDINGS	CONSOLIDATION	REDWOOD TRUST CONSOLIDATED
<S>	<C>	<C>	<C>	<C>
INTEREST INCOME				
Residential Credit Enhancement Interests:				
Mortgage securities available-for-sale	$ 8,524	$ --	$ --	$ 8,524
Residential Retained Loan Portfolio:				
Mortgage loans held-for-investment	83,815	--	--	83,815
Mortgage loans held-for-sale	7,050	69	--	7,119
	90,865	69	--	90,934
Investment Portfolio:				
Mortgage securities trading	67,055	--	--	67,055
Mortgage securities available-for-sale	151	--	--	151

	67,206	--	--	67,206
Commercial Retained Loan Portfolio:				
Mortgage loans held-for-investment	520	--	--	520
Mortgage loans held-for-sale	1,482	3,301	--	4,783
	2,002	3,301	--	5,303
Cash and cash equivalents	1,395	122	(343)	1,174
Total interest income	169,992	3,492	(343)	173,141
INTEREST EXPENSE				
Short-term debt	(61,355)	(2,316)	--	(63,671)
Long-term debt	(76,294)	--	--	(76,294)
Credit support fees	--	(98)	98	--
Loans from Redwood Trust, Inc.	--	(343)	343	--
Total interest expense	(137,649)	(2,757)	441	(139,965)
Net interest rate agreements expense	(954)	--	--	(954)
Provision for credit losses	(731)	--	--	(731)
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	30,658	735	98	31,491
Net unrealized and realized market value gains (losses)				
Loans and securities	1,060	149	(186)	1,023
Interest rate agreements	(3,356)	--	--	(3,356)
Total net unrealized and realized market value gains (losses)	(2,296)	149	(186)	(2,333)
Operating expenses	(7,850)	(2,391)	--	(10,241)
Other income	98	--	(98)	--
Equity in losses of RWT Holdings, Inc.	(1,676)	--	1,676	--
Net income before preferred dividend	18,934	(2,391)	1,490	18,917
Less dividends on Class B preferred stock	(2,724)	--	--	(2,724)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ 16,210	$ (1,507)	$ 1,490	$ 16,193
Basic Earnings Per Share	$ 1.84			$ 1.84
Diluted Earnings Per Share	$ 1.82			$ 1.82

</TABLE>

On March 15, 2001, the Company declared a $0.50 per share common stock dividend and a $0.755 preferred stock dividend for the first quarter of 2001. The common and preferred stock dividends are payable on April 23, 2001 to common and preferred shareholders of record on March 30, 2001.

NOTE 15. QUARTERLY FINANCIAL DATA - UNAUDITED

Selected quarterly financial data follows:

(IN THOUSANDS, EXCEPT SHARE DATA)	THREE MONTHS ENDED			
	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
2000				
Operating results:				
Interest income	$ 42,939	$ 43,136	$ 41,919	$ 41,998
Interest expense	(34,522)	(34,915)	(34,501)	(33,711)
Provision for credit losses	(119)	(128)	(240)	(244)
Interest rate agreement expense	(409)	(218)	(193)	(134)
Net interest income after provision for credit losses	7,889	7,875	6,985	7,909
Net income (loss) available to common stockholders	3,280	3,096	4,873	4,961
Per share data:				
Net income (loss) - diluted	$ 0.37	$ 0.35	$ 0.55	$ 0.55
Dividends declared per common share (a)	$ 0.35	$ 0.40	$ 0.42	$ 0.44
Dividends declared per preferred share	$ 0.755	$ 0.755	$ 0.755	$ 0.755
1999				
Operating results:				
Interest income	$ 41,732	$ 36,090	$ 34,555	$ 34,933
Interest expense	(33,491)	(28,537)	(27,390)	(27,744)
Provision for credit losses	(345)	(371)	(416)	(214)
Interest rate agreement expense	(333)	(736)	(458)	(538)
Net interest income after provision for credit losses	7,563	6,446	6,291	6,437
Net income (loss) available to common stockholders	5,855	2,508	(3,738)	(5,638)
Per share data:				
Net income (loss) - diluted	$ 0.54	$ 0.25	$ (0.39)	$ (0.64)
Dividends declared per common share (a)	--	--	$ 0.15	$ 0.25
Dividends declared per preferred share	$ 0.755	$ 0.755	$ 0.755	$ 0.755

(a) Reflects period for which the common dividend was declared. Reported dividends may have been declared during the following quarter.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Redwood Trust, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Redwood Trust, Inc. (the Company) at December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In July 1998, the Company adopted Financial Accounting Standards Board Statement No. 133. Accounting of Derivative Instruments and Hedging Activities. This change is discussed in Note 2 to the consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

San Francisco, California
February 15, 2001

RWT HOLDINGS, INC.

CONSOLIDATED FINANCIAL STATEMENTS AND

REPORT OF INDEPENDENT ACCOUNTANTS

For Inclusion in Form 10-K

Annual Report Filed with

Securities and Exchange Commission

December 31, 2000

RWT HOLDINGS, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

Page

<S>
<C>

Consolidated Financial Statements - RWT Holdings, Inc.

Consolidated Balance Sheets at December 31, 2000 and 1999... F-31

Consolidated Statements of Operations for the years ended December 31, 2000 and 1999, and for the period from April 1, 1998 (commencement of operations) to December 31, 1998..... F-32

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2000 and 1999, and for the period from April 1, 1998 (commencement of operations) to December 31, 1998............................. F-33

Consolidated Statements of Cash Flows for the years ended December 31, 2000 and 1999, and for the period from April 1, 1998 (commencement of operations) to December 31, 1998..... F-34

Notes to Consolidated Financial Statements.. F-35

Report of Independent Accountants.. F-42

</TABLE>

RWT HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

<TABLE>
<CAPTION>

<S>	December 31, 2000 <C>	December 31, 1999 <C>
ASSETS		
Mortgage loans: held-for sale		
Residential	$ --	$ 4,399
Commercial, pledged	18,913	29,605
	18,913	34,004
Cash and cash equivalents	1,892	1,999
Restricted cash	1,119	50
Accrued interest receivable	169	1,520
Property, equipment and leasehold improvements, net	--	299
Other assets	38	1,081
Total Assets	$ 22,131	$ 38,953
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Short-term debt	$ 18,200	$ 22,427
Loans from Redwood Trust, Inc.	--	6,500
Payable to Redwood Trust, Inc.	--	472
Accrued interest payable	134	831
Accrued restructuring charges	430	4,039
Accrued expenses and other liabilities	1,449	1,259
Total Liabilities	20,213	35,528
Commitments and contingencies (See Note 10)		
STOCKHOLDERS' EQUITY		
Series A preferred stock, par value $0.01 per share; 10,000 shares authorized; 5,940 issued and outstanding ($5,940 aggregate liquidation preference)	29,700	29,700
Common stock, par value $0.01 per share; 10,000 shares authorized; 3,000 issued and outstanding	--	--
Additional paid-in capital	300	300
Accumulated deficit	(28,082)	(26,575)
Total Stockholders' Equity	1,918	3,425
Total Liabilities and Stockholders' Equity	$ 22,131	$ 38,953

</TABLE>

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

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

<TABLE>
<CAPTION>

<S>	Year Ended December 31, 2000 <C>	Year Ended December 31, 1999 <C>	For the period from April 1, 1998 (commencement of operations) to December 31, 1998 <C>

REVENUES			
Interest income			
Mortgage loans: held-for-sale			
Residential	$ 69	$ 1,955	$ 2,803
Commercial	3,301	1,555	--
	3,370	3,510	2,803
Mortgage securities: trading	--	1,021	--
Cash and cash equivalents	122	330	350
Total interest income	3,492	4,861	3,153
Interest expense			
Short-term debt	(2,316)	(2,457)	(2,503)
Credit support fees	(98)	(149)	(139)
Loans from Redwood Trust, Inc.	(343)	(1,118)	(18)
Total interest expense	(2,757)	(3,724)	(2,660)
Net interest income	735	1,137	493
Net unrealized and realized market value gains (losses)	149	(747)	18
Other income	--	26	--
EXPENSES			
Compensation and benefits	(1,485)	(8,414)	(3,395)
General and administrative	(906)	(5,430)	(1,840)
Restructuring charge	--	(8,423)	--
Total expenses	(2,391)	(22,267)	(5,235)
NET LOSS	$ (1,507)	$(21,851)	$ (4,724)

</TABLE>

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

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

<TABLE>
<CAPTION>

	Series A Preferred stock		Common stock		Additional paid-in capital	Accumulated deficit	Total
	Shares	Amount	Shares	Amount			

Balance, April 1, 1998	--	$ --	--	$ --	$ --	$ --	$ --
Net loss	--	--	--	--	--	(4,724)	(4,724)
Issuance of preferred stock	3,960	19,800	--	--	--	--	19,800
Issuance of common stock	--	--	2,000	--	200	--	200
Balance, December 31, 1998	3,960	19,800	2,000	--	200	(4,724)	15,276
Net loss	--	--	--	--	--	(21,851)	(21,851)
Issuance of preferred stock	1,980	9,900	--	--	--	--	9,900
Issuance of common stock	--	--	1,000	--	100	--	100
Balance, December 31, 1999	5,940	$ 29,700	3,000	$ --	$ 300	$(26,575)	$ 3,425
Net loss	--	--	--	--	--	(1,507)	(1,507)
Balance, December 31, 2000	5,940	$ 29,700	3,000	$ --	$ 300	$(28,082)	$ 1,918

</TABLE>

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

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

<TABLE>
<CAPTION>

	Year Ended December 31, 2000	Year Ended December 31, 1999	For the period from April 1, 1998 (commencement of operations) to December 31, 1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (1,507)	$ (21,851)	$ (4,724)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	31	829	27
Net unrealized and realized market value (gains) losses	(149)	747	(18)

Write-off of property, equipment and leasehold improvements, net	82	3,131	--
Purchases of mortgage loans: held for sale	(508,642)	(657,295)	(543,296)
Proceeds from sales of mortgage loans: held for sale	509,784	533,743	525,418
Principal payments on mortgage loans: held for sale	14,099	1,614	5,622
Purchases of mortgage securities: trading	--	(4,619)	--
Proceeds from sales of mortgage securities: trading	--	99,488	--
Principal payments on mortgage securities: trading	--	3,549	--
Decrease (increase) in accrued interest receivable	1,351	(1,442)	(78)
Decrease (increase) in other assets	1,043	54	(55)
(Decrease) increase in amounts due to Redwood Trust	(472)	27	445
(Decrease) increase in accrued interest payable	(697)	828	3
(Decrease) increase in accrued restructuring charges	(3,609)	4,039	--
Increase in accrued expenses and other liabilities	190	705	554
Net cash provided by (used in) operating activities	11,504	(36,453)	(16,102)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sales (purchases) of property, equipment and leasehold improvements, net	185	(3,636)	(687)
Net increase in restricted cash	(1,069)	(50)	--
Net cash used in investing activities	(884)	(3,686)	(687)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (repayments) proceeds from issuance of short-term debt	(4,227)	22,427	--
Loans from Redwood Trust, Inc. (net of repayments)	(6,500)	--	6,500
Net proceeds from issuance of preferred stock	--	9,900	19,800
Net proceeds from issuance of common stock	--	100	200
Net cash (used in) provided by financing activities	(10,727)	32,427	26,500
Net (decrease) increase in cash and cash equivalents	(107)	(7,712)	9,711
Cash and cash equivalents at beginning of period	1,999	9,711	--
Cash and cash equivalents at end of period	$ 1,892	$ 1,999	$ 9,711
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest expense	$ 3,454	$ 2,810	$ 2,518
Non-cash transaction:			
Securitization of mortgage loans into mortgage securities	$ --	$ 98,315	$ --

</TABLE>

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

NOTE 1. THE COMPANY

RWT Holdings, Inc. ("Holdings") was incorporated in Delaware on February 13, 1998 and commenced operations on April 1, 1998. Holdings originates and sells commercial mortgage loans. Redwood Trust, Inc. ("Redwood Trust") owns all of the preferred stock and has a non-voting, 99% economic interest in Holdings. The consolidated financial statements include the three subsidiaries of Holdings. Redwood Commercial Funding, Inc. ("RCF") originates commercial mortgage loans for sale to Redwood Trust and other institutional investors. Redwood Residential Funding, Inc. ("RRF") and Redwood Financial Services, Inc. ("RFS") were start-up ventures that ceased operations in 1999. Holdings and its subsidiaries currently utilize both debt and equity to finance acquisitions. References to Holdings in the following footnotes refer to Holdings and its subsidiaries. On January 1, 2001, Redwood Trust acquired 100% of the voting common stock of Holdings, as further discussed in Note 11.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

USE OF ESTIMATES

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

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

ADOPTION OF SFAS NO. 133

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

MORTGAGE ASSETS

Holdings' mortgage assets consist of mortgage loans and mortgage securities ("Mortgage Assets"). Interest is recognized as revenue when earned according to the terms of the loans and when, in the opinion of management, it is collectible.

Mortgage Loans: Held-for-Sale

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

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

Mortgage Securities: Trading

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

LOAN ORIGINATION FEES

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

CASH AND CASH EQUIVALENTS

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

RESTRICTED CASH

Restricted cash includes cash held back from borrowers until certain loan agreement requirements have been met. The corresponding liability for this cash is reflected as a component of "Accrued expenses and other liabilities" on the Consolidated Balance Sheets.

DERIVATIVE FINANCIAL INSTRUMENTS

Holdings utilizes derivative financial instruments to mitigate the risks that a change in interest rates will result in a change in the value of the Mortgage Assets. At December 31, 2000, Holdings had no derivative financial instruments. At December 31, 1999, Holdings had entered into forward contracts for the sale of mortgage loans which had an aggregate notional value of $1 million. Holdings designates all derivative financial instruments as trading instruments. Accordingly, such instruments are recorded at their estimated fair market value with unrealized and realized gains and losses on these instruments recognized as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations. During the year ended December 31, 2000, Holdings recognized market value losses on derivative financial instruments of $5,000. During the year ended December 31, 1999, Holdings recognized market value gains on derivative financial instruments of $1.0 million. There were no derivative financial instruments outstanding during the period ended December 31, 1998.

INCOME TAXES

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

NOTE 3. MORTGAGE ASSETS

At December 31, 2000 and 1999 Mortgage Assets consisted of the following:

MORTGAGE LOANS: HELD-FOR-SALE

<TABLE>
<CAPTION>

(IN THOUSANDS)	DECEMBER 31, 2000			DECEMBER 31, 1999		
	RESIDENTIAL	COMMERCIAL	TOTAL	RESIDENTIAL	COMMERCIAL	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Current Face	$ --	$ 19,883	$ 19,883	$ 4,995	$ 30,324	$ 35,319
Unamortized Premium (Discount)	--	(970)	(970)	(596)	(719)	(1,315)

Carrying Value	$ --	$ 18,913	$ 18,913	$ 4,399	$ 29,605	$ 34,004

</TABLE>

For the years ended December 31, 2000, 1999 and 1998, Holdings recognized losses of $0.2 million, $1.8 million and $11,000 respectively, as a result of LOCOM adjustments on mortgage loans held-for-sale. During the years ended December 31, 2000, 1999 and 1998, Holdings recognized gains on sales of mortgage loans of $0.4 million, $1.0 million, and $29,000, respectively. These losses are reflected as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations.

MORTGAGE SECURITIES: TRADING

Holdings did not own any mortgage securities during 2000 or 1998. For the year ended December 31, 1999, Holdings recognized a market value gain of $0.1 million on mortgage securities classified as trading. This gain is reflected as a component of "Net unrealized and realized market value gains (losses)" on the Consolidated Statements of Operations. During the year ended December 31, 1999, Holdings sold mortgage securities classified as trading for proceeds of $99.5 million.

NOTE 4. SHORT-TERM DEBT

Holdings has entered into reverse repurchase agreements and other forms of collateralized short-term borrowings (collectively, "Short-Term Debt") to finance acquisitions of a portion of its Mortgage Assets. This Short-Term debt is collateralized by a portion of Holdings' mortgage loans.

At December 31, 2000, and December 31, 1999, Holdings had $18.2 million and $22.4 million of Short-Term Debt outstanding with a weighted-average borrowing rate of 8.51% and 7.02%, respectively. The average balance of Short-Term Debt outstanding during the years ended December 31, 2000 and 1999 was $28 million and $42 million, with a weighted-average interest cost of 8.40% and 6.22%, respectively. The maximum balance outstanding during the years ended December 31, 2000 and 1999 was $44 million and $397 million, respectively.

Redwood Trust and Holdings were in compliance with all material representations, warranties and covenants under all its credit facilities. It is the intention of management to renew committed and uncommitted facilities, if and as needed.

In March 2000, Redwood Trust entered into a $50 million committed revolving mortgage warehousing credit facility. The facility is intended to finance newly originated commercial mortgage loans. Holdings may borrow under this facility as a co-borrower. In September 2000, this facility was extended through August 2001 and was increased to $70 million. In addition, a portion of this facility allows for loans to be financed to the maturity of the loan, which may extend beyond the expiration date of the facility. At December 31, 2000, Redwood Trust and Holdings had outstanding borrowings of $16.5 million and $18.2 million, respectively, under this facility. Borrowings under this facility bear interest based on a specified margin over the London Interbank Offered Rate ("LIBOR"). At December 31, 2000, the weighted average borrowing rate under this facility was 8.57%. This committed facility expires in August 2001.

In July 2000, Redwood Trust renewed for one year, a $30 million committed master loan and security agreement with a Wall Street Firm. The facility is intended to finance newly originated commercial mortgage loans. In September 2000, this facility was increased to $50 million. Holdings may borrow under this facility as a co-borrower. At December 31, 2000, Holdings had no outstanding borrowings under this facility. Borrowings under

this facility bear interest based on a specified margin over LIBOR. At December 31, 2000, the weighted average borrowing rate under this facility was 8.06%. This committed facility expires in July 2001.

In July 1999, Redwood Trust entered into a one-year, $90 million committed revolving mortgage warehousing credit facility with two banks. This facility expired in February 2000. The facility was primarily intended to finance newly originated residential mortgage loans. Holdings was a co-borrower under this facility. At Redwood Trust's request, this line was reduced to $20 million in December 1999. At December 31, 1999, Holdings had no outstanding borrowings under this facility.

In July 1999, Redwood Trust entered into a one-year, $350 million committed master loan and security agreement with a Wall Street firm. This facility expired in June 2000. The facility was primarily intended to finance newly originated commercial and residential mortgage loans. Holdings was a co-borrower under this facility. At December 31, 1999, Holdings had outstanding borrowings

of $19.8 million under this facility. Borrowings under this facility bore interest based on a specified margin over the London Interbank Offered Rate ("LIBOR"). At December 31, 1999, the weighted-average borrowing rate under this facility was 7.23%.

Redwood Trust may provide credit support to Holdings to facilitate Holdings' financings from third-party lenders and/or hedging arrangements with counterparties. As part of this arrangement, Holdings is authorized as a co-borrower under some of Redwood Trust's Short-Term Debt agreements subject to Redwood Trust continuing to remain jointly and severally liable for repayment. Accordingly, Holdings pays Redwood Trust credit support fees on borrowings subject to this arrangement. During the years ended December 31, 2000, 1999 and 1998, Holdings paid Redwood Trust credit support fees of $98,000, $149,000 and $139,000, respectively. At December 31, 2000 and 1999, Redwood Trust was providing credit support on $18.2 million and $22.4 million, respectively, of Holdings' Short-Term Debt. These expenses are reflected as "Credit support fees" on the Consolidated Statements of Operations.

NOTE 5. RESTRUCTURING CHARGE

During the year ended December 31, 1999, Holdings recognized $8.4 million in restructuring charges as a result of the closure of two of its subsidiaries, RRF and RFS. Restructuring charges were determined in accordance with the provisions of Staff Accounting Bulletin No. 100 "Restructuring and Impairment Charges", Emerging Issues Task Force No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity", and other relevant accounting guidance. The restructuring accrual includes costs associated with existing contractual and lease arrangements at both subsidiaries which have no future value. In addition, as a result of the closure of the two subsidiaries, certain assets utilized in these businesses were determined to have little or no realizable value, resulting in impairment losses. These assets included software developed for use at RRF and certain fixed assets at both subsidiaries. The following table provides a summary of the primary components of the restructuring liability.

(IN THOUSANDS)	TOTAL ESTIMATED LIABILITY/IMPAIRMENTS	1999 ACTUAL PAYMENTS/ CHARGE-OFFS	2000 ACTUAL PAYMENTS/ CHARGE-OFFS	DECEMBER 31, 2000 ACCRUED RESTRUCTURING
Payroll, severance, and termination benefits	$3,511	$1,080	$2,431	$ --
Asset Impairments	2,858	2,858	--	--
Lease and other commitments	1,314	246	643	425
Other	740	200	535	5
Total	$8,423	4,384	3,609	$ 430

The Company expects to pay the remaining restructuring costs during the year 2001. The remaining liability for restructuring costs at December 31, 2000 and 1999 of $0.4 million and $4.0 million, respectively, is reflected as "Accrued restructuring charges" on the Consolidated Balance Sheets.

NOTE 6. INCOME TAXES

The current provision for income taxes for the years ended December 31, 2000, 1999 and 1998 was $3,200 for both 2000 and 1999, and $2,400 for 1998. These amounts represent the minimum California franchise taxes. No additional tax provision has been recorded for the years ended December 31, 2000, 1999 and 1998, as Holdings reported a loss in each of these years, and due to the uncertainty of realization of net operating losses, no deferred tax benefit has been recorded. A valuation allowance has been provided to offset the deferred tax assets related to net operating loss carryforwards and other future temporary deductions at December 31, 2000 and 1999. At December 31, 2000 and 1999, the deferred tax assets and associated valuation allowances were approximately $9.5 million and $8.9 million, respectively. At December 31, 2000 and 1999, Holdings had net operating loss carryforwards of approximately $24.6 million and $19.5 million for federal tax purposes, and $11 million and $9 million for state tax purposes. The federal loss carryforwards and a portion of the state loss carryforwards expire between 2018 and 2020, while the largest portion of the state loss carryforwards expire between 2003 and 2005.

NOTE 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying values and estimated fair values of Holdings' financial instruments at December 31, 2000 and 1999.

(IN THOUSANDS)	DECEMBER 31, 2000		DECEMBER 31, 1999	
	CARRYING VALUE	FAIR VALUE	CARRYING VALUE	FAIR VALUE
Assets				
Mortgage loans: held-for-sale				
Residential	$ --	$ --	$ 4,399	$ 4,415
Commercial	$18,913	$19,004	$29,605	$29,876
Liabilities				
Short-term debt	$18,200	$18,200	$22,427	$22,427
Loans from Redwood Trust, Inc.	$ --	$ --	$ 6,500	$ 6,500

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

NOTE 8. STOCKHOLDERS' EQUITY

The authorized capital stock of Holdings consists of Series A Preferred Stock ("Preferred Stock") and Common Stock. Until January 1, 2001, Holdings was authorized to issue 10,000 shares of Common Stock, each having a par value of $0.01, and 10,000 shares of Preferred Stock, each having a par value of $0.01. All voting power was vested in the common stock.

Holdings issued a total of 5,940 shares of Preferred Stock to Redwood Trust. The Preferred Stock entitled Redwood Trust to receive 99% of the aggregate amount of any such dividends or distributions made by Holdings. The holders

of the Common Stock were entitled to receive the remaining 1% of the aggregate amount of such dividends or distributions. The Preferred Stock ranked senior to the Common Stock as to the payment of dividends and liquidation rights. The liquidation preference entitled the holders of the Preferred Stock to receive $1,000 per share liquidation preference before any distribution was made on the Common Stock. After the liquidation preference, the holders of Preferred Stock were entitled to 99% of any remaining assets. At January 1, 2001, Redwood Trust acquired the Common Stock of Holdings. For more information on this subsequent event, see Note 11.

NOTE 9. RELATED PARTY TRANSACTIONS

PURCHASES AND SALES OF MORTGAGE LOANS

During the years ended December 31, 2000, and 1999, RCF purchased $58 million and $50 million of commercial mortgage loans from Redwood Trust, respectively. There were no such purchases during the year ended December 31, 1998. Pursuant to Master Forward Commitment Agreements, RCF purchased the mortgage loans from Redwood Trust at the same price for which Redwood Trust acquired the mortgage loans. At December 31, 2000 and 1999, under the terms of Master Forward Commitment Agreements, RCF had committed to purchase $34 million and $8 million of commercial mortgage loans from Redwood Trust for settlement during the first quarter of 2001 and 2000, respectively.

During the year ended December 31, 2000, RCF sold commercial mortgage loans aggregating $18 million to Redwood Trust which were not subject to terms of the Master Forward Commitment Agreements. All such commercial mortgage loans sold by RCF to Redwood Trust are sold at the market price at the time of the sale. During the year ended December 31, 2000, the gains recognized by Holdings on such sales of RCF assets were $0.2 million and are recorded on the Holdings' Statements of Operations under "net unrealized and realized market value gains (losses)." No such sales were made by RCF to Redwood Trust during the years ended December 31, 1999 and 1998.

During the years ended December 31, 2000 and 1999, RRF purchased $17 million and $61 million of residential mortgage loans from Redwood Trust, respectively. There were no such purchases during the year ended December 31, 1998. Pursuant to Master Forward Commitment Agreements, RRF purchased the mortgage loans from Redwood Trust at the same price for which Redwood Trust acquired the mortgage loans. As RRF ceased operations in 1999, there were no remaining outstanding commitments at December 31, 2000. At December 31, 1999, RRF had committed to purchase $16 million of residential mortgage loans from Redwood Trust during the first and second quarters of 2000, pursuant to the terms of Master Forward Commitment Agreements.

During December 1999, Holdings purchased $390 million of residential mortgage loans and subsequently sold a participation agreement on the mortgage loans to Redwood Trust. Pursuant to the terms of the Mortgage Loan Participation Purchase Agreement, Redwood Trust purchased a 99% interest in the mortgage loans, and assumed all related risks of ownership. Holdings did not recognize any gain or loss on this transaction. During March 2000, Redwood Trust sold the participation agreement back to Holdings for proceeds of $381 million. Holdings simultaneously sold $384 million of residential mortgage loans to Sequoia for proceeds of $384 million.

OTHER

Under a revolving credit facility arrangement, Redwood Trust may loan funds to Holdings to finance certain Mortgage Assets owned by Holdings. These loans are typically unsecured and are repaid within six months. Such loans bear interest at a rate of 3.50% over LIBOR. At December 31, 2000, Holdings had no such borrowings from Redwood Trust. At December 31, 1999, Holdings had borrowed $6.5 million from Redwood Trust in accordance with the provisions of this arrangement. During the years ended December 31, 2000, 1999 and 1998, Holdings incurred $0.3 million, $1.1 million and $18,000, respectively, in interest on loans from Redwood Trust.

Redwood Trust shares many of the operating expenses of Holdings, including personnel and related expenses, subject to full reimbursement by Holdings. During the years ended December 31, 2000, 1999 and 1998, Redwood Trust paid $0.2 million, $3.0 million and $2.3 million, respectively, of Holdings' operating expenses which were subject to reimbursement by Holdings.

Holdings may borrow under several of Redwood Trust's Short-Term Debt agreements as a co-borrower (see Note 4). At December 31, 2000 and 1999, Holdings had borrowings of $18.2 million and $22.4 million subject to these arrangements.

NOTE 10. COMMITMENTS AND CONTINGENCIES

At December 31, 2000, RCF is obligated under non-cancelable operating leases with expiration dates through 2004. The total future minimum lease payments under these non-cancelable leases is $580,185 and is expected to be paid as follows: 2001 -- $345,715; 2002 -- $78,214; 2003 -- $80,499; 2004 - $75,757.

At December 31, 2000, RCF had entered into commitments to purchase $34 million of commercial mortgage loans from Redwood Trust for settlement during the first quarter of 2001.

At December 31, 2000, RCF had entered into commitments to provide for additional loan fundings, subject to the borrowers meeting certain conditions, aggregating $2.9 million.

NOTE 11. SUBSEQUENT EVENTS

On January 1, 2001, Redwood Trust acquired 100% of the voting common stock of Holdings for $300,000 in cash consideration from two officers of Holdings. Redwood Trust's Audit Committee determined the purchase price based on an independent appraisal obtained by the Audit Committee and through negotiations with the two officers, taking into account projected cost savings to Redwood Trust from being able to consolidate Holdings into Redwood Trust's future financial statements and other potential benefits to Redwood Trust and its stockholders.

Following Redwood Trust's acquisition of the voting common stock of Holdings, Redwood Trust transferred its preferred stock interest in exchange for additional voting common stock in Holdings as part of the Holdings equity recapitalization. As a result of these transactions, Redwood Trust owns 100% of the voting common stock of Holdings and Holdings became a wholly-owned subsidiary of Redwood Trust. Subsequently, Holdings has elected to become a taxable REIT subsidiary of Redwood Trust.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholder of
RWT Holdings, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of RWT Holdings, Inc.(the Company) at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years ended December 31, 2000 and 1999 and

for the period April 1, 1998 (inception) to December 31, 1998, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Francisco, California
February 15, 2001

REDWOOD TRUST, INC.
INDEX TO EXHIBIT

<TABLE>
<CAPTION>

Exhibit Number	
<S>	<C>
3.3.2	Amended and Restated Bylaws, amended March 15, 2001
9.1	Voting Agreement, dated March 10, 2000
10.9.3	Custodian Agreement (U.S. Custody), dated December 1, 2000, between the Registrant and Bankers Trust Company
10.13.2	Employment Agreement, dated March 23, 2001, between the Registrant and Andrew I. Sirkis
10.13.3	Employment Agreement, dated April 20, 2000, between the Registrant and Brett D. Nicholas
10.14.4	Amended and Restated Executive and Non-Employee director Stock Option Plan, amended January 18, 2001
11.1	Computation of Earnings per Share
21	List of Subsidiaries
23	Consent of Accountants

</TABLE>

EXHIBIT 3.3.2

BYLAWS

OF

REDWOOD TRUST, INC.

March 15, 2001

ARTICLE I

STOCKHOLDERS

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

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

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

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

comes before the meeting, except that a plurality of all the votes cast at a meeting at which a quorum is present is sufficient to elect a director.

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

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

Secretary or, in his or her absence, an assistant secretary, or in the absence of both Secretary and assistant secretaries, a person appointed by the Chairman, shall act as Secretary.

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

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

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

SECTION 9. Conduct of Business. Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation's notice of meeting, (b) by or at the direction of the Board of Directors or (c) by any stockholder of the Corporation who was a stockholder of record at the time of giving notice provided for in Article I, Section 10, who is entitled to vote at the meeting and who complied with the notice procedures set forth in Article I, Section 10. The chairman of the meeting shall

have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Section and Article I, Section 10, and, if any proposed nomination or business is not in compliance with this Section and Article I, Section 10, to declare that such defective nomination or proposal be disregarded.

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

address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of stock of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

ARTICLE II

DIRECTORS

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

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

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

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

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

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

the stockholders of any class or series are entitled separately to elect one or more directors, a majority of the remaining directors elected by that class or series or the sole remaining director elected by that class or series may fill any vacancy among the number of directors elected by that class or series. A director elected by the Board of Directors to fill a vacancy shall be elected to hold office until the next annual meeting of stockholders or until his successor is elected and qualified.

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

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

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

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

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

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

Members of the Board of Directors may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each

other at the same time. Participation in a meeting by such means constitutes presence in person at a meeting.

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

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

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

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

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

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

SECTION 9. Quorum and Voting. At all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business, and the action of a majority of the directors present at any meeting at which a quorum is present shall be the action of the Board of Directors unless the concurrence of a greater proportion is required for such action by law, the Charter or these Bylaws. If a quorum shall not be present at any meeting of directors, the directors present

thereat may, by a majority vote, adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

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

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

SECTION 12. Investment Policies and Restrictions. The Board of Directors, including a majority of the Independent Directors, shall approve the investment policies of the Corporation. The investment policies and compliance therewith shall be reviewed by the Independent Directors at least annually to

determine that the policies then being followed by the Corporation are in the best interest of the stockholders of the Corporation. Each such determination and the basis therefor shall be set forth in the minutes of the meeting of the Board of Directors.

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

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

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

ARTICLE III

OFFICERS

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

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

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

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

SECTION 5. Vice Presidents. In the absence of the President or in event of his or her death, inability or refusal to act, or at the request of the Chief Executive Officer or President, the Vice President or Vice Presidents shall perform the duties and exercise all the powers of the President and be subject

to all the restrictions upon the President. The Vice President or Vice Presidents shall perform such other duties as from time to time may be assigned to him or her or them by the President or by the Board of Directors.

SECTION 6. Secretary. The Secretary shall keep the minutes of the stockholders' and of the Board of Directors' meetings in one or more books provided for that purpose, see that all notices are duly

given in accordance with the provisions of these Bylaws or as required by law, be custodian of the corporate records and of the seal of the Corporation and keep a register of the post office address of each stockholder which shall be furnished to the Secretary by such stockholder, have general charge of the stock transfer books of the Corporation and, in general, perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him or her by the President, the Chief Executive Officer or the Board of Directors.

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

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

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

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

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

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

ARTICLE IV

STOCK

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

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

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

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

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

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

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

SECTION 6. Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable

for calls and assessments, if any, a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law or the Charter.

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

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

ARTICLE V

SEAL

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

word "(seal)" adjacent to the signature of the person authorized to sign the document on behalf of the Corporation.

ARTICLE VI

SIGNATURES

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

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

ARTICLE VII

FISCAL YEAR

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

ARTICLE VIII

INDEMNIFICATION

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

SECTION 2. Exclusivity, Etc. The indemnification and advance of expenses provided by the Charter and these Bylaws shall not be deemed exclusive of any other rights to which a person seeking indemnification or advance of expenses may be entitled under any law (common or statutory), or any agreement, vote of stockholders or disinterested directors or other provision that is consistent with law,

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

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

ARTICLE IX

SUNDRY PROVISIONS

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

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

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

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

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

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

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

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

ARTICLE X

AMENDMENTS

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

EXHIBIT 9.1

VOTING AGREEMENT

This VOTING AGREEMENT is made as of March 10, 2000, among WALLACE R. WEITZ & COMPANY, a Nebraska corporation ("Weitz Co."), and WALLACE R. WEITZ and RICHARD F. LAWSON, individually (collectively with Weitz Co., the "Weitz Advisors"), and GEORGE E. BULL ("Bull") and DOUGLAS B. HANSEN ("Hansen"), shareholders of REDWOOD TRUST, a Maryland corporation ("Redwood").

WITNESSETH:

WHEREAS, the Weitz Advisors as of December 31 , 1999 were the holders of 24.2% of the outstanding capital stock of Redwood; and

WHEREAS, Redwood's Charter limits beneficial ownership of capital stock of Redwood by any person to 9.8% of the outstanding capital stock. On October 29, 1997, the Board of Directors of Redwood granted a waiver of the ownership limit to the Weitz Advisors, provided that the Weitz Advisors and persons advised by the Weitz Advisors did not in the aggregate possess beneficial ownership in excess of 15%, in number of shares or value, of each class of outstanding capital stock of Redwood; and

WHEREAS, on August 6, 1998 the Board of Directors of Redwood confirmed to the Weitz Advisors that the maximum ownership percentage of 15% contained in the waiver granted to the Weitz Advisors is to be applied only at the time of acquisition of shares by the Weitz Advisors, and that subsequent reductions in the total number of shares of capital stock outstanding due to Redwood's stock repurchases do not cause the waiver to be violated; and

WHEREAS, the Board of Directors of Redwood have granted the Weitz Advisors a further waiver of the ownership limit (the "Further Waiver"), up to a maximum of one million (1,000,000) shares of Common Stock (the "Excess Shares") which may be held at any one time by the Weitz Advisors and persons advised by the Weitz Advisors in excess of the 2,104,214 shares of Common Stock held by them on the date hereof and covered by the prior waiver, provided that any Excess Shares purchased from time to time shall be subject to this Voting Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and of the mutual covenants and agreements contained in this Agreement, the parties hereto, intending to be legally bound, agree as follows:

1. Term. This Voting Agreement shall continue in effect for so long as the Weitz Advisors or any persons advised by the Weitz Advisors hold outstanding capital stock of Redwood, except as otherwise provided in Section 3.

2. Transfer of Voting Rights. The Weitz Advisors, upon execution of this Voting Agreement and subject to the terms hereof, hereby grant, on behalf of the Weitz Advisors and

any persons advised by them, to Bull and Hansen the voting rights for any Excess Shares purchased by the Weitz Advisors.

3. Appointment of Proxies; Mirror Voting. To carry out the transfer of voting rights pursuant to Section 2, the Weitz Advisors hereby appoint Bull and Hansen, and each of them singly, as proxies for the Excess Shares acquired by the Weitz Advisors. The Weitz Advisors will cause any persons advised by them that acquire Excess Shares to appoint Bull and Hansen, and each of them singly, as proxies for such shares effective upon the acquisition thereof. The Weitz Advisors shall forward a copy of all proxy cards received by them or any person advised by them for the voting of such Excess Shares within five (5) business days after receipt of all cards for such Excess Shares to be voted at any meeting (or action by written consent). Bull and Hansen, and each of them singly, shall have full power to vote the Excess Shares through any method legally permitted, provided, however, that Bull and Hansen agree to vote the Excess Shares on each matter or action to be voted on such that the Excess Shares shall mirror the votes cast on such action or matter by all Redwood Shareholders other than the Weitz Advisors and any persons advised by them (that is, the proportion of Excess Shares voted for or against any matter shall equal the proportion voted for or against such matter by all shareholders excluding the Weitz Advisors and persons advised by them). In the event that either Bull or Hansen are no longer employed by or on the board of directors of Redwood, the remaining proxy holder shall continue to be authorized to act as a proxy pursuant to the terms hereof. In the event both Bull and Hansen cease to be employed by or on the board of Redwood, the transfer of voting rights and appointment of proxies for the Excess Shares shall immediately cease to be effective, the voting power with respect to the Excess Shares shall revert to the beneficial owner(s) of the Excess Shares and the term of this Agreement

shall immediately terminate, provided, however, that such reversion and termination shall not make invalid the prior waivers by the Redwood Board of Directors of the 9.8% Charter ownership limitation or in any way cause the Excess Shares existing on the date of termination to become subject to Article XI of the Redwood Charter, and provided further that no additional purchases of Redwood capital stock by the Weitz Advisors or persons advised by them after the date of termination shall be covered by the Further Waiver.

4. Notification of Share Purchases. The Weitz Advisors agree to notify Redwood, in writing, of all purchases of shares of outstanding capital stock of Redwood by them or any person advised by them within ten (10) business days of the end of each month. The Weitz Advisors shall send via telefax copies of all trade confirmations for such purchases with the monthly written notifications of purchase.

5. Proxy Coupled With Interest. THE PARTIES HERETO ACKNOWLEDGE THAT THE PROXY GRANTED TO BULL AND HANSEN HEREIN IS COUPLED WITH AN INTEREST AND IS THEREBY IRREVOCABLE.

6. Rights of Shareholders. The Weitz Advisors and persons advised by them shall retain all rights, not including the voting rights, attributable to the Excess Shares of Redwood capital stock. Subject to Section 9 below, the custodian for the Weitz Advisors and persons advised by them shall retain physical possession of all stock certificates.

7. Transfer of Excess Shares to Third Party. The proxy for any Excess Shares shall terminate upon the transfer of such Excess Shares from the Weitz Advisors or any person advised by them to a third party. For purposes of this Voting Agreement, all transfers of shares of Redwood capital stock by the Weitz Advisors or any person advised by them to a third party shall be deemed to be transfers of Excess Shares, up to the number of Excess Shares existing on the date of transfer. The proxy will continue to be effective with respect to any new Excess Shares purchased in the future until the expiration of the term hereof.

8. Voting Agreement. A duplicate of this Voting Agreement, and of any amendment or extension hereof, shall be filed with the Secretary of Redwood and shall be open to inspection by any shareholder of Redwood.

9. Section 2-510 of Maryland Corporation Code. Upon request by Bull and Hansen, the Weitz Advisors agree to transfer or caused to be transferred any Excess Shares to Bull and Hansen. Bull and Hansen agree to hold any such Excess Shares in trust for the benefit of the Weitz Advisors or persons advised by them.

10. Notices. All notices may be made by mail (regular first-class, registered or certified) or by fax, to the addresses and fax numbers set forth below:

George E. Bull, Douglas B. Hansen and Redwood Trust:

Redwood Trust, Inc.
591 Redwood Highway, Suite 3100
Mill Valley, CA 94941
Attention: Secretary
(415) 389-7373
(415) 381-1773 (fax)

Wallace R. Weitz & Company:

1125 South 103rd Street, Suite 600
Omaha, NE 68124
Attn: General Counsel
(402) 391-1980
(402) 391-2125 (fax)

Wallace R. Weitz:

1125 South 103rd Street, Suite 600
Omaha, NE 68124
(402) 391-1980
(402) 391-2125 (fax)

Richard F. Lawson:

1125 South 103rd Street, Suite 600
Omaha, NE 68124

(402) 391-1980
(402) 391-2125 (fax)

11. Binding Nature of Agreement; No Assignment. This Voting Agreement shall be binding upon and inure to the benefit of the parties hereto. No party may sell, assign, transfer or encumber such party's rights or obligations under this Voting Agreement without the prior written consent of the other parties hereto, except to the extent expressly permitted in this Voting Agreement.

12. Counterparts. This Voting Agreement may be executed simultaneously in any number of counterparts, each of which counterparts shall be deemed to be an original and such counterparts shall constitute but one and the same instrument.

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

14. Governing Law. This Voting Agreement shall be construed in accordance with the laws of the State of Maryland and the obligations, rights and remedies of the parties hereunder shall be determined in accordance with such laws.

IN WITNESS WHEREOF, each of the parties hereto have caused its name to be signed hereto by its respective officer thereunto duly authorized, all as of the day and year first above written.

GEORGE E. BULL

DOUGLAS B. HANSEN

WALLACE R. WEITZ & COMPANY

By: -------------------------------------

Name: -----------------------------------

Title: ----------------------------------

WALLACE R. WEITZ

RICHARD F. LARSON

EXHIBIT 10.9.3

BANKERS TRUST COMPANY
CUSTODIAN AGREEMENT
US CUSTODY

AGREEMENT dated as of DECEMBER 1, 2000 between BANKERS TRUST COMPANY (the "Custodian") and REDWOOD TRUST, INC. (the "Customer").

1. Employment of Custodian. The Customer hereby employs the Custodian as custodian of all assets of the Customer which are delivered to and accepted by the Custodian (the "Property") pursuant to the terms and conditions set forth herein. For purposes of this Agreement, "delivery" of Property shall include the acquisition of a security entitlement (as that term is defined in the New York Uniform Commercial Code ("UCC)) with respect thereto. Without limitation, such Property shall include stocks and other equity interests of every type, evidences of indebtedness, other instruments representing same or rights or obligations to receive, purchase, deliver or sell same and other non-cash investment property of the Customer ("Securities") and cash from whatever source and in whatever currency ("Cash"), provided that the Custodian shall have the right, in its sole discretion, to refuse to accept as Property any property that the Custodian considers not to be appropriate or in proper form for deposit for any reason. The Custodian shall not be responsible for any property of the Customer held or received by the Customer or others and not delivered to and accepted by the Custodian or any of its Subcustodians (as that term is defined in Section 4 below) as hereinafter provided.

2. Custody Account. The Custodian agrees to establish and maintain one or more custody accounts on its books in the name of the Customer (the "Account") for any and all Property consisting of Securities from time to time received and accepted by the Custodian or any of its Subcustodians for the account of the Customer. Any and all Property consisting of Cash from time to time received and accepted by the Custodian or any of its Subcustodians for the account of the Customer shall be credited to one or more demand deposit accounts or custody cash accounts of the Customer (the "Cash Account") on the books of the Custodian. The Customer acknowledges its responsibility as a principal for all of its obligations to the Custodian arising under or in connection with this Agreement, notwithstanding that it may be acting on behalf of other persons, and warrants its authority to deposit in the Account or Cash Account, as the case may be, any Property received therefor by the Custodian or its Subcustodian and to give, and authorize others to give, instructions relative thereto pursuant to the terms of this Agreement. The Customer further agrees that the Custodian shall not be subject to, nor shall its rights and obligations under this Agreement or with respect to the Account or the Cash Account, as the case may be, be affected by, any agreement between the Customer and any other person.

The Custodian shall hold, keep safe and protect as custodian for the Account, on behalf of the Customer, all Property in the Account and the Cash Account and to the extent such Property constitutes financial assets for purposes of the New York UCC, shall maintain those financial assets as security entitlements in favor of the Customer. Subject to the provisions of the next paragraph relating to Securities issued outside of the United States and collections of income in a currency other than United States dollars, all transactions involving the Property shall be executed or settled solely in accordance with Instructions (as

that term is defined in Section 8), except that until the Custodian receives Instructions to the contrary, the Custodian will:

(a) collect all interest and dividends and all other income and payments, whether paid in cash or in kind, on the Property, as the same become payable and credit the same to the Cash Account.

(b) present for payment all Securities held in the Account which are called, redeemed or retired or otherwise become payable and all coupons and other income items which call for payment upon presentation to the extent that the Custodian is actually aware of such opportunities and credit the cash received to the Cash Account;

(c) (i) exchange Securities where the exchange is purely ministerial (including, without limitation, the exchange of temporary securities for those in definitive form and the exchange of warrants, or other documents of entitlement to securities, for the Securities themselves); and (ii) when notification of a tender or exchange offer (other than ministerial exchanges described in (i) above) is received for the Account, endeavor to receive Instructions, provided that if such Instructions are not received in time for the Custodian to take timely action, no action shall be taken with respect thereto;

(d) whenever notification of a rights entitlement or a fractional interest resulting from a rights issue, stock dividend or stock split is received for the Account and such rights entitlement or fractional interest bears an expiration date, if after endeavoring to obtain Instructions such Instructions are not received in time for the Custodian to take timely action, sell in the discretion of the Custodian (which sale the Customer hereby authorizes the Custodian to make) such rights entitlement or fractional interest and credit the Cash Account with the net proceeds of such sale:

(e) execute in the Customer's name for the Account, whenever the Custodian deems it appropriate, such ownership and other certificates as may be required to obtain the payment of income from the Property; and

(f) appoint brokers and agents for any of the ministerial transactions involving the Securities described in (a) - (e), including, without limitation, affiliates of the Custodian or any Subcustodian.

Notwithstanding the foregoing and any Instructions received in connection therewith, with respect to Securities issued outside of the United States, the Custodian shall not assume any responsibility with respect to coupon payments, redemptions, exchanges, or similar matters affecting such Securities, and its duties hereunder shall be limited to the safekeeping of such Securities only. Collections of income in foreign currency are, to the extent possible, to be converted into United States dollars as soon as practicable, and in effecting such conversions the Custodian may use such methods or agencies as it may see fit, including the facilities of its own foreign division at customary rates.

The Custodian shall deliver, subject to Section 7 below, any and all Property in the Account in accordance with Instructions and, in connection therewith, the Customer will accept delivery of Securities of the same class and amount in place of those contained in the Account.

3. Records, Ownership of Property and Statements. The ownership of the Property, whether maintained directly by the Custodian or indirectly through a Subcustodian or a Securities System (as that term is defined in Section 4) in which the Custodian participates, shall be clearly recorded on the Custodian's books as belonging to the Account or the Cash Account and not for the Custodian's own interest. The Custodian shall keep accurate and detailed accounts of all investments, receipts, disbursements and other transactions for the Account and the Cash Account. All accounts, books and records of the Custodian relating thereto shall be open, upon reasonable notice from the Customer to the Custodian, to inspection and audit at all reasonable times during normal business hours by any person designated by the Customer.

Subject to the election of the Customer as hereinafter provided, the Custodian will supply to the Customer from time to time, as mutually agreed upon, a statement in respect to any Property in the Account or the Cash Account maintained by the Custodian or by a Subcustodian. In the absence of the filing in writing with the Custodian by the Customer of exceptions or objections to any such statement within sixty (60) days of the mailing thereof, the Customer shall be deemed to have approved such statement; and in such case or upon written approval of the Customer of any such statement, such statement shall be presumed to be correct for all purposes with respect to all information set forth therein. In addition, the Customer understands that it has the option to elect to participate in the Custodian's electronic on-line service and communication system which can provide the Customer, on a daily basis, with the ability to view on-line or to print on hard copy (the "Electronic On-Line System"): (i) all transactions involving the delivery in and out of the Account on a free or payment basis; (ii) payments of principal and interest or dividends; (iii) pending transactions and fails; and (iv) schedules of Securities in the Account plus the market values thereof. To the extent that the Electronic On-Line System shall include market values of Securities in the Account, the Customer hereby acknowledges that the Custodian now obtains and will in the future obtain information on such values from outside sources which the Custodian deems to be reliable, and confirms that the Custodian does not verify nor represent or warrant either the accuracy or the completeness of any such information furnished or transacted by or through the Electronic On-Line System, and the Custodian shall be without liability in selecting and using such sources and furnishing any information derived therefrom.

4. Subcustodians, Securities Systems and Foreign Subcustodians.

(a) The Customer authorizes and instructs the Custodian to maintain the Property in the Account directly in one of its U.S. branches or indirectly through custody accounts which have been established by the Custodian with the following other securities intermediaries:(a) another U.S. bank or trust company or branch thereof located in the U.S. (individually, a "Subcustodian"), or (b) a

U.S. securities depository or clearing agency or system in which the Custodian or a Subcustodian participates (individually, a "Securities System"). The Custodian shall select in its sole discretion the entity or entities in the custody of which any of the Securities may be so maintained or with which any Cash may be so deposited. The Custodian may, at any time in its discretion, upon written notification to the Customer, terminate the employment of any Subcustodian or Securities System.

(b) In the event that the Customer invests in a Security for which the principal trading market is a country other than the United States or which is to be acquired or presented for payment in a country other than the United States, the Custodian will use reasonable effort to appoint a subcustodian in the appropriate jurisdiction ("Foreign Subcustodian"). The Foreign Subcustodian may be a banking institution, securities depository or securities clearing system organized under the laws of a country other than the United States.

5. Holding of Securities, Nominees, etc. Securities in the Account which are maintained by the Custodian or any Subcustodian may be held directly by such entity in the name of the Customer or in bearer form or maintained, in the Custodian's or Subcustodian's own name, in the name of the Custodian's or Subcustodian's nominee. Securities which are maintained through a Subcustodian or are eligible for deposit in a Securities System as provided above may be maintained with the Subcustodian or the Securities System in an account for the Custodian's or Subcustodian's customers. The Custodian or Subcustodian, as the case may be, may combine certificates representing Securities held in the Account with certificates of the same issue held by it as fiduciary or as a custodian. In the event that any Securities in the name of the Custodian or its nominee or held by one of its Subcustodians and registered in the name of such Subcustodian or its nominee are called for partial redemption by the issuer of such Security, the Custodian may, subject to the rules or regulations pertaining to allocation of any securities depository in which such Securities have been deposited, allot, or cause to be allotted, the called portion to the respective beneficial holders of such class of security in any manner the Custodian deems to be fair and equitable. Securities maintained with a Securities System shall be maintained subject to the rules of that Securities System governing the rights and obligations among the Securities System and its participants.

6. Proxies, etc. If the Custodian shall receive any proxies, notices, reports or other communications relative to any of the Securities in the Account, the Custodian shall as soon as practicable transmit to the Customer, or notify the Customer of the receipt of, such proxies, notices, reports or other communications. Neither the Custodian nor its nominees or agents shall vote upon or in respect of any of the Securities in the Account, execute any form of proxy to vote thereon, or give any consent or take any action (except as provided in Section 2) with respect thereto except upon the receipt of Instructions relative thereto.

7. Settlement Procedures.

(a) The proceeds from the sale or exchange of Securities will be credited and the cost of such Securities purchased or acquired will be debited to the Cash Account in accordance with the schedule specified in the Custodian's Policies and Standards Manual in effect from time to time. Upon the execution and delivery of this Agreement, the Customer acknowledges receipt of the Custodian's Policies and Standards Manual in effect on the date hereof. Notwithstanding the preceding sentence, settlement and payment for Securities received for the Account and delivery of Securities maintained for the Account may be effected in accordance with the customary or established securities trading or securities processing practices and procedures in the jurisdiction or market in which the transaction occurs, including, without limitation, delivering Securities to the purchaser thereof or to a dealer therefor (or an agent for such purchaser or dealer) against a receipt with the expectation of receiving later payment for such Securities from such purchaser or dealer. The Custodian shall not be liable for any loss which results from effecting transactions in accordance with the customary or established securities trading or securities processing practices and procedures in the applicable jurisdiction or market.

(b) The Custodian shall not be required to comply with any Instructions to settle the purchase of any securities for the Account, unless there are sufficient immediately available funds in the Cash Account, provided that, if, after all expenses, debits and withdrawals ("Debits") applicable to the Cash Account have been made and if after all Conditional Credits, as defined below, applicable to the Cash Account have been made final entries as set forth in (d) below, the amount of immediately available funds in such Cash Account is at least equal to the aggregate purchase price of all securities for which the

Custodian has received Instructions to settle on that date ("Settlement Date"), the Custodian, upon settlement, shall credit the Securities to the Account by making a final entry on its books and records.

(c) Notwithstanding the foregoing, if after all Debits applicable to the Cash Account have been made, there remains outstanding any Conditional Credit applicable to the Cash Account or the amount of immediately available funds in such Cash Account are less than the aggregate purchase price of all securities for which the Custodian has received Instructions to settle on the Settlement Date, the Custodian, upon settlement, may provisionally credit the Securities to the Account by making a conditional entry on its books and records ("Conditional Credit"), pending receipt of sufficient immediately available funds in the Cash Account.

(d) If, within a reasonable time after the posting of a Conditional Credit and after all Debits applicable to the Cash Account have been made, immediately available funds at least equal to the aggregate purchase price of all securities subject to a Conditional Credit on a Settlement Date are deposited into the Cash Account, the Custodian shall make the Conditional Credit a final entry on its books and records. In such case, the Customer shall be liable to the Custodian only for late charges at a rate mutually agreed upon in writing by the Custodian and the Customer.

(e) If (i) within a reasonable time from the posting of a Conditional Credit, immediately available funds at least equal to the resultant Debit on a Settlement Date are not on deposit in the Cash Account, or (ii) any Proceeding shall occur, the Custodian may sell such of the Securities subject to the Conditional Credit as it selects in its sole discretion and shall apply the net proceeds of such sale to cover such Debit, including related late charges, and any remaining proceeds shall be credited to the Cash Account. If such proceeds are insufficient to satisfy such debt in full, the Customer shall continue to be liable to the Custodian for any shortfall. The Custodian shall make the Conditional Credit a final entry on its books as to the Securities not required to be sold to satisfy such Debit. Pending payment in full by the Customer of the purchase price for Securities subject to a Conditional Credit, and the Custodian's making a Conditional Credit a final entry on its books, and unless consented to by the Custodian, the Customer shall have no right to give further instructions in respect of Securities subject to a Conditional Credit. The Custodian shall have the sole discretion to determine which Securities shall be deemed to have been paid for by the Customer out of funds available in the Account. Any such Conditional Credit may be reversed (and any corresponding Debit shall be canceled) by the Custodian unless and until the Custodian makes a final entry on its books crediting such Securities to the Account. The term "Proceeding" shall mean any insolvency, bankruptcy, receivership, reorganization or similar proceeding relating to the Customer, whether voluntary or involuntary.

(f) The Customer agrees that it will not use the Cash Account to facilitate the purchase of securities without sufficient funds in the Cash Account (which funds shall not include the proceeds of the sale of the purchased securities).

8. Instructions. The term "Instructions" means instructions from the Customer in respect of any of the Custodian's duties hereunder which have been received by the Custodian at its address set forth in Section 13 below (i) in writing (including, without limitation, facsimile transmission) or by tested telex signed or given by such one or more person or persons as the Customer shall have from time to time authorized to give the particular class of Instructions in question and whose name and (if applicable) signature and office address have been filed with the Custodian; or (ii) which have been transmitted electronically through the Electronic On-Line System; or (iii) a telephonic or oral communication by one or more persons as the Customer shall have from time to time authorized to give

the particular class of Instructions in question and whose name has been filed with the Custodian; or (iv) upon receipt of such other form of instructions as the Customer may from time to time authorize in writing and which the Custodian agrees to accept. Instructions in the form of oral communications shall be confirmed by the Customer by tested telex or writing in the manner set forth in clause (i) above, but the lack of such confirmation shall in no way affect any action taken by the Custodian in reliance upon such oral instructions prior to the Custodian's receipt of such confirmation.

The Custodian shall have the right to assume in the absence of notice to the contrary from the Customer that any person whose name is on file with the Custodian pursuant to this Section has been authorized by the Customer to give the Instructions in question and that such authorization has not been revoked. The Custodian may act upon and conclusively rely on, without any liability to the Customer or any other person or entity for any losses resulting therefrom, any Instructions reasonably believed by it to be furnished by the proper person

or persons as provided above.

9. Standard of Care. The Custodian shall be responsible for the performance of only such duties as are set forth herein or contained in Instructions given to the Custodian which are not contrary to the provisions of this Agreement. The Custodian will use reasonable care with respect to the safekeeping of Securities in the Account and in carrying out its obligations under this Agreement. So long as and to the extent that it has exercised reasonable care, the Custodian shall not be responsible for the title, validity or genuineness of any Property or other property or evidence of title thereto received by it or delivered by it pursuant to this Agreement and shall be held harmless in acting upon, and may conclusively rely on, without liability for any loss resulting therefrom, any notice, request, consent, certificate or other instrument reasonably believed by it to be genuine and to be signed or furnished by the proper party or parties, including, without limitation, Instructions, and shall be indemnified by the Customer for any losses, damages, costs and expenses (including, without limitation, the fees and expenses of counsel) incurred by the Custodian and arising out of action taken or omitted with reasonable care by the Custodian hereunder or under any Instructions. The Custodian shall be liable to the Customer for any act or omission to act of any Subcustodian to the same extent as if the Custodian committed such act itself. With respect to a Securities System or a Foreign Subcustodian, the Custodian shall only be responsible or liable for losses arising from employment of such Securities System or Foreign Subcustodian caused by the Custodian's own failure to exercise reasonable care. In the event of any loss to the Customer by reason of the failure of the Custodian or its Subcustodian to utilize reasonable care, the Custodian shall be liable to the Customer to the extent of the Customer's actual damages at the time such loss was discovered without reference to any special conditions or circumstances. In no event shall the Custodian be liable for any consequential or special damages. The Custodian shall be entitled to rely, and may act, on advice of counsel (who may be counsel for the Customer) on all matters and shall be without liability for any action reasonably taken or omitted pursuant to such advice.

In the event the Customer subscribes to the Electronic On-Line System, the Customer shall be fully responsible for the security of the Customer's connecting terminal, access thereto and the proper and authorized use thereof and the initiation and application of continuing effective safeguards and the Customer agrees to defend, indemnify the Custodian and hold the Custodian harmless from and against any and all liabilities, losses, damages, costs, including attorneys' fees and every other expense of every nature incurred by the Custodian as a result of any improper or unauthorized use of such terminal by the Customer or by others on the Customer's premises.

All collections of funds or other property paid or distributed in respect of Securities in the Account, including funds involved in third-party foreign exchange transactions, shall be made at the risk of the Customer. Subject to the exercise of reasonable care, the Custodian shall have no liability for any loss occasioned by delay in the actual receipt of notice by the Custodian or by its Subcustodian of any payment, redemption or other transaction regarding Securities in the Account in respect of which the Custodian has agreed to take action as provided in Section 2 hereof. The Custodian shall not be liable for any loss resulting from, or caused by, acts of governmental authorities (whether de jure or de facto), including, without limitation, nationalization, expropriation, and the imposition of currency restrictions; acts of war, terrorism, insurrection or revolution; strikes or work stoppages; the inability of a local clearing and settlement system to settle transactions for reasons beyond the control of the Custodian; hurricane, cyclone, earthquake, volcanic eruption, nuclear fusion, fission or radioactivity or other acts of God.

The Custodian shall have no liability in respect of any loss, damage or expense suffered by the Customer, insofar as such loss, damage or expense arises from the performance of the Custodian's duties hereunder by reason of the Custodian's reliance upon records that were maintained for the Customer by entities other than the Custodian prior to the Custodian's employment under this Agreement.

The provisions of this Section shall survive termination of this Agreement.

10. Investment Limitations and Legal or Contractual Restrictions or Regulations. The Custodian shall not be liable to the Customer and the Customer agrees to indemnify the Custodian and its nominees, for any loss, damage or expense suffered or incurred by the Custodian or its nominees arising out of any violation of any investment restriction or other restriction or limitation applicable to the Customer pursuant to any contract or any law or regulation. The provisions of this Section shall survive termination of this Agreement.

11. Fees and Expenses. The Customer agrees to pay to the Custodian such compensation for its services pursuant to this Agreement, including if elected

by the Customer the Electronic On-Line System, as may be mutually agreed upon in writing from time to time and the Custodian's out-of-pocket or incidental expenses in connection with the performance of this Agreement, including (but without limitation) legal fees. The initial fee schedule is set forth in Exhibit A attached hereto. Such fees will not be abated by, nor shall the Custodian be required to account for, any profits or commissions received by the Custodian in connection with its provision of custody services under this Agreement. The Customer hereby agrees to hold the Custodian harmless from any liability or loss resulting from any taxes or other governmental charges, and any expense related thereto, which may be imposed, or assessed with respect to any Property in the Account and the Cash Account and also agrees to hold the Custodian, its Subcustodians, and their respective nominees harmless from any liability as a record holder of Property in the Account and the Cash Account. The Custodian is authorized to charge the Cash Account and any other deposit account of the Customer with the Custodian for such items. The provisions of this Section shall survive the termination of this Agreement.

12. Amendment, Modifications, etc. No provisions of this Agreement may be amended, modified or waived except in writing signed by the parties hereto. No waiver of any provision hereto shall be deemed a continuing waiver unless it is so designated. No failure or delay on the part of either party in exercising any power or right under this Agreement operates as a waiver, nor does any single or partial exercise of any power or right preclude any other or further exercise thereof or the exercise of any other power or right.

13. Termination. This Agreement may be terminated by the Customer or the Custodian by sixty (60) days' written notice to the other; provided that notice by the Customer shall specify the names of the persons to whom the Custodian shall deliver the Securities in the Account and to whom the Cash in the Cash Account shall be paid. If notice of termination is given by the Custodian, the Customer shall, within sixty (60) days following the giving of such notice, deliver to the Custodian a written notice specifying the names of the persons to whom the Custodian shall deliver the Securities in the Account and to whom the Cash in the Cash Account shall be paid. In either case, the Custodian will deliver such Securities and pay such Cash to the persons so specified, after payment of any amounts which the Custodian determines to be owed to it under Sections 2 and 11. In addition, the Custodian may in its discretion withhold from such delivery such Cash and Securities as may be necessary to settle transactions pending at the time of such delivery. If within sixty (60) days following the giving of a notice of termination by the Custodian, the Custodian does not receive from the Customer a written notice specifying the names of the persons to whom the Custodian shall deliver the Securities in the Account and to whom the Cash in the Cash Account shall be paid, the Custodian, at its election, may deliver such Securities and pay such Cash to a bank or trust company doing business in the State of New York to be held and disposed of pursuant to the provisions of this Agreement, or may continue to hold such Securities and Cash until a written notice as aforesaid is delivered to the Custodian, provided that the Custodian's obligations shall be limited to safekeeping.

14. Notices. Except as otherwise provided in this Agreement, all requests, demands or other communications between the parties or notices in connection herewith (a) shall be in writing, hand delivered or sent by registered mail, telex or facsimile addressed to such other address as shall have been furnished by the receiving party pursuant to the provisions hereof and (b) shall be deemed effective when received, or, in the case of a telex, when sent to the proper number and acknowledged by a proper answerback.

15. Security for Payment. To secure payment of all fees and expenses payable to Custodian hereunder, including but not limited to amounts payable pursuant to the indemnification provisions, the Customer hereby grants to Custodian a continuing security interest in and right of setoff against the Account, the Cash Account and all Property held therein from time to time in the full amount of such obligations. Should the Customer fail to pay promptly any amounts owed hereunder, Custodian shall be entitled to use available Cash in the Cash Account, and to dispose of Securities in the Account as is necessary. In any such case and without limiting the foregoing, the Custodian shall be entitled to take such other action(s) or exercise such other options, powers and rights as the Custodian now or hereafter has as a secured creditor under the New York UCC or any other applicable law.

16. Governing Law and Successors and Assigns. This Agreement shall be governed by the law of the State of New York and shall not be assignable by either party, but shall bind the successors in interest of the Customer and the Custodian.

17. Publicity. Customer shall furnish to Custodian at its office referred to in Section 14 above, prior to any distribution thereof, copies of any material prepared for distribution to any persons who are not parties hereto that refer in any way to Custodian. Customer shall not distribute or permit the distribution of such materials if Custodian reasonably objects in writing within ten (10) business days (or such other time as may be mutually agreed) after

receipt thereof. The provisions of this Section shall survive the termination of this Agreement.

18. Submission to Jurisdiction. To the extent, if any, to which the Customer or any of its respective properties may be deemed to have or hereafter to acquire immunity, on the ground of sovereignty or otherwise, from any judicial process or proceeding to enforce this Agreement or to collect amounts due hereunder (including, without limitation, attachment proceedings prior to judgment or in aid of execution) in any jurisdiction, the Customer hereby waives such immunity and agrees not to claim the same. Any suit, action or proceeding arising out of this Agreement may be instituted in any State or Federal court sitting in the City of New York, State of New York, United States of America, and the Customer irrevocably submits to the non-exclusive jurisdiction of any such court in any such suit, action or proceeding and waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any such suit, action or proceeding brought in such a court and any claim that such suit, action or proceeding was brought in an inconvenient forum. The Customer further irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by certified air mail, postage prepaid, to the Customer at its address on the signature page here of or in any other manner permitted by law, such service to become effective upon the earlier of (i) the date fifteen (15) days after such mailing or (ii) any earlier date permitted by applicable law. Both parties agree to waive all rights to a jury trial.

19. Confidentiality. The parties hereto agree that each shall treat confidentially the terms and conditions of this Agreement and all information provided by each party to the other regarding its business and operations. All confidential information provided by a party hereto shall be used by any other party hereto solely for the purpose of rendering services pursuant to this Agreement and, except as may be required in carrying out this Agreement, shall not be disclosed to any third party without the prior consent of such providing party. The foregoing shall not be applicable to any information that is publicly available when provided or thereafter becomes publicly available other than through a breach of this Agreement, or that is required or requested to be disclosed by any bank or other regulatory examiner of the Custodian, Customer, or any Subcustodian, any auditor of the parties hereto, by judicial or administrative process or otherwise by applicable law or regulation. The provisions of this Section shall survive the termination of this Agreement.

20. Severability. If any provision of this Agreement is determined to be invalid or unenforceable, such determination shall not affect the validity or enforceability of any other provision of this Agreement.

21. Entire Agreement. This Agreement together with any exhibits attached hereto, contains the entire agreement between the parties relating to the subject matter hereof and supersedes any oral statements and prior writings with respect thereto.

22. Headings. The headings of the paragraphs hereof are included for convenience of reference only and do not form a part of this Agreement.

23. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original. This Agreement shall become effective when one or more counterparts have been signed and delivered by each of the parties hereto.

24. Signature Authorization. The Customer Signatories appearing below are duly authorized officers or agents of the Customer. The Customer will deliver to the Custodian a duly executed Secretary's Certificate in the form of Exhibit B hereto, or such other evidence of such authorization as the Custodian may reasonably require, whether by way of a certified resolution or otherwise.

IN WITNESS WHEREOF, each of the parties hereto has caused its duly authorized signatories to execute this Agreement as of the date first written above.

REDWOOD TRUST, INC.

By: ------------------------------------

Name: ----------------------------------

Title: ---------------------------------

By:

Name:

Title:

BANKERS TRUST COMPANY

By:

Name:

Title:

EXHIBIT 10.13.2

CALIFORNIA V.P. EMPLOYMENT CONTRACT

EMPLOYMENT AGREEMENT

This Employment Agreement (hereinafter referred to as "Agreement") is entered into this 23rd day of March, 2001, by Andrew Sirkis (hereinafter referred to as "Executive") and Redwood Trust, Inc., a Maryland Corporation located in Mill Valley, California (hereinafter referred to as the "Company") (hereinafter jointly referred to as the "parties") who wish to enter into this Agreement, superseding and replacing terms and conditions that previously existed.

WHEREAS, the Company wishes to employ Executive under the terms and conditions set forth below, and Executive wishes to accept such employment under the terms and conditions set forth below, and

WHEREAS, Executive acknowledges that Executive has read and is fully familiar with the terms of this Agreement, that Executive has had a reasonable opportunity to consider this Agreement and to seek legal counsel,

NOW, THEREFORE, for and in consideration of the above stated premises, and the mutual promises and agreements set forth herein, the parties agree as follows:

1. EMPLOYMENT AGREEMENT

The Company hereby employs Executive, and Executive hereby accepts employment with the Company, under the terms and conditions described in this Agreement. This Agreement shall take effect on January 1, 2001 and shall remain in effect subject to being terminated pursuant to Section 5 of this Agreement.

2. DUTIES

a. RESPONSIBILITIES

Subject to the terms of this Agreement, Executive is hereby employed to perform services and function as Vice-President, reporting to Doug Hansen, the President of Redwood Trust, Inc. (hereinafter referred to as "President"). The essential functions of Executive's position are more particularly set forth in Appendix A hereto, which is incorporated herein by reference. The President may, from time to time, at his sole discretion, modify, reassign and/or augment Executive's responsibilities. Any such modification, reassignment or augmentation of responsibilities shall be in writing. Executive fully and completely understands and accepts the nature and extent of Executive's obligations and duties under this Agreement.

b. LOYAL AND FULL-TIME PERFORMANCE OF DUTIES

Executive shall faithfully devote the whole of his professional time, attention, energies and best efforts to the performance of Executive's duties and shall not, either directly or indirectly, alone or in partnership, consult with, advise, work for

or have any interest in any other business or enterprise that directly or indirectly compete with the Company during his employment hereunder. Any modification of this subparagraph 2(b) shall be made only by an agreement in writing signed by Executive and the Company.

c. COMPANY POLICIES

Executive agrees to abide by the Company's rules, regulations, policies and practices, written and unwritten, as they may from time to time be adopted or modified and issued by the Company at its sole discretion. The Company's written rules, issued policies, practices and procedures shall be binding on Executive unless superseded by or in conflict with this Agreement, in which case this Agreement shall govern.

3. COMPENSATION

a. BASE COMPENSATION RATE

As consideration for the services and covenants described in this Agreement, the Company agrees to pay Executive a year 2001 base annual salary of Two Hundred Thousand Dollars ($200,000), subject to payroll deductions required by law or authorized by Executive. Payments shall be made in equal installments in accordance with the Company's procedures, as from time to time may be amended at its sole discretion, regarding the payment of compensation to management personnel.

b. INCENTIVE BONUS

Executive may, at the President's prerogative, be eligible for consideration to receive an incentive bonus based upon a percentage of his base salary. For year 2001, the Executive's target incentive bonus will be 50% of eligible annual base salary, and such discretionary bonus payment will depend on overall Company performance and other factors. For year 2001, the Executive will also be eligible for an additional incentive bonus in the range of $0 to the maximum of $25,000, and such discretionary bonus payment will be based on the Executive's demonstrated leadership abilities and effectiveness as senior manager and leader of the Company, with specific performance criteria to be determined by the President. The issuance (if any), timing and amount of any incentive bonus shall be within the sole discretion of the President. Executive's eligibility to receive any such incentive bonus shall be expressly conditioned on, among other things, Executive remaining employed with the Company up through any designated distribution date set by the President.

c. ANNUAL REVIEW

Executive's performance shall be reviewed at least annually. The performance evaluations shall consider and assess Executive's performance of his duties and responsibilities, the timely accomplishment of existing performance objectives, his level of efficiency and overall effectiveness and/or reasonable factors or criteria that the Company, in its sole discretion, may deem relevant. The frequency of performance evaluations may vary depending upon, among other things, length of service, past performance, changes in job duties or performance levels. Positive performance evaluations do not guarantee salary increases or incentive bonuses. Salary increases and incentive bonus awards are solely within the discretion of the Company and may depend upon many factors other than Executive's performance.

d. BENEFITS PLANS

Executive shall be entitled to participate in any benefit adopted from time to time by the Company for the benefit generally of its executive employees, and Executive shall be entitled to receive such other fringe benefits as may be granted to him from time to time by the President.

The Executive shall be entitled to participate in any benefit plans relating to paid time off, stock options, stock purchases, retirement, thrift, life insurance, medical coverage, education or other employee benefits that may, from time to time, be made available generally to other employees of the Company, subject to and in accordance with any provisions and restrictions (including applicable waiting periods) specified in such plans.

4. BUSINESS EXPENSES

The Company shall pay Executive's reasonable and necessary business expenses, incurred by Executive on behalf of the Company, in accordance with the customary and usual practice and policies of the Company as may be adopted or amended from time to time in the Company's sole discretion. If Executive incurs business expenses hereunder, he shall submit to the Company a request for reimbursement together with supporting documentation and receipts in accordance with Company policy. Reimbursement for legitimate business expenses shall be made within a reasonable period of time.

5. TERMINATION AND SEVERANCE PAY

a. TERMINATION FOR CAUSE BY THE COMPANY

Executive's employment hereunder may be terminated immediately

by the Company for cause upon occurrence of any of the following:

1. Gross negligence or willful misconduct by Executive in the performance of his duties hereunder;

2. The habitual or repeated neglect of his duties by Executive;

3. Executive's death;

4. Executive's permanent total disability, which shall be defined as Executive being unable to adequately perform the essential functions of their current position, as defined by the Company, due to a medically determinable mental or physical illness or injury which can be expected to result in death or can be reasonably expected to last for a continuous period of not less than six (6) months. Any determination of such inability to perform shall be made only by the Company based on professional medical advice provided by a medical professional mutually agreeable to Executive, or his representative, and the Company;

5. Conviction of a felony;

6. Theft or embezzlement, or attempted theft or embezzlement, of money or tangible or intangible assets or property of the Company or its employees, customers, clients, etc.;

7. Any act of moral turpitude by Executive injurious to the interest, property, operations, business or reputation of the Company;

8. Unauthorized use or disclosure of trade secrets or confidential or proprietary information pertaining to Company business.

Upon the Company learning of a material breach of this Agreement by Executive, the Company may permit Executive a 30-day period to cure such a breach if, in the judgment of the Company, the breach may be cured and it is in the Company's best interest to allow an opportunity to do so. Any termination under this Section shall be without prejudice as to any other remedy to which the Company may be entitled either under this Agreement or at law. Upon such termination, the Company shall have no further obligations to make payments of any kind to Executive, except as required by law.

b. TERMINATION WITHOUT CAUSE BY THE COMPANY

The Company may terminate Executive's employment hereunder at any time without cause upon 30 days written notice to Executive or pay in lieu thereof.

c. TERMINATION BY EXECUTIVE

Executive may terminate his employment with the Company under this Agreement for any reason by giving 30 days written notice to the Company.

The Executive shall also have the right to terminate this Agreement for good reason. "Good Reason" shall mean the occurrence, without Executive's express written consent of the following:

(i) Failure by the Company to make payment to Executive as required by this Agreement;

(ii) Change of Control -- Change of control is defined in this Agreement as the sale of all or substantially all of the assets of the Company or the transfer of all or substantially all of the management control or ownership of the Company to an entity which is not affiliated with the Company. In the event that a Change of Control

occurs and Executive thereafter resigns after three months but within six (6) months of the Change of Control for the stated reason(s) that the Company (or its successor) have reduced his base salary or caused a substantial and material diminution of his responsibilities as Vice-President.

(iii) A significant reduction in Executive's responsibilities or base salary, that is not accompanied or caused by a Change of Control, except as may result in connection with the Company's termination of Executive's employment or accommodation of a disability of the Executive, in accordance with this Agreement.

d. NO SEVERANCE PAYMENTS/INCENTIVE BONUS

No severance payment shall be payable to Executive in the event of termination of this Agreement by the Company for cause, due to the Executive's death or in the event Executive terminates his employment without Good Reason. Executive shall not be entitled to any incentive bonus, or any portion of such bonus, where the distribution date as established by the President is subsequent to the date of termination; eligibility for any such incentive bonus is conditioned upon Executive actively working until the established distribution date.

6. SEVERANCE.

If Executive's employment is terminated (i) by the Company without cause (Section 5b, above), or (ii) by the Executive for Good Reason (Section 5c), and Executive signs a release discharging the Company and all its respective officers, agents, directors, supervisors, employees, representatives and their successors and assigns and all persons acting by, through, under, or in concert with any of them from any and all charges,

complaints, claims, and liabilities of any kind of nature whatsoever, known or unknown, suspected or unsuspected, arising out of Executive's Employment and/or this Agreement, Executive shall be entitled to the following benefits:

a. SEVERANCE PAYMENT

Severance payment shall be the greater of (i) fifty percent (50%) of current year annual base salary; or (ii) the equivalent gross amount of fifty percent (50%) of 1999 annual base salary plus 1999 incentive bonus, total of which is equivalent to One Hundred Forty-five Thousand Three Hundred and Thirty-eight Dollars ($145,338). Severance payment shall be paid in six equal installments over a six-month period from termination date, subject to the Executive executing a Release of all claims; provided, should Executive violate any provision of Section 7 and/or 8 of this Agreement, such payments shall immediately terminate and Executive shall be entitled to no further monies or benefits. Calculation of severance payment excludes any and all DERs (Dividend Equivalent Rights payments as noted in the Company's standard ISO or non-qualified stock option grant agreement). In addition, Executive shall not be eligible to receive DER payments for which record date for the dividend is subsequent to the Executive's termination date. Severance eligibility is expressly conditioned and dependent upon, Executive's compliance with the terms and conditions of Sections 7 and 8 of this Agreement.

b. CONTINUATION OF FRINGE BENEFITS

Continued health benefits for Executive and eligible dependent(s) as set forth in Section 3(d) as if Executive's employment under the Agreement had not been terminated until the earlier of the following: (i) severance obligations owed by the Company to Executive, as provided under Section 6(a), expire or terminate, or (ii) Executive shall find alternative employment (Executive shall be required to notify the Company immediately upon obtaining alternative employment). Notwithstanding the foregoing, should Executive and his eligible dependent(s) not be coverable under the Company plans, or should the Company exercise its prerogative to reduce and/or terminate such benefits to Executive, the Company may instead compensate Executive in lieu of his receiving coverage by paying Executive directly, for each month that Executive would be eligible to receive such benefits, the monthly dollar amount the Company

would have expended for premiums for such benefits for the Executive, and for any dependents or beneficiaries covered at the time of termination, less any monthly amount Executive would have paid had he remained employed.

c. CHANGE OF CONTROL REQUIREMENTS

Notwithstanding the provisions of Paragraph 5(c), Executive shall not be eligible for any severance if: a) Executive resigns within six (6) months following a

Change of Control and there has been no reduction of his base salary or substantial and material diminution of his responsibilities as Vice-President following the Change of Control; or b) Executive resigns within three months of a Change of Control even if their has been a reduction of his base salary or substantial and material diminution of his responsibilities as Vice-President following the Change of Control.;

7. COMPETITION, CONFIDENTIALITY, TRADE SECRETS AND INVENTIONS.

a. NON-COMPETITION

During the term of this contract, and for six months following the termination of this Agreement, Executive shall not engage in any other business, commercial or professional activity or capacity that is or may be competitive with the Company or a subsidiary or affiliate of the Company that might create a conflict of interest with the Company, or that otherwise might interfere directly or indirectly with the business of the Company, without the prior written consent of the Doug Hansen or the President of the Company. Executive further agrees that during this time he shall not solicit any employee of the Company, directly or indirectly, to leave the employ of the Company.

b. DUTY TO AVOID CONFLICT OF INTEREST

During his employment by the Company, Executive agrees not to engage or participate in, directly or indirectly, any activities in conflict with the best interests of the Company. The Company shall be the final decision-maker with regard to any conflict of interest issue.

c. CONFIDENTIAL AND PROPRIETARY INFORMATION

(1) It is hereby acknowledged that Executive has and shall gain knowledge of trade secrets and confidential information owned by or related to the Company and/or its affiliates including but not limited to the following: (i) the names, lists, buying habits and practices of their customers, clients or vendors, (ii) their marketing and related information, (iii) relationships between them and the persons and entities with whom and which they have contracted, (iv) their products, designs, software, developments, improvements and methods of operation, (v) their financial condition, profit performance and financial requirements, (vi) the compensation paid to their employees, (vii) business plans and the information contained therein, and (viii) all other confidential information of, about or concerning the Company, the manner of operation of the Company and other confidential data of any kind, nature or description relating to the Company (collectively the "Confidential Information"). Confidential Information does not include information which (ix) is or becomes

generally available to the public other than as a result of a disclosure by Executive; or (x) becomes available to Executive on a non-confidential basis after the termination or expiration of Executive's obligations under this Agreement from a source other than the Company, provided that such source is not bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the Company or any other party with respect to such information; or (xi) is independently developed after

the termination or expiration of Executive's obligations under this agreement without reference to the Confidential Information, provided such independent development can reasonably be proven by Executive by written records.

(2) The parties hereby acknowledge that the Confidential Information constitutes important, unique, material and confidential trade secrets which affect the successful activities of the Company, and constitute a substantial part of the assets and goodwill of the Company. In view of the foregoing, Executive agrees that he will not at any time whether during or after the term of this Agreement, except as required in the course of Executive's employment by Company and at its direction and for its sole benefit, in any fashion, form or manner, directly or indirectly (i) use or divulge, disclose, communicate or provide or permit access to any person, firm, partnership, corporation or other entity, any Confidential Information of any kind, nature or description, or (ii) remove from Company's premises any notes or records relating thereto, or copies or facsimiles thereof (whether made by electronic, electrical, magnetic, optical, laser, acoustic or other means).

(3) Promptly upon the request of Company, and immediately upon the termination of Executive's employment, Executive shall not transfer and shall deliver to Company all Confidential Information, and other property belonging to the Company, including all copies thereof, in the possession of Executive.

(4) Executive represents that the performance of all the terms of this Agreement will not conflict with, and will not breach, any other invention assignment agreement, confidentiality agreement, employment agreement or non-competition agreement to which Executive is or has been a party. To the extent that Executive has confidential information or materials of any former employer, Executive acknowledges that the Company has directed Executive to not disclose such confidential information or materials to the Company or any of its employees, and that the Company prohibits Executive from using said confidential information or materials in any work that Executive may perform for the Company. Executive agrees that Executive will not bring with Executive to the Company, and

will not use or disclose any confidential, proprietary information, or trade secrets acquired by Executive prior to his employment with the Company. Executive will not disclose to the Company or any of its employees, or induce the Company or any of its employees to use, any confidential or proprietary information or material belonging to any previous employers or others, nor will Executive bring to the Company or use in connection with Executive's work for the Company copies of any software, computer files, or any other copyrighted or trademarked materials except those owned by or licensed to the Company. Executive represents that he is not a party to any other agreement that will interfere with his full compliance with this Agreement. Executive further agrees not to enter into any agreement, whether written or oral, in conflict with the provisions of this Agreement.

d. INVENTIONS

Any and all inventions, discoveries or improvements that Executive has conceived or made or may conceive or make during the period of employment relating to or in any way pertaining to or connected with the systems, products, computer programs, software, apparatus or methods employed, manufactured or constructed by the Company or to systems, products, apparatus or methods with respect to which the Company engages in, requests or anticipates research or development, shall be promptly and fully disclosed and described by Executive to the Company and shall be the sole and exclusive property of the Company, and Executive shall assign, and hereby does assign to the Company Executive's entire right, title and interest in and to all such inventions, discoveries or improvements as well as any

modifications or improvements thereto that may be made. The parties agree that any inventions, discoveries or ideas that Executive has created or possesses prior to his employment by the Company are specified in Appendix B attached to this Agreement and will not be considered to be the property of the Company.

The obligations outlined in this Section 7, except for the requirements as to disclosure, do not apply to any invention that qualifies fully under California Labor Code section 2870 or to any rights Executive may have acquired in connection with an invention, discovery or improvement that was developed entirely on Executive's own time for which no equipment, supplies, facilities or trade secret information of the Company was used and (a) that does not relate directly or indirectly to the business of the Company or to the Company's actual or demonstrable anticipated research or development, or (b) that does not result from any work performed by Executive for the Company.

e. BREACH

It is expressly agreed that each breach of this Section 7 is a distinct and material breach of this Agreement and that solely a monetary remedy would be inadequate,

impracticable and extremely difficult to prove, and that each such breach would cause the Company irreparable harm. It is further agreed that, in addition to any and all remedies available at law or equity (including money damages), either party shall be entitled to temporary and permanent injunctive relief to enforce the provisions of this Section, without the necessity of proving actual damages. It is further agreed that the either party shall be entitled to seek such equitable relief in any forum, including a court of law, notwithstanding the provisions of Section 8 and the Alternative Dispute Resolution Agreement incorporated therein. Either party may pursue any of the remedies described herein concurrently or consecutively in any order as to any such breach or violation, and the pursuit of one of such remedies at any time will not be deemed an election of remedies or waiver of the right to pursue any of the other such remedies. Any breach of this Section shall immediately terminate any obligations by the Company to provide Executive with severance and continued benefits pursuant to Section 6 of this Agreement.

f. UNENFORCEABILITY

Should any portion of this Section 7 be deemed unenforceable because of its scope, duration or effect, and only in such event, then the parties expressly consent and agree to such limitation on scope, duration or effect as may be finally adjudicated as enforceable, to give this Section its maximum permissible scope, duration and effect.

8. SUBMISSION TO ARBITRATION

In the event there is any dispute arising out of Executive's employment, the termination of that employment, or arising out of this Agreement, the Company and Executive agree to submit such dispute, except as to those matters specifically exempt per Section 7, to binding arbitration in accordance with the terms of the Alternative Dispute Agreement set forth in Appendix C to this Agreement and incorporated herein.

9. GOVERNING LAW

This Agreement shall be construed in accordance with and governed by the laws of the State of California, excluding its choice of law rules.

10. INTERPRETATION

This Agreement shall be interpreted in accordance with the plain meaning of its terms and not strictly for or against either party.

11. ENTIRE AGREEMENT

This Agreement, together with Appendices A, B, C and D, embodies the complete agreement and understanding of the parties related to Executive's employment by the

Company, superseding any and all other prior or contemporaneous oral or written agreements between the parties hereto with respect to the employment of Executive by the Company, and contains all of the covenants and agreements of any kind whatsoever between the parties with respect to such employment. Each party acknowledges that no representations, inducements, promises or agreements, whether oral or written, express or implied, have been made by either party or anyone acting on behalf of a party, that are not incorporated herein and that no other agreement or promise not contained herein shall be valid or binding. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

12. MODIFICATION

This Agreement may be amended only by an agreement in writing signed by the parties hereto.

13. WAIVER

Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times. This Agreement shall not be modified in any respect except by a writing executed by the parties.

14. INVALIDITY

Each term, clause and provision of this Agreement is separate and independent, and should any term, clause or provision of this Agreement be found to be invalid or unenforceable, the validity of the remaining terms, clauses, and provisions shall not be affected.

15. NOTICES

Any notice provided for in this Agreement shall be in writing and shall be either personally delivered, mailed first class mail (postage prepaid), or sent by facsimile or reputable overnight courier service (charges prepaid) to the recipient at the following addresses (or at such address as the recipient party has specified by prior written notice to the sending party):

To the Company: Doug Hansen
President
Redwood Trust, Inc.,
591 Redwood Highway, Suite 3100,
Mill Valley, CA 94941

To Executive: Andrew Sirkis
499 Marina Blvd., #306
San Francisco, CA 94123

Each party shall be responsible for keeping such party's address current. Notices shall be deemed to have been given hereunder when delivered personally, three business days after deposit in the U.S. mail, on the date of delivery by facsimile (if transmitted before 5:00 p.m. local time), and/or one day after deposit with a reputable overnight courier service.

16. VOLUNTARY AGREEMENT

Executive and the Company represent and agree that each has reviewed all aspects of this Agreement, has carefully read and fully understands all provisions of this Agreement, and is voluntarily entering into this Agreement. Each party represents and agrees that such party has had the opportunity to review any and all aspects of this Agreement with the legal, tax or other advisor(s) of such party's choice before executing this Agreement.

17. SUCCESSORS AND ASSIGNS

This Agreement shall be binding upon and inure to the benefit of and shall be enforceable against Executive's heirs, beneficiaries and legal representatives. It is agreed that the rights and obligations of

Executive may not be delegated or assigned except as specifically set forth in this Agreement. In the event of a sale of all or substantially all of the Company's assets, including the stock of the Company, or consolidation or merger of the Company with or into another corporation or entity or individual, the Company may assign its rights and obligations under this Agreement to its successor-in-interest, and such successor-in-interest shall be deemed to have acquired all rights and assumed all obligations of the Company hereunder, including those set forth in Section 7 of this Agreement.

18. COUNTERPARTS

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day, month and year first above written.

DATED: ----------------------   --
Andrew Sirkis

REDWOOD TRUST, INC.

DATED: ----------------------   By: ------------------------------------
Doug Hansen

Title: President

APPENDIX A

ESSENTIAL RESPONSIBILITIES

- Responsible for taking a leadership role in establishing strategic business directions in alignment with Redwood Trust, Inc.'s ("Redwood") overall corporate goals, as outlined in the business plan approved by the Board of Directors.

- Responsible for measurable results leading to Redwood achieving acceptable returns on book value needed to achieve Redwood's Strategic Mission.

- Responsible for expanding the Redwood's business growth by seeking new business opportunities, broadening Redwood's product and service lines, and creating value in Redwood's business.

- Responsible for being an effective Redwood leader, as demonstrated through positive interaction with everyone throughout the Company, sound and timely decision-making, and consistent innovative approach leading to measurable results.

- Responsible for overseeing the continual improvement of Redwood's internal communication, information/data management and reporting systems required to manage and support innovative business growth and organizational objectives.

- Responsible for developing and managing the human resources necessary to achieve the objectives of Redwood's business plan. This activity will include the development of staffing plans, employee performance management, and leveraging the use of talent and resources across functions.

- Specific annual performance criteria may be separately attached and changed from time to time.

APPENDIX B

PRIOR INVENTIONS

APPENDIX C

ALTERNATIVE DISPUTE RESOLUTION POLICY

I. AGREEMENT TO ARBITRATE

In the event that any employment dispute arises between Redwood Trust, Inc. ("Company") and Andrew Sirkis ("Executive"), the parties involved will make all efforts to resolve any such dispute through informal means. If these informal attempts at resolution fail and if the dispute arises out of or is related to the parties' Employment Agreement, the termination of Executive's employment or alleged unlawful discrimination, including but not limited to unlawful harassment, the Company and Executive will submit the dispute to final and binding arbitration, except as set forth in Section 7 of the Employment Agreement.

The parties expressly understand and agree that arbitration is the exclusive remedy for all such arbitrable disputes; with respect to such disputes, no other action may be brought in court or any other forum (except actions to compel arbitration hereunder). THIS ALTERNATIVE DISPUTE RESOLUTION ("ADR") AGREEMENT IS A WAIVER OF THE PARTIES' RIGHTS TO A CIVIL COURT ACTION FOR A DISPUTE COVERED BY THIS AGREEMENT; ONLY AN ARBITRATOR, NOT A JUDGE OR JURY, WILL DECIDE THE DISPUTE.

To the fullest extent permitted by the law of the jurisdiction, employment disputes arising out of or related to termination of employment or alleged unlawful discrimination, including retaliation or sexual or other unlawful harassment, shall include, but not be limited to, the following: alleged violations of federal, state and/or local constitutions, statutes or regulations; claims based on any purported breach of contractual obligation, including breach of the covenant of good faith and fair dealing; and claims based on any purported breach of duty arising in tort, including violations of public policy. Disputes related to workers' compensation and unemployment insurance is not arbitrable hereunder. Claims for benefits covered by a separate benefit plan that provides for arbitration are not covered by this ADR Agreement. Claims that are filed with or being processed by the U.S. Equal Employment Opportunity Commission ("EEOC"), or that are brought under Title VII of the Civil Rights Act of 1964, as amended, are not arbitrable under this Agreement, except that the Parties agree in writing to do so with respect to each such dispute that may arise.

II. REQUEST FOR ARBITRATION

A. ATTEMPT AT INFORMAL RESOLUTION OF DISPUTES

Prior to submission of any dispute to arbitration, Executive and the Company shall attempt to resolve the dispute informally as set forth below.

Executive and the Company will select a mediator from a list provided by the Federal Mediation and Conciliation Service or other similar agency who will assist the parties in attempting to reach a settlement of the dispute. The mediator may make settlement suggestions to the parties but shall not have the power to impose a settlement upon them. If the dispute is resolved in mediation, the matter shall be deemed closed. If the dispute is not resolved in mediation and goes to the next step (binding arbitration), any proposals or compromises suggested by either of the parties or the mediator shall not be referred to in or have any bearing on the arbitration procedure. The mediator cannot also serve as the arbitrator in the subsequent proceeding unless all parties expressly agree in writing.

B. ARBITRATION PROCEDURES

The party desiring arbitration, whether Executive or the Company, must submit a "Request For Arbitration" in writing to the other party within

the time period required by the law that applies to the claim under the applicable statute of limitations. If the "Request for Arbitration" is not submitted in accordance with the aforementioned time limitations, the party failing to do so will not be able to bring his claims to this or any other forum. The requesting party may use a "Request for Arbitration" form supplied by the Company (Appendix D). Alternatively, the requesting party may create a "Request For Arbitration" form that, unless otherwise required by law, clearly states "Request For Arbitration" at the beginning of the first page and includes the following information:

1. A factual description of the dispute in sufficient detail to advise the other party of the nature of the dispute;

2. The date when the dispute first arose;

3. The names, work locations and telephone numbers of any individuals, including employees or supervisors, with knowledge of the dispute; and

4. The relief requested by requesting party.

The responding party may submit counterclaim(s) in accordance with applicable law.

C. SELECTION OF THE ARBITRATOR

All disputes will be resolved by a single Arbitrator, the Arbitrator will be mutually selected by the Company and the Executive. If the parties cannot agree on an Arbitrator, then a list of seven (7) arbitrators, experienced in employment matters, shall be provided

by the Federal Mediation and Conciliation Service. The Arbitrator will be selected by the parties who will alternately strike names from the list. The last name remaining on the list will be the Arbitrator selected to resolve the dispute. Upon selection, the Arbitrator shall set an appropriate time, date and place for the arbitration, after conferring with the parties to the dispute.

D. THE ARBITRATOR'S AUTHORITY

The Arbitrator shall have the powers enumerated below:

1. Ruling on motions regarding discovery, and ruling on procedural and evidentiary issues arising during the arbitration.

2. Ruling on motions to dismiss and/or motions for summary judgment applying the standards governing such motions under the Federal Rules of Civil Procedure.

3. Issuing protective orders on the motion of any party or third party witness. Such protective orders may include, but are not limited to, sealing the record of the arbitration, in whole or in part (including discovery proceedings and motions, transcripts, and the decision and award), to protect the privacy or other constitutional or statutory rights of parties and/or witnesses.

4. Determining only the issue(s) submitted to him/her. The issue(s) must be identifiable in the "Request For Arbitration" or counterclaim(s). Except as required by law, any issue(s) not identifiable in those documents is outside the scope of the Arbitrator's jurisdiction and any award involving such issue(s), upon motion by a party, shall be vacated.

E. DISCOVERY

The discovery process shall proceed and be governed, consistent with the standards of the Federal Rules of Civil Procedure, as follows:

1. Unless otherwise required by law, parties may obtain discovery by any of the following methods:

   a. Depositions of non-expert witnesses upon oral examination, three (3) per side as of right, with more permitted if leave is obtained from the Arbitrator;

   b. Written interrogatories, up to a maximum combined total of twenty (20), with the responding party having twenty (20) days to respond;

   c. Request for production of documents or things or permission to enter upon land or other property for

inspection, with the responding party having

twenty (20) days to produce the documents and allow entry or to file objections to the request;

d. Physical and mental examination, in accordance with Federal Rule of Civil Procedure 35(a); and

e. Any motion to compel production, answers to interrogatories or entry onto land or property must be made to the Arbitrator within fifteen (15) days of receipt of objections.

2. To the extent permitted by the Federal Arbitration Act or applicable California law, each party shall have the right to subpoena witnesses and documents during discovery and for the arbitration.

3. All discovery requests shall be submitted no less than sixty (60) days before the hearing date.

4. The scope of discoverable evidence shall be in accordance with Federal Rule of Civil Procedure 26(b) (1).

5. The Arbitrator shall have the power to enforce the aforementioned discovery rights and obligations by the imposition of the same terms, conditions, consequences, liabilities, sanctions and penalties as can or may be imposed in like circumstances in a civil action by a federal court under the Federal Rules of Civil Procedure, except the power to order the arrest or imprisonment of a person.

F. HEARING PROCEDURE

The hearing shall be held at a location mutually agreed upon by the parties, or as determined by the Arbitrator in the absence of an agreement, and shall proceed according to the American Arbitration Association's "National Rules for the Resolution of Employment Disputes" as amended and effective June 1, 1997, with the following amendments:

1. The Arbitrator shall rule at the outset of the arbitration on procedural issues that bear on whether the arbitration is allowed to proceed.

2. Each party has the burden of proving each element of its claims or counterclaims, and each party has the burden of proving any of its affirmative defenses.

3. In addition to, or in lieu of closing argument, either party shall have the right to present a post-hearing brief, and the due date for exchanging any post-hearing briefs shall be mutually agreed on by the parties and the Arbitrator, or determined by the Arbitrator in the absence of agreement.

G. SUBSTANTIVE LAW

1. The parties agree that they will be afforded the identical legal equitable and statutory remedies as would be afforded them were they to bring an action in a court of competent jurisdiction.

2. The applicable substantive law shall be the law of the State of California or federal law. Choice of substantive law in no way affects the procedural aspects of the arbitration, which are exclusively governed by the provisions of this ADR Agreement.

H. OPINION AND AWARD

The Arbitrator shall issue a written opinion and award, in conformance with the following requirements:

1. The opinion and award must be signed and dated by the Arbitrator.

2. The Arbitrator's opinion and award shall decide all issues submitted.

3. The Arbitrator's opinion and award shall set forth the legal principles supporting each part of the opinion.

4. The Arbitrator shall have the same authority to award

remedies, damages and costs as provided to a judge and/or jury under parallel circumstances.

I. ENFORCEMENT OF ARBITRATOR'S AWARD

Following the issuance of the Arbitrator's decision, any party may petition a court to confirm, enforce, correct or vacate the Arbitrator's opinion and award under the Federal Arbitration Act, and/or applicable California law.

J. FEES AND COSTS

Unless otherwise required by law, fees and costs shall be allocated in the following manner:

1. Each party shall be responsible for its own attorneys' fees, except as otherwise provided by law for the particular claim(s) at issue.

2. The Company shall pay the entire cost of the arbitrator's services, the facility in which the arbitration is to be held, and any similar costs, except that Executive shall contribute toward these costs an amount equal to the then-current filing fee in California Superior Court charged for filing a complaint or for first appearing, whichever is lower.

3. The Company shall pay the entire cost of a court reporter to transcribe the arbitration proceedings. Each party shall advance the cost for said party's transcript of the proceedings. Each party shall advance its own costs for witness fees, service and subpoena charges, copying, or other incidental costs that each party would bear during the course of a civil lawsuit.

4. Each party shall be responsible for its costs associated with discovery, except as required by law or court order.

III. SEVERABILITY

Each term, clause and provision of this ADR Agreement is separate and independent, and should any term, clause or provision of this ADR Agreement be found to be invalid or unenforceable, the validity of the remaining terms, clauses, and provisions shall not be affected. As to those terms, clauses and provisions found to be invalid or unenforceable, they shall be replaced with valid and enforceable terms, clauses or provisions or shall be modified, in order to achieve, to the fullest extent possible, the economic, business and other purposes of the invalid or unenforceable terms, clauses or provisions.

Dated: ______________________ ____
Andrew Sirkis

REDWOOD TRUST, INC.

Dated: ______________________ By: ____________________________________
Doug Hansen

Title: President
____

APPENDIX D

REQUEST FOR ARBITRATION FORM

ALTERNATIVE DISPUTE RESOLUTION POLICY

Submission Requirement	-	This form (or, alternatively, a form that includes the information below) must be submitted by the individual claimant or the Redwood Trust, Inc. (to the President) within the time period required by the law that applies to the claim.

- If Redwood Trust, Inc. requests arbitration, the form must also be served on the individual within the appropriate time period.

- ------------------- ---

1. State the nature of the claim in detail:

- --

- --

- --

- --

(Continue on reverse and add pages if necessary)

Enter the date of termination or date(s) of alleged incident(s) (i.e., date of last instance of unlawful discrimination, sexual or other unlawful harassment):

_______/________/_______
Month Day Year

2. Provide the names and work locations of any individuals, including employees or supervisors, with knowledge of the dispute:

<TABLE>
<CAPTION>

Name	Job Title	Work Location
<S>	<C>	<C>
- -------------------	-------------------------	--------------------------
- -------------------	-------------------------	--------------------------
- -------------------	-------------------------	--------------------------
- -------------------	-------------------------	--------------------------

</TABLE>

3. Describe the relief requested (i.e., what you want done):

- --

- --

- --

(Please attach any documents relevant to the dispute.)

Signature of Party Requesting arbitration:

Redwood Trust, Inc.

Date:
- -------------------------- -------------------

Signature of Executive:

Date:
- -------------------------- -------------------

EXHIBIT 10.13.3

CALIFORNIA V.P. EMPLOYMENT CONTRACT

EMPLOYMENT AGREEMENT

This Employment Agreement (hereinafter referred to as "Agreement") is entered into this 20th day of April, 2000, by Brett Nicholas (hereinafter referred to as "Executive") and Redwood Trust, Inc., a Maryland Corporation located in Mill Valley, California (hereinafter referred to as the "Company") (hereinafter jointly referred to as the "parties") who wish to enter into this Agreement, superseding and replacing terms and conditions that previously existed.

WHEREAS, the Company wishes to employ Executive under the terms and conditions set forth below, and Executive wishes to accept such employment under the terms and conditions set forth below, and

WHEREAS, Executive acknowledges that Executive has read and is fully familiar with the terms of this Agreement, that Executive has had a reasonable opportunity to consider this Agreement and to seek legal counsel,

NOW, THEREFORE, for and in consideration of the above stated premises, and the mutual promises and agreements set forth herein, the parties agree as follows:

1. EMPLOYMENT AGREEMENT

The Company hereby employs Executive, and Executive hereby accepts employment with the Company, under the terms and conditions described in this Agreement. This Agreement shall take effect on January 1, 2000 and shall remain in effect subject to being terminated pursuant to Section 5 of this Agreement.

2. DUTIES

A. RESPONSIBILITIES

Subject to the terms of this Agreement, Executive is hereby employed to perform services and function as Vice-President, reporting to Doug Hansen, the President of Redwood Trust, Inc. (hereinafter referred to as "President"). The essential functions of Executive's position are more particularly set forth in Appendix A hereto, which is incorporated herein by reference. The President may, from time to time, at his sole discretion, modify, reassign and/or augment Executive's responsibilities. Any such modification, reassignment or augmentation of responsibilities shall be in writing. Executive fully and completely understands and accepts the nature and extent of Executive's obligations and duties under this Agreement.

B. LOYAL AND FULL-TIME PERFORMANCE OF DUTIES

Executive shall faithfully devote the whole of his professional time, attention, energies and best efforts to the performance of Executive's duties and shall not, either directly or indirectly, alone or in partnership, consult with, advise, work for

or have any interest in any other business or enterprise that directly or indirectly compete with the Company during his employment hereunder. Any modification of this subparagraph 2(b) shall be made only by an agreement in writing signed by Executive and the Company.

C. COMPANY POLICIES

Executive agrees to abide by the Company's rules, regulations, policies and practices, written and unwritten, as they may from time to time be adopted or modified and issued by the Company at its sole discretion. The Company's written rules, issued policies, practices and procedures shall be binding on Executive unless superseded by or in conflict with this Agreement, in which case this Agreement shall govern.

3. COMPENSATION

A. BASE COMPENSATION RATE

As consideration for the services and covenants described in this Agreement, the Company agrees to pay Executive a 2000 and 2001 base annual salary of Two Hundred Thousand Dollars ($200,000), subject to payroll deductions required by law or authorized by Executive. Payments shall be made in equal installments in accordance with the Company's procedures, as from time to time may be amended at its sole discretion, regarding the payment of compensation to management personnel.

B. INCENTIVE BONUS

Executive may, at the President's prerogative, be eligible for consideration to receive an incentive bonus based upon a percentage of his base salary. For year 2000 and 2001, the Executive's target incentive bonus will be 50% of eligible annual base salary, and such discretionary bonus payment will depend on overall Company performance and other factors. For year 2000 and 2001, the Executive will also be eligible for an additional incentive bonus in the range of $0 to the maximum of $25,000, and such discretionary bonus payment will be based on the Executive's demonstrated leadership abilities and effectiveness as senior manager and leader of the Company, with specific performance criteria to be determined by the President. The issuance (if any), timing and amount of any incentive bonus shall be within the sole discretion of the President. Executive's eligibility to receive any such incentive bonus shall be expressly conditioned on, among other things, Executive remaining employed with the Company up through any designated distribution date set by the President.

C. ANNUAL REVIEW

Executive's performance shall be reviewed at least annually. The performance evaluations shall consider and assess Executive's performance of his duties and responsibilities, the timely accomplishment of existing performance objectives, his level of efficiency and overall effectiveness and/or other factors or criteria that the Company, in its sole discretion, may deem relevant. The frequency of performance evaluations may vary depending upon, among other things, length of service, past performance, changes in job duties or performance levels. Positive performance evaluations do not guarantee salary increases or incentive bonuses. Salary increases and incentive bonus awards are solely within the discretion of the Company and may depend upon many factors other than Executive's performance.

D. BENEFITS PLANS

Executive shall be entitled to participate in any benefit adopted from time to time by the Company for the benefit generally of its executive employees, and Executive shall be entitled to receive such other fringe benefits as may be granted to him from time to time by the President.

The Executive shall be entitled to participate in any benefit plans relating to paid time off, stock options, stock purchases, retirement, thrift, life insurance, medical coverage, education or other employee benefits that may, from time to time, be made available generally to other employees of the Company, subject to and in accordance with any provisions and restrictions (including applicable waiting periods) specified in such plans.

4. BUSINESS EXPENSES

The Company shall pay Executive's reasonable and necessary business expenses, incurred by Executive on behalf of the Company, in accordance with the customary and usual practice and policies of the Company as may be adopted or amended from time to time in the Company's sole discretion. If Executive incurs business expenses hereunder, he shall submit to the Company a request for reimbursement together with supporting documentation and receipts in accordance with Company policy. Reimbursement for legitimate business expenses shall be made within a reasonable period of time.

5. TERMINATION AND SEVERANCE PAY

A. TERMINATION FOR CAUSE BY THE COMPANY

Executive's employment hereunder may be terminated immediately

by the Company for cause upon occurrence of any of the following:

1. Gross negligence or willful misconduct by Executive in the performance of his duties hereunder;

2. The habitual or repeated neglect of his duties by Executive;

3. A material breach of this Agreement;

4. Executive's death;

5. Executive's permanent total disability, which shall be defined as Executive being unable to adequately perform the essential functions of their current position, as defined by the Company, due to a medically determinable mental or physical illness or injury which can be expected to result in death or can be reasonably expected to last for a continuous period of not less than six (6) months. Any determination of such inability to perform shall be made only by the Company based on professional medical advice provided by a medical professional mutually agreeable to Executive, or his representative, and the Company;

6. Conviction of a felony;

7. Theft or embezzlement, or attempted theft or embezzlement, of money or tangible or intangible assets or property of the Company or its employees, customers, clients, etc.;

8. Any act of moral turpitude by Executive injurious to the interest, property, operations, business or reputation of the Company;

9. Unauthorized use or disclosure of trade secrets or confidential or proprietary information pertaining to Company business.

Upon the Company learning of a material breach of this Agreement by Executive, the Company may permit Executive a 30-day period to cure such a breach if, in the judgment of the Company, the breach may be cured and it is in the Company's best interest to allow an opportunity to do so. Any termination under this Section shall be without prejudice as to any other remedy to which the Company may be entitled either under this Agreement or at law. Upon such termination, the Company shall have no further obligations to make payments of any kind to Executive, except as required by law.

B. TERMINATION WITHOUT CAUSE BY THE COMPANY

The Company may terminate Executive's employment hereunder at any time without cause upon 30 days written notice to Executive or pay in lieu thereof.

C. TERMINATION BY EXECUTIVE

Executive may terminate his employment with the Company under this Agreement for any reason by giving 30 days written notice to the Company.

The Executive shall also have the right to terminate this Agreement for good reason. "Good Reason" shall mean the occurrence, without Executive's express written consent of the following:

(i) Failure by the Company to make payment to Executive as required by this Agreement;

(ii) Change of Control -- Change of control is defined in this Agreement as the sale of all or substantially all of the assets of the Company or the transfer of all or substantially all of the management control or ownership of the Company to an entity which is not affiliated with

the Company. In the event that a Change of Control occurs and Executive thereafter resigns after three months but within six (6) months of the Change of Control for the stated reason(s) that the Company (or its successor) have reduced his base salary or caused a substantial and material diminution of his responsibilities as Vice-President.

(iii) A significant reduction in Executive's responsibilities or base salary, that is not accompanied or caused by a Change of Control, except as may result in connection with the Company's termination of Executive's employment or accommodation of a disability of the Executive, in accordance with this Agreement.

D. NO SEVERANCE PAYMENTS/INCENTIVE BONUS

No severance payment shall be payable to Executive in the event of termination of this Agreement by the Company for cause, due to the Executive's death or in the event Executive terminates his employment without Good Reason. Executive shall not be entitled to any incentive bonus, or any portion of such bonus, where the distribution date as established by the President is subsequent to the date of termination; eligibility for any such incentive bonus is conditioned upon Executive actively working until the established distribution date.

6. SEVERANCE.

If Executive's employment is terminated (i) by the Company without cause (Section 5b, above), or (ii) by the Executive for Good Reason (Section 5c), and Executive signs a release discharging the Company and all its respective officers, agents, directors, supervisors, employees, representatives and their successors and assigns and all persons acting by, through, under, or in concert with any of them from any and all charges,

complaints, claims, and liabilities of any kind of nature whatsoever, known or unknown, suspected or unsuspected, arising out of Executive's Employment and/or this Agreement, Executive shall be entitled to the following benefits:

A. SEVERANCE PAYMENT

Severance payment shall be the greater of (i) fifty percent (50%) of current year annual base salary; or (ii) the equivalent gross amount of fifty percent (50%) of 1999 annual base salary plus 1999 incentive bonus, total of which is equivalent to One Hundred Sixteen Thousand Three Hundred and Thirteen Dollars ($116,313). Severance payment shall be paid in six equal installments over a six-month period, subject to the Executive executing a Release of all claims; provided, should Executive violate any provision of Section 7 and/or 8 of this Agreement, such payments shall immediately terminate and Executive shall be entitled to no further monies or benefits. Calculation of severance payment excludes any and all DERs (Dividend Equivalent Rights payments as noted in the Company's standard ISO or non-qualified stock option grant agreement). In addition, Executive shall not be eligible to receive DER payments for which record date for the dividend is subsequent to the Executive's termination date. Severance eligibility is expressly conditioned and dependent upon, Executive's compliance with the terms and conditions of Sections 7 and 8 of this Agreement.

B. CONTINUATION OF FRINGE BENEFITS

Continued health benefits as set forth in Section 3(d) as if Executive's employment under the Agreement had not been terminated until the earlier of the following: (i) severance obligations owed by the Company to Executive, as provided under Section 6(a), expire or terminate, or (ii) Executive shall find alternative employment (Executive shall be required to notify the Company immediately upon obtaining alternative employment). Notwithstanding the foregoing, should Executive not be coverable under the Company plans, or should the Company exercise its prerogative to reduce and/or terminate such benefits to Executive, the Company may instead compensate Executive in lieu of his receiving coverage by paying Executive directly, for each month that Executive would be eligible to receive such benefits, the monthly dollar amount the Company would have expended for premiums for such benefits for the Executive, and for any

dependents or beneficiaries covered at the time of termination, less any monthly amount Executive would have paid had he remained employed.

C. CHANGE OF CONTROL REQUIREMENTS

Notwithstanding the provisions of Paragraph 5(c), Executive shall not be eligible for any severance if: a) Executive resigns within six (6) months following a Change of Control and there has been no reduction of his base salary or substantial and material diminution of his responsibilities as Vice-President

following the Change of Control; or b) Executive resigns within three months of a Change of Control even if their has been a reduction of his base salary or substantial and material diminution of his responsibilities as Vice-President following the Change of Control.

7. COMPETITION, CONFIDENTIALITY, TRADE SECRETS AND INVENTIONS.

A. NON-COMPETITION

During the term of this contract, and for six months following the termination of this Agreement, Executive shall not engage in any other business, commercial or professional activity or capacity that is or may be competitive with the Company or a subsidiary or affiliate of the Company that might create a conflict of interest with the Company, or that otherwise might interfere directly or indirectly with the business of the Company, without the prior written consent of the Doug Hansen or the President of the Company. Executive further agrees that during this time he shall not solicit any employee of the Company, directly or indirectly, to leave the employ of the Company.

B. DUTY TO AVOID CONFLICT OF INTEREST

During his employment by the Company, Executive agrees not to engage or participate in, directly or indirectly, any activities in conflict with the best interests of the Company. The Company shall be the final decision-maker with regard to any conflict of interest issue.

C. CONFIDENTIAL AND PROPRIETARY INFORMATION

(1) It is hereby acknowledged that Executive has and shall gain knowledge of trade secrets and confidential information owned by or related to the Company and/or its affiliates including but not limited to the following: (i) the names, lists, buying habits and practices of their customers, clients or vendors, (ii) their marketing and related information, (iii) relationships between them and the persons and entities with whom and which they have contracted, (iv) their products, designs, software, developments, improvements and methods of operation, (v) their financial condition, profit performance and financial requirements, (vi) the compensation paid to their employees, (vii) business plans and the information contained therein, and (viii) all other confidential information of, about or concerning the Company, the manner of operation of the Company and other confidential data of any kind, nature or description relating to the Company (collectively the "Confidential Information"). Confidential Information does not include information which (ix) is or becomes generally available to the public other than as a result of a disclosure by Executive; or (x) becomes available to Executive on a non-confidential

basis after the termination or expiration of Executive's obligations under this Agreement from a source other than the Company, provided that such source is not bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the Company or any other party with respect to such information; or (xi) is independently developed after the termination or expiration of

Executive's obligations under this agreement without reference to the Confidential Information, provided such independent development can reasonably be proven by Executive by written records.

(2) The parties hereby acknowledge that the Confidential Information constitutes important, unique, material and confidential trade secrets which affect the successful activities of the Company, and constitute a substantial part of the assets and goodwill of the Company. In view of the foregoing, Executive agrees that he will not at any time whether during or after the term of this Agreement, except as required in the course of Executive's employment by Company and at its direction and for its sole benefit, in any fashion, form or manner, directly or indirectly (i) use or divulge, disclose, communicate or provide or permit access to any person, firm, partnership, corporation or other entity, any Confidential Information of any kind, nature or description, or (ii) remove from Company's premises any notes or records relating thereto, or copies or facsimiles thereof (whether made by electronic, electrical, magnetic, optical, laser, acoustic or other means).

(3) Promptly upon the request of Company, and immediately upon the termination of Executive's employment, Executive shall not transfer and shall deliver to Company all Confidential Information, and other property belonging to the Company, including all copies thereof, in the possession of Executive.

(4) Executive represents that the performance of all the terms of this Agreement will not conflict with, and will not breach, any other invention assignment agreement, confidentiality agreement, employment agreement or non-competition agreement to which Executive is or has been a party. To the extent that Executive has confidential information or materials of any former employer, Executive acknowledges that the Company has directed Executive to not disclose such confidential information or materials to the Company or any of its employees, and that the Company prohibits Executive from using said confidential information or materials in any work that Executive may perform for the Company. Executive agrees that Executive will not bring with Executive to the Company, and will not use or disclose any confidential, proprietary information, or trade secrets acquired by Executive prior to his employment with the Company.

Executive will not disclose to the Company or any of its employees, or induce the Company or any of its employees to use, any confidential or proprietary information or material belonging to any previous employers or others, nor will Executive bring to the Company or use in connection with Executive's work for the Company copies of any software, computer files, or any other copyrighted or trademarked materials except those owned by or licensed to the Company. Executive represents that he is not a party to any other agreement that will interfere with his full compliance with this Agreement. Executive further agrees not to enter into any agreement, whether written or oral, in conflict with the provisions of this Agreement.

D. INVENTIONS

Any and all inventions, discoveries or improvements that Executive has conceived or made or may conceive or make during the period of employment relating to or in any way pertaining to or connected with the systems, products, computer programs, software, apparatus or methods employed, manufactured or constructed by the Company or to systems, products, apparatus or methods with respect to which the Company engages in, requests or anticipates research or development, shall be promptly and fully disclosed and described by Executive to the Company and shall be the sole and exclusive property of the Company, and Executive shall assign, and hereby does assign to the Company Executive's entire right, title and interest in and to all such

inventions, discoveries or improvements as well as any modifications or improvements thereto that may be made. The parties agree that any inventions, discoveries or ideas that Executive has created or possesses prior to his employment by the Company are specified in Appendix B attached to this Agreement and will not be considered to be the property of the Company.

The obligations outlined in this Section 7, except for the requirements as to disclosure, do not apply to any invention that qualifies fully under California Labor Code section 2870 or to any rights Executive may have acquired in connection with an invention, discovery or improvement that was developed entirely on Executive's own time for which no equipment, supplies, facilities or trade secret information of the Company was used and (a) that does not relate directly or indirectly to the business of the Company or to the Company's actual or demonstrable anticipated research or development, or (b) that does not result from any work performed by Executive for the Company.

E. BREACH

It is expressly agreed that each breach of this Section 7 is a distinct and material breach of this Agreement and that solely a monetary remedy would be inadequate, impracticable and extremely difficult to prove, and that each such breach would cause the Company irreparable harm. It is further agreed that, in addition to any

and all remedies available at law or equity (including money damages), either party shall be entitled to temporary and permanent injunctive relief to enforce the provisions of this Section, without the necessity of proving actual damages. It is further agreed that the either party shall be entitled to seek such equitable relief in any forum, including a court of law, notwithstanding the provisions of Section 8 and the Alternative Dispute Resolution Agreement incorporated therein. Either party may pursue any of the remedies described herein concurrently or consecutively in any order as to any such breach or violation, and the pursuit of one of such remedies at any time will not be deemed an election of remedies or waiver of the right to pursue any of the other such remedies. Any breach of this Section shall immediately terminate any obligations by the Company to provide Executive with severance and continued benefits pursuant to Section 6 of this Agreement.

F. UNENFORCEABILITY

Should any portion of this Section 7 be deemed unenforceable because of its scope, duration or effect, and only in such event, then the parties expressly consent and agree to such limitation on scope, duration or effect as may be finally adjudicated as enforceable, to give this Section its maximum permissible scope, duration and effect.

8. SUBMISSION TO ARBITRATION

In the event there is any dispute arising out of Executive's employment, the termination of that employment, or arising out of this Agreement, the Company and Executive agree to submit such dispute, except as to those matters specifically exempt per Section 7, to binding arbitration in accordance with the terms of the Alternative Dispute Agreement set forth in Appendix C to this Agreement and incorporated herein.

9. GOVERNING LAW

This Agreement shall be construed in accordance with and governed by the laws of the State of California, excluding its choice of law rules.

10. INTERPRETATION

This Agreement shall be interpreted in accordance with the plain meaning of its terms and not strictly for or against either party.

11. ENTIRE AGREEMENT

This Agreement, together with Appendices A, B, C and D, embodies the complete agreement and understanding of the parties related to Executive's employment by the Company, superseding any and all other prior or contemporaneous oral or written agreements between the parties

hereto with respect to the employment of Executive by

the Company, and contains all of the covenants and agreements of any kind whatsoever between the parties with respect to such employment. Each party acknowledges that no representations, inducements, promises or agreements, whether oral or written, express or implied, have been made by either party or anyone acting on behalf of a party, that are not incorporated herein and that no other agreement or promise not contained herein shall be valid or binding. Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

12. MODIFICATION

This Agreement may be amended only by an agreement in writing signed by the parties hereto.

13. WAIVER

Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof shall not be deemed a waiver of such term, covenant, or condition, nor shall any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times. This Agreement shall not be modified in any respect except by a writing executed by the parties.

14. INVALIDITY

Each term, clause and provision of this Agreement is separate and independent, and should any term, clause or provision of this Agreement be found to be invalid or unenforceable, the validity of the remaining terms, clauses, and provisions shall not be affected.

15. NOTICES

Any notice provided for in this Agreement shall be in writing and shall be either personally delivered, mailed first class mail (postage prepaid), or sent by facsimile or reputable overnight courier service (charges prepaid) to the recipient at the following addresses (or at such address as the recipient party has specified by prior written notice to the sending party):

To the Company: Doug Hansen
President
Redwood Trust, Inc.,
591 Redwood Highway, Suite 3100,
Mill Valley, CA 94941

To Executive: Brett Nicholas
2701 Van Ness Ave., #702
San Francisco, CA 94109

Each party shall be responsible for keeping such party's address current. Notices shall be deemed to have been given hereunder when delivered personally, three business days after deposit in the U.S. mail, on the date of delivery by facsimile (if transmitted before 5:00 p.m. local time), and/or one day after deposit with a reputable overnight courier service.

16. VOLUNTARY AGREEMENT

Executive and the Company represent and agree that each has reviewed all aspects of this Agreement, has carefully read and fully understands all provisions of this Agreement, and is voluntarily entering into this Agreement. Each party represents and agrees that such party has had the opportunity to review any and all aspects of this Agreement with the legal, tax or other advisor(s) of such party's choice before executing this Agreement.

17. SUCCESSORS AND ASSIGNS

This Agreement shall be binding upon and inure to the benefit of and shall be enforceable against Executive's heirs, beneficiaries and legal representatives. It is agreed that the rights and obligations of

Executive may not be delegated or assigned except as specifically set forth in this Agreement. In the event of a sale of all or substantially all of the Company's assets, including the stock of the Company, or consolidation or merger of the Company with or into another corporation or entity or individual, the Company may assign its rights and obligations under this Agreement to its successor-in-interest, and such successor-in-interest shall be deemed to have acquired all rights and assumed all obligations of the Company hereunder, including those set forth in Section 7 of this Agreement.

18. COUNTERPARTS

This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day, month and year first above written.

DATED: ______________________ ____
Brett Nichols

REDWOOD TRUST, INC.

DATED: ______________________ By: ____________________________________
Doug Hansen

Title: President
____

APPENDIX A

ESSENTIAL RESPONSIBILITIES

APPENDIX B

PRIOR INVENTIONS

APPENDIX C

ALTERNATIVE DISPUTE RESOLUTION POLICY

I. AGREEMENT TO ARBITRATE

In the event that any employment dispute arises between Redwood Trust, Inc. ("Company") and Brett Nicholas ("Executive"), the parties involved will make all efforts to resolve any such dispute through informal means. If these informal attempts at resolution fail and if the dispute arises out of or is related to the parties' Employment Agreement, the termination of Executive's employment or alleged unlawful discrimination, including but not limited to unlawful harassment, the Company and Executive will submit the dispute to final and binding arbitration, except as set forth in Section 7 of the Employment Agreement.

The parties expressly understand and agree that arbitration is the exclusive remedy for all such arbitrable disputes; with respect to such disputes, no other action may be brought in court or any other forum (except actions to compel arbitration hereunder). THIS ALTERNATIVE DISPUTE RESOLUTION ("ADR") AGREEMENT IS A WAIVER OF THE PARTIES' RIGHTS TO A CIVIL COURT ACTION FOR A DISPUTE RELATING TO BREACH OF THE PARTIES' EMPLOYMENT AGREEMENT, TERMINATION OF THAT EMPLOYMENT OR ALLEGED UNLAWFUL DISCRIMINATION, WHICH INCLUDES RETALIATION OR SEXUAL OR OTHER UNLAWFUL HARASSMENT; ONLY AN ARBITRATOR, NOT A JUDGE OR JURY, WILL DECIDE THE DISPUTE.

To the fullest extent permitted by the law of the jurisdiction, employment disputes arising out of or related to termination of employment or alleged unlawful discrimination, including retaliation or sexual or other unlawful harassment, shall include, but not be limited to, the following: alleged violations of federal, state and/or local constitutions, statutes or regulations; claims based on any purported breach of contractual obligation, including breach of the covenant of good faith and fair dealing; and claims based on any purported breach of duty arising in tort, including violations of public policy. Disputes related to workers' compensation and unemployment insurance is not arbitrable hereunder. Claims for benefits covered by a separate benefit plan that provides for arbitration are not covered by this ADR Agreement. Also, nothing in Employment Agreement or in the ADR Policy shall be construed as precluding Employee from filing a charge with the Equal Employment Opportunity Commission ("EEOC"), the National Labor Relations Board ("NLRB") or other federal, state or local agencies, seeking administrative assistance in resolving claims. Claims that are filed with or are being processed by the EEOC or that are brought under Title VII of the Civil Rights Act of 1964, as amended ("Title VII), are not arbitrable under this Agreement, except that the

parties may agree in writing to do so with respect to each such dispute that may arise. The EEOC is the federal agency which enforces laws prohibiting employment discrimination. Title VII is the federal statute which prohibits discrimination on the basis of race, color, religion, sex, national origin, retaliation.

II. REQUEST FOR ARBITRATION

A. ATTEMPT AT INFORMAL RESOLUTION OF DISPUTES

Prior to submission of any dispute to arbitration, Executive and the Company shall attempt to resolve the dispute informally as set forth below.

Executive and the Company will select a mediator from a list provided by the Federal Mediation and Conciliation Service or other similar agency who will assist the parties in attempting to reach a settlement of the dispute. The mediator may make settlement suggestions to the parties but shall not have the power to impose a settlement upon them. If the dispute is resolved in mediation, the matter shall be deemed closed. If the dispute is not resolved in mediation and goes to the next step (binding arbitration), any proposals or compromises suggested by either of the parties or the mediator shall not be referred to in or have any bearing on the arbitration procedure. The mediator cannot also serve as the arbitrator in the subsequent proceeding unless all parties expressly agree in writing.

B. ARBITRATION PROCEDURES

The party desiring arbitration, whether Executive or the Company, must submit a "Request For Arbitration" in writing to the other party within the time period required by the law that applies to the claim under the applicable statute of limitations. If the "Request for Arbitration" is not submitted in accordance with the aforementioned time limitations, the party failing to do so will not be able to bring his claims to this or any other forum. The requesting party may use a "Request for Arbitration" form supplied by the Company (Appendix D). Alternatively, the requesting party may create a "Request For Arbitration" form that, unless otherwise required by law, clearly states "Request For Arbitration" at the beginning of the first page and includes the following information:

1. A factual description of the dispute in sufficient detail to advise the other party of the nature of the dispute;

2. The date when the dispute first arose;

3. The names, work locations and telephone numbers of any individuals, including employees or supervisors, with knowledge of the dispute; and

4. The relief requested by requesting party.

The responding party may submit counterclaim(s) in accordance with applicable law.

C. SELECTION OF THE ARBITRATOR

All disputes will be resolved by a single Arbitrator, the Arbitrator will be mutually selected by the Company and the Executive. If the

parties cannot agree on an Arbitrator, then a list of seven (7) arbitrators, experienced in employment matters, shall be provided by the Federal Mediation and Conciliation Service. The Arbitrator will be selected by the parties who will alternately strike names from the list. The last name remaining on the list will be the Arbitrator selected to resolve the dispute. Upon selection, the Arbitrator shall set an appropriate time, date and place for the arbitration, after conferring with the parties to the dispute.

D. THE ARBITRATOR'S AUTHORITY

The Arbitrator shall have the powers enumerated below:

1. Ruling on motions regarding discovery, and ruling on procedural and evidentiary issues arising during the arbitration.

2. Ruling on motions to dismiss and/or motions for summary judgment applying the standards governing such motions under the Federal Rules of Civil Procedure.

3. Issuing protective orders on the motion of any party or third party witness. Such protective orders may include, but are not limited to, sealing the record of the arbitration, in whole or in part (including discovery proceedings and motions, transcripts, and the decision and award), to protect the privacy or other constitutional or statutory rights of parties and/or witnesses.

4. Determining only the issue(s) submitted to him/her. The issue(s) must be identifiable in the "Request For Arbitration" or counterclaim(s). Except as required by law, any issue(s) not identifiable in those documents is outside the scope of the Arbitrator's jurisdiction and any award involving such issue(s), upon motion by a party, shall be vacated.

E. DISCOVERY

The discovery process shall proceed and be governed, consistent with the standards of the Federal Rules of Civil Procedure, as follows:

1. Unless otherwise required by law, parties may obtain discovery by any of the following methods:

    a. Depositions of non-expert witnesses upon oral examination, three (3) per side as of right, with more permitted if leave is obtained from the Arbitrator;

    b. Written interrogatories, up to a maximum combined total of twenty (20), with the responding party having twenty (20) days to respond;

    c. Request for production of documents or things or permission to enter upon land or other property for inspection, with the responding party having twenty (20) days to produce the documents and allow entry or to file objections to the request;

    d. Physical and mental examination, in accordance with Federal Rule of Civil Procedure 35(a); and

    e. Any motion to compel production, answers to interrogatories or entry onto land or property must be made to the Arbitrator within fifteen (15) days of receipt of objections.

2. To the extent permitted by the Federal Arbitration Act or applicable California law, each party shall have the right to subpoena witnesses and documents during discovery and for the arbitration.

3. All discovery requests shall be submitted no less than sixty (60) days before the hearing date.

4. The scope of discoverable evidence shall be in accordance with Federal Rule of Civil Procedure 26(b) (1).

5. The Arbitrator shall have the power to enforce the aforementioned discovery rights and obligations by the imposition of the same terms, conditions, consequences, liabilities, sanctions and penalties as can or may be imposed in like circumstances in a civil action by a federal court under the Federal Rules of Civil Procedure, except the power to order the arrest or imprisonment of a person.

F. HEARING PROCEDURE

The hearing shall be held at a location mutually agreed upon by the parties, or as determined by the Arbitrator in the absence of an agreement, and shall proceed according to the American Arbitration Association's "National Rules for the Resolution of Employment Disputes" as amended and effective June 1, 1997, with the following amendments:

1. The Arbitrator shall rule at the outset of the arbitration on procedural issues that bear on whether the arbitration is allowed to proceed.

2. Each party has the burden of proving each element of its claims or counterclaims, and each party has the burden of proving any of its affirmative defenses.

3. In addition to, or in lieu of closing argument, either party shall have the right to present a post-hearing brief, and the due date for exchanging any post-hearing briefs shall be mutually agreed on by the parties and the Arbitrator, or determined by the Arbitrator in the absence of agreement.

G. SUBSTANTIVE LAW

1. The parties agree that they will be afforded the identical legal equitable and statutory remedies as would be afforded them were they to bring an action in a court of competent jurisdiction.

2. The applicable substantive law shall be the law of the State of California or federal law. Choice of substantive law in no way affects the procedural aspects of the arbitration, which are exclusively governed by the provisions of this ADR Agreement.

H. OPINION AND AWARD

The Arbitrator shall issue a written opinion and award, in conformance with the following requirements:

1. The opinion and award must be signed and dated by the Arbitrator.

2. The Arbitrator's opinion and award shall decide all issues submitted.

3. The Arbitrator's opinion and award shall set forth the legal principles supporting each part of the opinion.

4. The Arbitrator shall have the same authority to award remedies, damages and costs as provided to a judge and/or jury under parallel circumstances.

I. ENFORCEMENT OF ARBITRATOR'S AWARD

Following the issuance of the Arbitrator's decision, any party may petition a court to confirm, enforce, correct or vacate the Arbitrator's opinion and award under the Federal Arbitration Act, and/or applicable California law.

J. FEES AND COSTS

Unless otherwise required by law, fees and costs shall be allocated in the following manner:

1. Each party shall be responsible for its own attorneys' fees, except as otherwise provided by law for the particular claim(s) at issue.

2. The Company shall pay the entire cost of the arbitrator's services, the facility in which the arbitration is to be held, and any similar costs, except that Executive shall contribute toward these costs an amount equal to the then-current filing fee in California Superior Court charged for filing a complaint or for first appearing, whichever is lower.

3. The Company shall pay the entire cost of a court reporter to transcribe the arbitration proceedings. Each party shall advance the cost for said party's transcript of the proceedings. Each party shall advance its own costs for witness fees, service and subpoena charges,

copying, or other incidental costs that each party would bear during the course of a civil lawsuit.

4. Each party shall be responsible for its costs associated with discovery, except as required by law or court order.

III. SEVERABILITY

Each term, clause and provision of this ADR Agreement is separate and independent, and should any term, clause or provision of this ADR Agreement be found to be invalid or unenforceable, the validity of the remaining terms, clauses, and provisions shall not be affected. As to those terms, clauses and provisions found to be invalid or unenforceable, they shall be replaced with valid and enforceable terms, clauses or provisions or shall be modified, in order to achieve, to the fullest extent possible, the economic, business and other purposes of the invalid or unenforceable terms, clauses or provisions.

Dated: ______________________, 1999 ____
Brett Nicholas

REDWOOD TRUST, INC.

Dated: ______________________, 1999 By: ____________________________________
Doug Hansen

Title: President
____

APPENDIX D

REQUEST FOR ARBITRATION FORM

ALTERNATIVE DISPUTE RESOLUTION POLICY

Submission Requirement	-	This form (or, alternatively, a form that includes the information below) must be submitted by the individual claimant or the Redwood Trust, Inc. (to the President) within the time period required by the law that applies to the claim.
	-	If Redwood Trust, Inc. requests arbitration, the form must also be served on the individual within the appropriate time period.

1. State the nature of the claim in detail:

- --

- --

- --

- --

(Continue on reverse and add pages if necessary)

Enter the date of termination or date(s) of alleged incident(s) (i.e., date of last instance of unlawful discrimination, sexual or other unlawful harassment):

_______/________/_______
Month Day Year

2. Provide the names and work locations of any individuals, including employees or supervisors, with knowledge of the dispute:

<TABLE>
<CAPTION>

Name	Job Title	Work Location

<S> <C> <C>

- ------------------- ------------------------- --------------------------

- ------------------- ------------------------- --------------------------

- ------------------- ------------------------- --------------------------

- ------------------- ------------------------- --------------------------
</TABLE>

3. Describe the relief requested (i.e., what you want done):

- --

- --

- --

(Please attach any documents relevant to the dispute.)

Signature of Party Requesting arbitration:

Redwood Trust, Inc.

Date:
- -------------------------- -------------------

Signature of Executive:

Date:
- -------------------------- -------------------

EXHIBIT 10.14.4

REDWOOD TRUST, INC.

AMENDED AND RESTATED

1994 EXECUTIVE AND NON-EMPLOYEE DIRECTOR

STOCK OPTION PLAN

(LAST AMENDED JANUARY 18, 2001)

SECTION 1. GENERAL PURPOSE OF PLAN; DEFINITIONS.

The name of this plan is the Redwood Trust, Inc. Amended and Restated 1994 Executive and Non-Employee Director Stock Option Plan (the "Plan"). The Plan was adopted by the Board on June 23, 1994, subject to the approval of the Company stockholders, which approval was obtained on June 23, 1994. The Board approved amendments to the Plan on March 8, 1996 which became effective upon approval by the Company's stockholders on June 14, 1996. The Board approved additional non-material amendments on December 13, 1996, June 12, 1997 and June 4, 1998, all of which became effective on such respective dates. The purpose of the Plan is to enable the Company and its Subsidiaries to obtain and retain competent personnel who will contribute to the Company's success by their ability, ingenuity and industry, to give the Company's non-employee directors a proprietary interest in the Company and to provide incentives to the participating directors, officers and other key employees, and agents and consultants that are linked directly to increases in stockholder value and will therefore inure to the benefit of all stockholders of the Company.

For purposes of the Plan, the following terms shall be defined as set forth below:

(1) "Accrued DERs" means DERs with the accrual rights described in Section 5(11).

(2) "Administrator" means the Board, or if the Board does not administer the Plan, the Committee in accordance with Section 2.

(3) "Board" means the Board of Directors of the Company.

(4) "Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.

(5) "Committee" means the Compensation Committee of the Board, which shall be composed entirely of individuals who meet the qualifications to be a "Non-Employee Director" as defined in Rule 16b-3 ("Rule 16b-3) as promulgated by the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934 (the "Act"), and as such Rule may be amended from time to time, or any successor definition adopted by the Commission, or any other Committee the Board may subsequently appoint to administer the Plan. If at any time the Board shall not administer the Plan, then the functions of the Board specified in the Plan shall be exercised by the Committee.

(6) "Company" means Redwood Trust, Inc., a corporation organized under the laws of the State of Maryland (or any successor corporation).

(7) "Current-pay DERs" means DERs with the current-pay rights described in Section 5(11).

(8) "DERs" shall mean Accrued DERs and Current-pay DERs.

(9) "Deferred Stock" means an award granted pursuant to Section 7 of the right to receive Stock at the end of a specified deferral period.

(10) "Disability" means permanent and total disability as determined under the Company's disability program or policy.

(11) "Effective Date" shall mean the date provided pursuant to Section 12.

(12) "Eligible Employee" means an employee of the Company or any Subsidiary eligible to participate in the Plan pursuant to Section 4.

(13) "Eligible Non-Employee Director" means a member of the Board or the board of directors of any Subsidiary who is not a bona fide employee of the Company or any Subsidiary and who is eligible to participate in the Plan pursuant to Section 5A.

(14) "Fair Market Value" means, as of any given date, with respect to any awards granted hereunder, at the discretion of the Administrator and subject to such limitations as the Administrator may impose, (A) the closing sale price of the Stock on the next preceding business day as reported in the Western Edition of the Wall Street Journal Composite Tape, or (B) the average of the closing price of the Stock on each day on which the Stock was traded over a period of up to twenty trading days immediately prior to such date, or (C) if the Stock is not publicly traded, the fair market value of the Stock as otherwise determined by the Administrator in the good faith exercise of its discretion.

(15) "Incentive Stock Option" means any Stock Option intended to be designated as an "incentive stock option" within the meaning of Section 422 of the Code.

(16) "Limited Stock Appreciation Right" means a Stock Appreciation Right that can be exercised only in the event of a "Change of Control" (as defined in Section 10 below).

(17) "Non-Employee Director" shall have the meaning set forth in Rule 16b-3.

(18) "Non-Qualified Stock Option" means any Stock Option that is not an Incentive Stock Option, including any Stock Option that provides (as of the time such option is granted) that it will not be treated as an Incentive Stock Option.

(19) "Parent Corporation" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, if each of the corporations in the chain (other than the Company) owns stock possessing 50% or more of the combined voting power of all classes of stock in one of the other corporations in the chain.

(20) "Participant" means any Eligible Employee or any consultant or agent of the Company or any Subsidiary selected by the Committee, pursuant to the Administrator's authority in Section 2, to receive grants of Stock Options, DERs, Stock Appreciation Rights, Limited Stock Appreciation Rights, Restricted Stock awards, Deferred Stock awards, Performance Shares or any combination of the foregoing, or any Eligible Non-Employee Director eligible to receive grants of Non-Qualified Stock Options and DERs pursuant to Section 5A below.

(21) "Performance Share" means an award of shares of Stock granted pursuant to Section 7 that is subject to restrictions based upon the attainment of specified performance objectives.

(22) "Restricted Stock" means an award granted pursuant to Section 7 of shares of Stock subject to restrictions that will lapse with the passage of time.

(23) "Stock" means the common stock, $0.01 par value, of the Company.

(24) "Stock Appreciation Right" means the right pursuant to an award granted under Section 6 to receive an amount equal to the difference between (A) the Fair Market Value, as of the date such Stock Appreciation Right or portion thereof is surrendered, of the shares of Stock covered by such right or such portion thereof, and (B) the aggregate exercise price of such right or such portion thereof.

(25) "Stock Option" means an option to purchase shares of Stock granted pursuant to Section 5 or Section 5A.

(26) "Subsidiary" means (A) any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company, if each of the corporations (other than the last corporation) in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain or (B) except for purposes of determining eligibility for receipt of Incentive Stock Options, any corporation or other type of entity (a "company") (other than the Company) in an unbroken chain of companies beginning with the Company, if each of the companies (other than the last company) in the unbroken chain owns stock or other forms of equity investment (i) possessing 50% or more of the total combined voting power of all classes of stock or other forms of equity in one of the other companies in the chain or (ii) representing 50% or more of the total value of all classes of stock or other forms of equity in one of the other companies in the chain.

SECTION 2. ADMINISTRATION.

The Plan shall be administered by the Board or by a Committee appointed by the Board, which shall serve at the pleasure of the Board; provided, however, that at all times when the Company is subject to the reporting requirements of

the Securities Exchange Act of 1934, as amended, the Plan shall be administered by the Committee appointed by the Board.

The Administrator shall have the power and authority to grant to Eligible Employees and consultants or agents of the Company or any Subsidiary, pursuant to the terms of the Plan: (a) Stock Options (with or without DERs), (b) Stock Appreciation Rights or Limited Stock Appreciation Rights, (c) Restricted Stock, (d) Deferred Stock, (e) Performance Shares or (f) any combination of the foregoing.

In particular, the Administrator shall have the authority:

(a) to select those employees of the Company or any Subsidiary who shall be Eligible Employees;

(b) to determine whether and to what extent Stock Options (with or without DERs), Stock Appreciation Rights, Limited Stock Appreciation Rights, Restricted Stock, Deferred Stock, Performance Shares or a combination of the foregoing, are to be granted to Eligible Employees or any consultant or agent of the Company or any Subsidiary hereunder;

(c) to determine the number of shares to be covered by each such award granted hereunder;

(d) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder (including, but not limited to, (x) the restricted period applicable to Restricted or Deferred Stock awards and the date or dates on which restrictions applicable to such Restricted or Deferred Stock shall lapse during such period, and (y) the performance goals and periods applicable to the award of Performance Shares); and

(e) to determine the terms and conditions, not inconsistent with the terms of the Plan, which shall govern all written instruments evidencing the Stock Options, DERs, Stock Appreciation Rights, Limited Stock Appreciation Rights, Restricted Stock, Deferred Stock, Performance Shares or any combination of the foregoing.

The Administrator shall have the authority, in its discretion, to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall from time to time deem advisable; to interpret the terms and provisions of the Plan and any award issued under the Plan (and any agreements relating thereto); and to otherwise supervise the administration of the Plan.

All decisions made by the Administrator pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company, any Subsidiaries and the Participants.

Notwithstanding anything to the contrary herein, no award hereunder may be made to any Participant to the extent that, following such award, the shares subject or potentially subject to such Participant's control (including, but not limited to, (i) shares of the Company's equity stock owned by the Participant, (ii) Stock Options, whether or not then exercisable, held by the Participant to purchase additional such shares, (iii) Restricted Stock, Deferred Stock and Performance Share awards to the Participant, whether or not then vested, and (iv) Accrued DERs credited to the Participant) would constitute more than 9.8% of the outstanding capital stock of the Company.

SECTION 3. STOCK SUBJECT TO PLAN.

The total number of shares of Stock reserved and available for issuance under the Plan shall be 500,000; provided, however, that from and after such time as the number of outstanding shares of Stock as reflected on the Company's quarterly or year-end balance sheet exceeds 6,000,000 (including treasury shares but not including adjustments in the event of changes in the corporate structure of the Company as provided below in this Section 3), the total number of shares of Stock reserved and available for issuance under the Plan shall automatically be increased so as to equal

fifteen (15) percent of the number of then outstanding shares of Stock, and provided further, that no more than 500,000 shares of Stock shall be cumulatively available for Incentive Stock Options. At all times, the number of shares reserved and available for issuance hereunder as so determined from time to time shall be decreased by virtue of awards granted and outstanding or exercised hereunder.

To the extent that (i) a Stock Option or DER expires or is otherwise

terminated without being exercised, or (ii) any shares of Stock subject to any Restricted Stock, Deferred Stock or Performance Share award granted hereunder are forfeited, such shares shall again be available for issuance in connection with future awards under the Plan. If any shares of Stock have been pledged as collateral for indebtedness incurred by a Participant in connection with the exercise of a Stock Option and such shares are returned to the Company in satisfaction of such indebtedness, such shares shall again be available for issuance in connection with future awards under the Plan.

In the event of any merger, reorganization, consolidation, recapitalization, Stock dividend, or other change in corporate structure affecting the Stock, a substitution or adjustment may be made in (i) the aggregate number of shares reserved for issuance under the Plan, and (ii) the kind, number and option price of shares subject to outstanding Stock Options and DERs granted under the Plan as may be determined by the Administrator, in its sole discretion, provided that the number of shares subject to any award shall always be a whole number. Such other substitutions or adjustments shall be made as may be determined by the Administrator, in its sole discretion; provided, however, that with respect to Incentive Stock Options, such adjustment shall be made in accordance with Section 424 of the Code. An adjusted option price shall also be used to determine the amount payable by the Company upon the exercise of any Stock Appreciation Right or Limited Stock Appreciation Right associated with any Stock Option.

The aggregate number of shares of Stock for which Stock Options or Stock Appreciation Rights may be granted to any individual during any calendar year may not, subject to adjustment as provided in this Section 3, exceed 75% of the shares of Stock reserved for the purposes of the Plan in accordance with the provisions of this Section 3.

SECTION 4. ELIGIBILITY.

Officers and other key employees of the Company or Subsidiaries who are responsible for or contribute to the management, growth and/or profitability of the business of the Company or its Subsidiaries and consultants and agents of the Company or its Subsidiaries, shall be eligible to be granted Stock Options, DERs, Stock Appreciation Rights, Limited Stock Appreciation Rights, Restricted Stock awards, Deferred Stock awards or Performance Shares hereunder. The Participants under the Plan shall be selected from time to time by the Administrator, in its sole discretion, from among the Eligible Employees and consultants and agents recommended by the senior management of the Company, and the Administrator shall determine, in its sole discretion, the number of shares covered by each award; provided, however, that Eligible Non-Employee Directors shall only be eligible to receive Stock Options as provided in Section 5A.

SECTION 5. STOCK OPTIONS.

Stock Options may be granted alone or in addition to other awards granted under the Plan, including DERs as described in Section 5(11). Any Stock Option granted under the Plan shall be in

such form as the Administrator may from time to time approve, and the provisions of Stock Option awards need not be the same with respect to each optionee. Recipients of Stock Options shall enter into a stock option agreement with the Company, in such form as the Administrator shall determine, which agreement shall set forth, among other things, the exercise price of the option, the term of the option and provisions regarding exercisability of the option granted thereunder.

The Stock Options granted under the Plan may be of two types: (i) Incentive Stock Options and (ii) Non-Qualified Stock Options.

The Administrator shall have the authority under this Section 5 to grant any optionee (except Eligible Non-Employee Directors) Incentive Stock Options, Non-Qualified Stock Options, or both types of Stock Options (in each case with or without DERs, Stock Appreciation Rights or Limited Stock Appreciation Rights), provided, however, that Incentive Stock Options may not be granted to any individual who is not an employee of the Company or its Subsidiaries. To the extent that any Stock Option does not qualify as an Incentive Stock Option, it shall constitute a separate Non-Qualified Stock Option. More than one option may be granted to the same optionee and be outstanding concurrently hereunder.

Stock Options granted under the Plan shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable:

(1) Option Price. The option price per share of Stock purchasable under a Stock Option shall be determined by the Administrator in its sole discretion at the time of grant but shall not, in the case of Incentive Stock Options, be less than 100% of the Fair Market Value of the Stock on such date, and shall

not, in any event, be less than the par value of the Stock. The option price per share of Stock purchasable under a Non-Qualified Stock Option may be less than 100% of such Fair Market Value. If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 425(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Parent Corporation or Subsidiary and an Incentive Stock Option is granted to such employee, the option price of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no less than 110% of the Fair Market Value of the Stock on the date such Incentive Stock Option is granted.

(2) Option Term. The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than ten years after the date such Stock Option is granted; provided, however, that if an employee owns or is deemed to own (by reason of the attribution rules of Section 425(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Parent Corporation or Subsidiary and an Incentive Stock Option is granted to such employee, the term of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no more than five years from the date of grant.

(3) Exercisability. Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator at or after grant; provided, however, that, except as provided herein or unless otherwise determined by the Administrator at or after grant, Stock Options shall become exercisable as to 25% of the shares subject to such Stock Option on the first anniversary of the date of grant of the Stock Option, and as to an additional 25%

on each of the next three anniversaries of the date of grant. To the extent not exercised, installments shall accumulate and be exercisable in whole or in part at any time after becoming exercisable but not later than the date the Stock Option expires. The Administrator may provide, in its discretion, that any Stock Option shall be exercisable only in installments, and the Administrator may waive such installment exercise provisions at any time in whole or in part based on such factors as the Administrator may determine, in its sole discretion.

(4) Method of Exercise. Subject to Section 5(3), Stock Options may be exercised in whole or in part at any time during the option period, by giving written notice of exercise to the Company specifying the number of shares to be purchased, accompanied by payment in full of the purchase price in cash or its equivalent as determined by the Administrator. As determined by the Administrator, in its sole discretion, payment in whole or in part may also be made in the form of unrestricted Stock already owned by the optionee, or, in the case of the exercise of a Non-Qualified Stock Option, Restricted Stock or Performance Shares subject to an award hereunder (based, in each case, on the Fair Market Value of the Stock on the date the option is exercised); provided, however, that in the case of an Incentive Stock Option, the right to make payment in the form of already owned shares may be authorized only at the time of grant. Any payment in the form of stock already owned by the optionee may be effected by use of an attestation form approved by the Administrator. If payment of the option exercise price of a Non-Qualified Stock Option is made in whole or in part in the form of Restricted Stock or Performance Shares, the shares received upon the exercise of such Stock Option (to the extent of the number of shares of Restricted Stock or Performance Shares surrendered upon exercise of such Stock Option) shall be restricted in accordance with the original terms of the Restricted Stock or Performance Share award in question, except that the Administrator may direct that such restrictions shall apply only to that number of shares equal to the number of shares surrendered upon the exercise of such option. An optionee shall generally have the rights to dividends and other rights of a stockholder with respect to shares subject to the option only after the optionee has given written notice of exercise, has paid in full for such shares, and, if requested, has given the representation described in paragraph (1) of Section 11.

The Administrator may require the voluntary surrender of all or a portion of any Stock Option granted under the Plan as a condition precedent to a grant of a new Stock Option. Subject to the provisions of the Plan, such new Stock Option shall be exercisable at the price, during such period and on such other terms and conditions as are specified by the Administrator at the time the new Stock Option is granted; provided, however, that should the Administrator so require, the number of shares subject to such new Stock Option shall not be greater than the number of shares subject to the surrendered Stock Option. Upon their surrender, Stock Options shall be canceled and the shares previously subject to such canceled Stock Options shall again be available for grants of Stock Options and other awards hereunder.

(5) Loans. The Company may make loans available to Stock Option holders in connection with the exercise of outstanding options granted under the Plan, as the Administrator, in its discretion, may determine. Such loans shall (i) be evidenced by promissory notes entered into by the Stock Option holders in favor

of the Company, (ii) be subject to the terms and conditions set forth in this Section 5(5) and such other terms and conditions, not inconsistent with the Plan, as the Administrator shall determine, and (iii) bear interest, if any, at such rate as the Administrator shall determine. In no event may the principal amount of any such loan exceed the sum of (x) the exercise price less the par value of the shares of Stock covered by the option, or portion thereof,

exercised by the holder, and (y) any federal, state, and local income tax attributable to such exercise. The initial term of the loan, the schedule of payments of principal and interest under the loan, the extent to which the loan is to be with or without recourse against the holder with respect to principal or interest and the conditions upon which the loan will become payable in the event of the holder's termination of employment shall be determined by the Administrator; provided, however, that the term of the loan, including extensions, shall not exceed seven years. Unless the Administrator determines otherwise, when a loan is made, shares of Stock having a Fair Market Value at least equal to the principal amount of the loan shall be pledged by the holder to the Company as security for payment of the unpaid balance of the loan, and such pledge shall be evidenced by a pledge agreement, the terms of which shall be determined by the Administrator, in its discretion; provided, however, that each loan shall comply with all applicable laws, regulations and rules of the Board of Governors of the Federal Reserve System and any other governmental agency having jurisdiction.

(6) Limits on Transferability of Options.

(a) Subject to Section 5(6)(b), no Stock Option shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution or pursuant to a "qualified domestic relations order," as such term is defined in the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee or in accordance with the terms of a qualified domestic relations order.

(b) The Administrator may, in its discretion, authorize all or a portion of the options to be granted to an optionee to be on terms which permit transfer by such optionee to (i) the spouse, qualified domestic partner, children or grandchildren of the optionee and any other persons related to the optionee as may be approved by the Administrator ("Immediate Family Members"), (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members, (iii) a partnership or partnerships in which such Immediate Family Members are the only partners, or (iv) any other persons or entities as may be approved by the Administrator, provided that (x) there may be no consideration for any transfer unless approved by the Administrator, (y) the stock option agreement pursuant to which such options are granted must be approved by the Administrator, and must expressly provide for transferability in a manner consistent with this Section 5(6)(b), and (z) subsequent transfers of transferred options shall be prohibited except those in accordance with Section 5(6)(a) or expressly approved by the Administrator. Following transfer, any such options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that, except for purposes of Sections 5(7), (8), (9), (10) and 11(3) hereof, the terms "optionee," "Stock Option holder" and "Participant" shall be deemed to refer to the transferee. The events of termination of employment under Sections 5(7), (8) and (9) hereof shall continue to be applied with respect to the original optionee, following which the options shall be exercisable by the transferee only to the extent, and for the periods specified under such sections unless the option agreement governing such options otherwise provides. Notwithstanding the transfer, the original optionee will continue to be subject to the provisions of Section 11(3) regarding payment of taxes, including the provisions entitling the Company to deduct such taxes from amounts otherwise due to such optionee. Any transfer of a Stock Option that was originally granted with DERs related thereto shall automatically include the transfer of such DERs, any attempt to transfer such Stock Option separately from such DERs shall be void, and such DERs shall continue in effect according

to their terms. "Qualified domestic partner" for the purpose of this Section 5(6)(b) shall mean a domestic partner living in the same household as the optionee and registered with, certified by or otherwise acknowledged by the county or other applicable governmental body as a domestic partner or otherwise establishing such status in any manner satisfactory to the Administrator. Stock options granted prior to December 1, 1996 may be amended to provide for their transferability, subject to the foregoing conditions.

(7) Termination by Death. If an optionee's employment with the Company or any Subsidiary terminates by reason of death, the Stock Option may thereafter be immediately exercised, to the extent then exercisable (or on such accelerated

basis as the Administrator shall determine at or after grant), by the legal representative of the estate or by the legatee of the optionee under the will of the optionee, for a period of twelve months (or such shorter period as the Administrator shall specify at grant) from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is shorter.

(8) Termination by Reason of Disability. If an optionee's employment with the Company or any Subsidiary terminates by reason of Disability, any Stock Option held by such optionee may thereafter be exercised, to the extent it was exercisable at the time of such termination (or on such accelerated basis as the Administrator shall determine at the time of grant), for a period of twelve months (or such shorter period as the Administrator shall specify at grant) from the date of such termination of employment or until the expiration of the stated term of such Stock Option, whichever period is shorter; provided, however, that, if the optionee dies within such twelve-month period (or such shorter period as the Administrator shall specify at grant) and prior to the expiration of the stated term of such Stock Option, any unexercised Stock Option held by such optionee shall thereafter be exercisable to the extent to which it was exercisable at the time of termination for a period of twelve months (or such shorter period as the Administrator shall specify at grant) from the time of death or until the expiration of the stated term of such Stock Option, whichever period is shorter. In the event of a termination of employment by reason of Disability, if an Incentive Stock Option is exercised after the expiration of the applicable exercise periods under Section 422 of the Code, such Stock Option shall thereafter be treated as a Non-Qualified Stock Option.

(9) Other Termination. Except as otherwise determined by the Administrator, if an optionee's employment with the Company or any Subsidiary terminates for any reason other than death or Disability, the Stock Option may be exercised for a period of three months from the date of such termination, or until the expiration of the stated term of such Stock Option, whichever period is shorter.

(10) Annual Limit on Incentive Stock Options. To the extent that the aggregate Fair Market Value (determined as of the date the Incentive Stock Option is granted) of shares of Stock with respect to which Incentive Stock Options granted to an Optionee under this Plan and all other option plans of the Company, its Parent Corporation or any Subsidiary become exercisable for the first time by the Optionee during any calendar year exceeds $100,000, such Stock Options shall be treated as Non-Qualified Stock Options.

(11) DERs. The Administrator shall have the discretion to grant DERs in conjunction with grants of Stock Options pursuant to this Section 5. DERs may be granted in either of two forms, "Current-pay DERs" and "Accrued DERs" and the Administrator may condition the

payment or accrual of amounts in respect thereof subject to satisfaction of such performance objectives as the Administrator may specify at the time of grant. Assuming satisfaction of any applicable conditions, Current-pay DERs shall be paid concurrently with any dividends or distributions paid on the Stock during the time the related Stock Options are outstanding in an amount equal to the cash dividend (or Stock or other property hereby distributed) per share being paid on the Stock times the number of shares subject to the related Stock Options. Current-pay DERs are payable in cash, Stock or such other property as may be distributed to stockholders. Accrued DERs may be accrued in respect of cash dividends only or cash dividends and the value of any Stock or other property distributed to stockholders, as the Administrator shall determine at the time of grant. Assuming satisfaction of any applicable conditions, Accrued DERs shall be accrued with respect to the related Stock Options outstanding as of the date dividends are declared on the Company's Stock in accordance with the following formula:

$$(A \times B) / C$$

under which "A" equals the number of shares subject to such Stock Options, "B" equals the cash dividend per share or the value per share of the Stock or other property being distributed, as the case may be, and "C" equals the Fair Market Value per share of Stock on the dividend payment date. The Accrued DERs shall represent shares of Stock which shall be issuable to the holder of the related Stock Option proportionately as the holder exercises the Stock Option to which the Accrued DERs relate, rounded down to the nearest whole number of shares. DERs shall expire upon the expiration of the Stock Options to which they relate. The Administrator shall specify at the time of grant whether dividends shall be payable or credited on Accrued DERs. Notwithstanding anything to the contrary herein, Accrued DERs granted with respect to Stock Options shall be accrued only to the extent of the number of shares of stock then reserved and available for issuance under the Plan in excess of the number of shares subject to issuance pursuant to outstanding Stock Option, Accrued DER, Stock Appreciation Right, Limited Stock Appreciation Right, Deferred Stock or Performance Share awards.

SECTION 5A. STOCK OPTIONS FOR ELIGIBLE NON-EMPLOYEE DIRECTORS.

This Section 5A shall apply only to automatic grants of Stock Options to Eligible Non-Employee Directors.

(1) Each Eligible Non-Employee Director shall automatically be granted, upon first becoming a director of the Company or any Subsidiary, a Non-Qualified Stock Option to purchase 5,000 shares of Stock, provided that no Eligible Non-Employee Director may receive more than one such grant for serving as a director of the Company and one or more Subsidiaries. In addition, on the day after the annual meeting of stockholders of the Company to be held in the calendar year 1998, and on the day after each annual stockholders' meeting of the Company thereafter during the term of the Plan, each Eligible Non-Employee Director of the Company shall be granted a Non-Qualified Stock Option to purchase such number of shares of Stock that the aggregate of the option prices thereof equals $20,000.00, rounded up to the nearest 100 shares. The option price per share of Stock purchasable under such Stock Option shall be 100% of the Fair Market Value on the date of grant. Such Stock Option shall become exercisable as to 25% of the shares subject to such Stock Option on the first anniversary of the date of grant of the Stock Option or

such other date as the Board may approve, and as to an additional 25% of the shares subject to such Stock Option on each of the next three anniversaries of the first vesting date. To the extent not exercised, installments shall accumulate and be exercisable in whole or in part at any time after becoming exercisable but not later than the date the Stock Option expires. Exercise shall be by payment in full of the purchase price in cash and no stock option shall be exercisable more than ten years after the date of grant. The aggregate number of shares of Stock that may be granted to Eligible Non-Employee Directors pursuant to the Plan may not exceed 180,000 shares.

(2) Eligible Non-Employee Directors who receive grants of Stock Options shall enter into a stock option agreement with the Company, which agreement shall set forth, among other things, the exercise price of the option, the term of the option and provisions regarding exercisability of the option granted thereunder. The Stock Options granted under this section shall be Non-Qualified Stock Options.

(3) Non-Qualified Stock Options granted to Eligible Non-Employee Directors hereunder shall be transferable only to the extent provided in Sections 5(6)(a) and (b).

(4) The Board may not amend, alter or discontinue the provisions of this Section 5A more than once every six months other than to comport with changes in the Code, ERISA or the rules thereunder.

SECTION 6. STOCK APPRECIATION RIGHTS AND LIMITED STOCK APPRECIATION RIGHTS.

(1) Grant and Exercise. Stock Appreciation Rights and Limited Stock Appreciation Rights may be granted either alone ("Free Standing Rights") or in conjunction with all or part of any Stock Option granted under the Plan ("Related Rights"). In the case of a Non-Qualified Stock Option, Related Rights may be granted either at or after the time of the grant of such Stock Option. In the case of an Incentive Stock Option, Related Rights may be granted only at the time of the grant of the Incentive Stock Option.

A Related Right or applicable portion thereof granted in conjunction with a given Stock Option shall terminate and no longer be exercisable upon the termination or exercise of the related Stock Option, except that, unless otherwise provided by the Administrator at the time of grant, a Related Right granted with respect to less than the full number of shares covered by a related Stock Option shall only be reduced if and to the extent that the number of shares covered by the exercise or termination of the related Stock Option exceeds the number of shares not covered by the Stock Appreciation Right.

A Related Right may be exercised by an optionee, in accordance with paragraph (2) of this Section 6, by surrendering the applicable portion of the related Stock Option. Upon such exercise and surrender, the optionee shall be entitled to receive an amount determined in the manner prescribed in paragraph (2) of this Section 6. Stock Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent the Related Rights have been so exercised.

(2) Terms and Conditions. Stock Appreciation Rights shall be subject to such terms and conditions, not inconsistent with the provisions of the Plan, as shall be determined from time to time by the Administrator, including the following:

(a) Stock Appreciation Rights that are Related Rights ("Related Stock Appreciation Rights") shall be exercisable only at such time or times and to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 5 and this Section 6; provided, however, that no Related Stock Appreciation Right shall be exercisable during the first six months of its term, except that this additional limitation shall not apply in the event of death or Disability of the optionee prior to the expiration of such six-month period.

(b) Upon the exercise of a Related Stock Appreciation Right, an optionee shall be entitled to receive up to, but not more than, an amount in cash or that number of shares of Stock (or in some combination of cash and shares of Stock) equal in value to the excess of the Fair Market Value of one share of Stock as of the date of exercise over the option price per share specified in the related Stock Option multiplied by the number of shares of Stock in respect of which the Related Stock Appreciation Right is being exercised, with the Administrator having the right to determine the form of payment.

(c) Related Stock Appreciation Rights shall be transferable or exercisable only when and to the extent that the underlying Stock Option would be transferable or exercisable under paragraph (6) of Section 5.

(d) Upon the exercise of a Related Stock Appreciation Right, the Stock Option or part thereof to which such Related Stock Appreciation Right is related shall be deemed to have been exercised for the purpose of the limitation set forth in Section 3 on the number of shares of Stock to be issued under the Plan.

(e) A Related Stock Appreciation Right granted in connection with an Incentive Stock Option may be exercised only if and when the Fair Market Value of the Stock subject to the Incentive Stock Option exceeds the exercise price of such Stock Option.

(f) Stock Appreciation Rights that are Free Standing Rights ("Free Standing Stock Appreciation Rights") shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator at or after grant; provided, however, that no Free Standing Stock Appreciation Right shall be exercisable during the first six months of its term, except that this limitation shall not apply in the event of death or Disability of the recipient of the Free Standing Stock Appreciation Right prior to the expiration of such six-month period.

(g) The term of each Free Standing Stock Appreciation Right shall be fixed by the Administrator, but no Free Standing Stock Appreciation Right shall be exercisable more than ten years after the date such right is granted.

(h) Upon the exercise of a Free Standing Stock Appreciation Right, a recipient shall be entitled to receive up to, but not more than, an amount in cash or that number of shares of Stock (or any combination of cash or shares of Stock) equal in value to the excess of the Fair Market Value of one share of Stock as of the date of exercise over the price per share specified in the Free Standing Stock Appreciation Right (which price shall be no less than 100% of the Fair

Market Value of the Stock on the date of grant) multiplied by the number of shares of Stock with respect to which the right is being exercised, with the Administrator having the right to determine the form of payment.

(i) Free Standing Stock Appreciation Rights shall be transferable or exercisable subject to the provisions governing the transferability and exercisability of Stock Options set forth in paragraphs (3) and (6) of Section 5.

(j) In the event of the termination of an employee who has been granted one or more Free Standing Stock Appreciation Rights, such rights shall be exercisable to the same extent that a Stock Option would have been exercisable in the event of the termination of the optionee.

(k) Limited Stock Appreciation Rights may only be exercised within the 30-day period following a "Change of Control" (as defined in Section 10 below), and, with respect to Limited Stock Appreciation Rights that are Related Rights ("Related Limited Stock Appreciation Rights"), only to the extent that the Stock Options to which they relate shall be exercisable in accordance with the provisions of Section 5 and this Section 6; provided, however, that no Related Limited Stock Appreciation Right shall be exercisable during the first six months of its term, except that this additional limitation shall not apply in the event of death or Disability of the optionee prior to the expiration of such six-month period.

(l) Upon the exercise of a Limited Stock Appreciation Right, the

recipient shall be entitled to receive an amount in cash equal in value to the excess of the "Change of Control Price" (as defined in Section 10) of one share of Stock as of the date of exercise over (A) the option price per share specified in the related Stock Option, or (B) in the case of a Limited Stock Appreciation Right which is a Free Standing Stock Appreciation Right, the price per share specified in the Free Standing Stock Appreciation Right, such excess to be multiplied by the number of shares in respect of which the Limited Stock Appreciation Right shall have been exercised.

(m) For the purpose of the limitation set forth in Section 3 on the number of shares to be issued under the Plan, the grant or exercise of Free Standing Stock Appreciation Rights shall be deemed to constitute the grant or exercise, respectively, of Stock Options with respect to the number of shares of Stock with respect to which such Free Standing Stock Appreciation Rights were so granted or exercised.

SECTION 7. RESTRICTED STOCK, DEFERRED STOCK AND PERFORMANCE SHARES.

(1) General. Restricted Stock, Deferred Stock or Performance Share awards may be issued either alone or in addition to other awards granted under the Plan. The Administrator shall determine the Eligible Employees to whom, and the time or times at which, grants of Restricted Stock, Deferred Stock or Performance Share awards shall be made; the number of shares to be awarded; the price, if any, to be paid by the recipient of Restricted Stock, Deferred Stock or Performance Share awards; the Restricted Period (as defined in Section 7(3)) applicable to Restricted Stock or Deferred Stock awards; the performance objectives applicable to Performance Share or Deferred Stock awards; the date or dates on which restrictions applicable to such Restricted Stock or Deferred Stock awards shall lapse during such Restricted Period; and all other conditions of the Restricted Stock, Deferred Stock and Performance Share awards. The Administrator may also

condition the grant of Restricted Stock, Deferred Stock awards or Performance Shares upon the exercise of Stock Options, or upon such other criteria as the Administrator may determine, in its sole discretion. The provisions of Restricted Stock, Deferred Stock or Performance Share awards need not be the same with respect to each recipient.

(2) Awards and Certificates. The prospective recipient of a Restricted Stock, Deferred Stock or Performance Share award shall not have any rights with respect to such award, unless and until such recipient has executed an agreement evidencing the award (a "Restricted Stock Award Agreement," "Deferred Stock Award Agreement," or "Performance Share Award Agreement," as appropriate) and delivered a fully executed copy thereof to the Company, within a period of sixty days (or such other period as the Administrator may specify) after the award date. Except as otherwise provided below in this Section 7(2), (i) each Participant who is awarded Restricted Stock or Performance Shares shall be issued a stock certificate in respect of such shares of Restricted Stock or Performance Shares; and (ii) such certificate shall be registered in the name of the Participant, and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such award, substantially in the following form:

> "The transferability of this certificate and the shares of stock represented hereby are subject to the terms and conditions (including forfeiture) of the Redwood Trust, Inc. Amended and Restated 1994 Executive and Non-Employee Director Stock Option Plan and a Restricted Stock Award Agreement or Performance Share Award Agreement entered into between the registered owner and Redwood Trust, Inc. Copies of such Plan and Agreement are on file in the offices of Redwood Trust, Inc."

The Company shall require that the stock certificates evidencing such shares be held in the custody of the Company until the restrictions thereon shall have lapsed, and that, as a condition of any Restricted Stock award or Performance Share award, the Participant shall have delivered a stock power, endorsed in blank, relating to the Stock covered by such award.

(3) Restrictions and Conditions. The Restricted Stock, Deferred Stock and Performance Share awards granted pursuant to this Section 7 shall be subject to the following restrictions and conditions:

(a) Subject to the provisions of the Plan and the Restricted Stock, Deferred Stock or Performance Share award agreement, during such period as may be set by the Administrator commencing on the grant date (the "Restricted Period"), the Participant shall not be permitted to sell, transfer, pledge or assign shares of Restricted Stock, Performance Shares or Deferred Stock awarded under the Plan; provided, however, that the Administrator may, in its sole discretion, provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part based on such factors and such circumstances as the Administrator may determine, in its sole discretion, including, but not limited to, the attainment of certain performance

related goals, the Participant's termination, death or Disability or the occurrence of a "Change of Control" as defined in Section 10.

(b) Except as provided in paragraph (3)(a) of this Section 7, the Participant shall have, with respect to the shares of Restricted Stock or Performance Shares, all of the rights of a

stockholder of the Company, including the right to vote the shares, and the right to receive any dividends thereon during the Restricted Period. With respect to Deferred Stock awards, the Participant shall generally not have the rights of a stockholder of the Company, including the right to vote the shares during the Restricted Period; provided, however, that dividends declared during the Restricted Period with respect to the number of shares covered by a Deferred Stock award shall be paid to the Participant. Certificates for shares of unrestricted Stock shall be delivered to the Participant promptly after, and only after, the Restricted Period shall expire without forfeiture in respect of such shares covered by the award of Restricted Stock, Performance Shares or Deferred Stock, except as the Administrator, in its sole discretion, shall otherwise determine.

(c) Subject to the provisions of the Restricted Stock, Deferred Stock or Performance Share award agreement and this Section 7, upon termination of employment for any reason during the Restricted Period, all shares subject to any restriction as of the date of such termination shall be forfeited by the Participant, and the Participant shall only receive the amount, if any, paid by the Participant for such Restricted Stock or Performance Shares, plus simple interest on such amount at the rate of 8% per year.

SECTION 8. AMENDMENT AND TERMINATION.

Subject to the provisions of Section 5A(5), the Board may amend, alter or discontinue the Plan, but no amendment, alteration, or discontinuation shall be made that would impair the rights of a Participant under any award theretofore granted without such Participant's consent, or that without the approval of the stockholders (as described below) would:

(1) except as provided in Section 3, increase the total number of shares of Stock reserved for the purpose of the Plan;

(2) change the employees or class of employees eligible to participate in the Plan; or

(3) extend the maximum option period under paragraph (2) of Section 5 of the Plan.

Notwithstanding the foregoing, stockholder approval under this Section 8 shall only be required at such time and under such circumstances as stockholder approval would be required under Rule 16b-3 of the Act with respect to any material amendment to any employee benefit plan of the Company.

The Administrator may amend the terms of any award theretofore granted, prospectively or retroactively, but, subject to Section 3, no such amendment shall impair the rights of any holder without his or her consent.

SECTION 9. UNFUNDED STATUS OF PLAN.

The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant or optionee by the Company, nothing contained herein shall give any such Participant or optionee any rights that are greater than those of a general creditor of the Company.

SECTION 10. CHANGE OF CONTROL.

The following acceleration and valuation provisions shall apply in the event of a "Change of Control" as defined in paragraph (2) of this Section 10:

(1) In the event of a "Change of Control," unless otherwise determined by the Administrator or the Board in writing at or after grant (including under any individual agreement), but prior to the occurrence of such Change of Control:

(a) any Stock Appreciation Rights outstanding for at least six months and any Stock Options, including Stock Options granted under Section 5A, awarded under the Plan not previously exercisable and vested shall become fully exercisable and vested;

(b) the restrictions applicable to any Restricted Stock, Deferred Stock or Performance Share awards under the Plan shall lapse, and such shares and awards shall be deemed fully vested;

(c) any indebtedness incurred pursuant to Section 5(5) shall be forgiven and the collateral pledged in connection with any such loan shall be released; and

(d) the value of all outstanding Stock Options (except Stock Options granted under Section 5A), DERs (except DERs granted in conjunction with Stock Options granted under Section 5A), Stock Appreciation Rights, Limited Stock Appreciation Rights, and Restricted Stock, Deferred Stock and Performance Share awards shall, to the extent determined by the Administrator at or after grant, be cashed out by a payment in cash or other property, as the Administrator may determine, on the basis of the "Change of Control Price" (as defined in paragraph (3) of this Section 10) as of the date the Change of Control occurs or such other date as the Administrator may determine prior to the Change of Control.

(2) For purposes of paragraph (1) of this Section 10, a "Change of Control" shall be deemed to have occurred if:

(a) any "person," as such term is used in Sections 13(d) and 14(d) of the Act (other than the Company; any trustee or other fiduciary holding securities under an employee benefit plan of the Company; or any company owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of Stock of the Company) is or becomes after the Effective Date the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its affiliates) representing 25% or more of the combined voting power of the Company's then outstanding securities; or

(b) during any period of two consecutive years (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board, and any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in clause (a), (c) or (d) of this Section 10(2)) whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were

directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority thereof; or

(c) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company, at least 75% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no person acquires more than 50% of the combined voting power of the Company's then outstanding securities; or

(d) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

(3) For purposes of this Section 10, "Change of Control Price" means the higher of (i) the highest price per share paid or offered in any transaction related to a Change of Control of the Company or (ii) the highest price per share paid in any transaction reported on the exchange or national market system on which the Stock is listed, at any time during the preceding sixty day period as determined by the Administrator, except that, in the case of Incentive Stock Options and Stock Appreciation Rights or Limited Stock Appreciation Rights relating to Incentive Stock Options, such price shall be based only on transactions reported for the date on which the Administrator decides to cash out such options.

SECTION 11. GENERAL PROVISIONS.

(1) The Administrator may require each person purchasing shares pursuant to a Stock Option to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof. The certificates for such shares may include any legend which the Administrator

deems appropriate to reflect any restrictions on transfer.

All certificates for shares of Stock delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Administrator may deem advisable under the rules, regulations, and other requirements of the Commission, any stock exchange upon which the Stock is then listed, and any applicable federal or state securities law, and the Administrator may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions.

(2) Nothing contained in the Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of the Plan shall not confer upon any employee of the Company or any Subsidiary any right to continued employment with the Company or a Subsidiary, as the case may be, nor shall it

interfere in any way with the right of the Company or a Subsidiary to terminate the employment of any of its employees at any time.

(3) Each Participant shall, no later than the date as of which the value of an award first becomes includable in the gross income of the Participant for federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any federal, state, or local taxes of any kind required by law to be withheld with respect to the award. The obligations of the Company under the Plan shall be conditional on the making of such payments or arrangements, and the Company (and, where applicable, its Subsidiaries) shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Participant.

(4) No member of the Board or the Administrator, nor any officer or employee of the Company acting on behalf of the Board or the Administrator, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Board or the Administrator and each and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination or interpretation.

SECTION 12. EFFECTIVE DATE OF PLAN.

The Plan became effective (the "Effective Date") on June 23, 1994, the date the Company's stockholders formally approved the Plan.

SECTION 13. TERM OF PLAN.

No Stock Option, Stock Appreciation Right, Limited Stock Appreciation Right, Restricted Stock, Deferred Stock or Performance Share award shall be granted pursuant to the Plan on or after the tenth anniversary of the Effective Date, but awards theretofore granted may extend beyond that date.

EXHIBIT 11.1

REDWOOD TRUST, INC.
Statement Re: Computation of Per Share Earnings

<TABLE>
<CAPTION>

	Twelve Months Ended December 31, 2000	Twelve Months Ended December 31, 1999	Twelve Months Ended December 31, 1998
<S>	<C>	<C>	<C>
Basic:			
Average common shares outstanding	8,793,487	9,768,345	13,199,819
Total	8,793,487	9,768,345	13,199,819
Net Income	$ 16,210,272	$ (1,013,118)	$(40,117,961)
Per Share Amount	$ 1.84	$ (0.10)	$ (3.04)
Diluted:			
Average common shares outstanding	8,793,487	9,768,345	13,199,819
Net effect of dilutive stock options outstanding during the period -- based on the treasury stock method	108,582	--	--
Net effect of dilutive stock warrants outstanding during the period -- based on the treasury stock method	--	--	--
Total	8,902,069	9,768,345	13,199,819
Net Income	$ 16,210,272	$ (1,013,118)	$(40,117,961)
Per Share Amount	$ 1.82	$ (0.10)	$ (3.04)

</TABLE>

EXHIBIT 21

LIST OF SUBSIDIARIES OF REDWOOD TRUST, INC.

<TABLE>
<CAPTION>

Subsidiaries	State of Incorporation or Organization
<S>	<C>
Sequoia Mortgage Funding Corporation	Delaware
Sequoia Mortgage Trust 1	Delaware
Sequoia Mortgage Trust 2	Delaware
RWT Holdings, Inc.	Delaware
Redwood Commercial Funding, Inc.	Delaware

</TABLE>

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the registration statements on Form S-3 (Nos. 33-97398, 333-25643 and 333-18061) and on Form S-8/S-3 (No. 333-20253) of our report dated February 15, 2001, appearing on page F-28 of this Form 10-K relating to the consolidated financial statements of Redwood Trust, Inc. and subsidiary, and our report dated February 15, 2001, appearing on page F-42 of this Form 10-K relating to the consolidated financial statements of RWT Holdings, Inc. and subsidiaries.

PricewaterhouseCoopers LLP
San Francisco, California
March 27, 2001